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Destination Maternity Corp  
Form 10-Q  
September 07, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended July 29, 2017

or

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

For the transition period from                      to

Commission file number 0-21196

Destination Maternity Corporation

(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction

13-3045573  
(IRS Employer

of incorporation or organization)  
232 Strawbridge Drive

Identification No.)

Moorestown, New Jersey

08057

(Address of principal executive offices) (Zip code)

(856) 291-9700

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Registrant's telephone number, including area code

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, smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

(Do not check if a smaller reporting company) Smaller reporting company

Emerging growth company

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

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

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 — 13,984,055 shares outstanding as of August 31, 2017

DESTINATION MATERNITY CORPORATION AND SUBSIDIARIES

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## 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)

|                                                                                                   | July 29, 2017 | January 28, 2017 |
|---------------------------------------------------------------------------------------------------|---------------|------------------|
| <b>ASSETS</b>                                                                                     |               |                  |
| Current assets:                                                                                   |               |                  |
| Cash and cash equivalents                                                                         | \$ 2,161      | \$ 2,859         |
| Trade receivables, net                                                                            | 5,904         | 5,683            |
| Inventories                                                                                       | 69,759        | 69,040           |
| Prepaid expenses and other current assets                                                         | 7,568         | 9,464            |
| Total current assets                                                                              | 85,392        | 87,046           |
| Property and equipment, net of accumulated depreciation and amortization of \$98,255 and \$97,461 | 76,128        | 83,029           |
| Other assets:                                                                                     |               |                  |
| Deferred line of credit financing costs, net of accumulated amortization of \$772 and \$717       | 408           | 456              |
| Other intangible assets, net of accumulated amortization of \$866 and \$810                       | 1,047         | 1,092            |
| Deferred income taxes                                                                             | 1,436         | 3,251            |
| Other non-current assets                                                                          | 1,157         | 1,113            |
| Total other assets                                                                                | 4,048         | 5,912            |
| Total assets                                                                                      | \$ 165,568    | \$ 175,987       |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>                                                       |               |                  |
| Current liabilities:                                                                              |               |                  |
| Line of credit borrowings                                                                         | \$ 4,200      | \$ 4,600         |
| Current portion of long-term debt                                                                 | 8,094         | 6,948            |
| Accounts payable                                                                                  | 17,071        | 17,656           |
| Accrued expenses and other current liabilities                                                    | 28,403        | 31,359           |
| Total current liabilities                                                                         | 57,768        | 60,563           |
| Long-term debt                                                                                    | 26,986        | 31,485           |
| Deferred rent and other non-current liabilities                                                   | 22,781        | 22,789           |
| Total liabilities                                                                                 | 107,535       | 114,837          |
| Commitments and contingencies (Note 14)                                                           |               |                  |
| Stockholders' equity:                                                                             |               |                  |
| Preferred stock, 1,656,381 shares authorized:                                                     |               |                  |

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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, 13,985,971 and 14,010,417 shares issued and outstanding | 140        | 140        |
| Additional paid-in capital                                                                                           | 106,568    | 105,775    |
| Accumulated deficit                                                                                                  | (48,605 )  | (44,693 )  |
| Accumulated other comprehensive loss                                                                                 | (70 )      | (72 )      |
| Total stockholders' equity                                                                                           | 58,033     | 61,150     |
| Total liabilities and stockholders' equity                                                                           | \$ 165,568 | \$ 175,987 |

The accompanying notes are an integral part of these consolidated financial statements.

# DESTINATION MATERNITY CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share amounts)

(unaudited)

|                                                             | Three Months<br>Ended |                  | Six Months Ended |                  |
|-------------------------------------------------------------|-----------------------|------------------|------------------|------------------|
|                                                             | July 29,<br>2017      | July 30,<br>2016 | July 29,<br>2017 | July 30,<br>2016 |
| Net sales                                                   | \$98,280              | \$106,529        | \$204,706        | \$230,959        |
| Cost of goods sold                                          | 46,227                | 51,699           | 94,714           | 108,857          |
| Gross profit                                                | 52,053                | 54,830           | 109,992          | 122,102          |
| Selling, general and administrative expenses                | 52,806                | 56,619           | 108,455          | 115,394          |
| Store closing, asset impairment and asset disposal expenses | 1,120                 | 442              | 2,638            | 1,048            |
| Other charges, net                                          | (171 )                | 875              | 646              | 1,544            |
| Operating income (loss)                                     | (1,702 )              | (3,106 )         | (1,747 )         | 4,116            |
| Interest expense, net                                       | 979                   | 973              | 1,983            | 1,625            |
| Income (loss) before income taxes                           | (2,681 )              | (4,079 )         | (3,730 )         | 2,491            |
| Income tax provision (benefit)                              | 93                    | (1,570 )         | 186              | 959              |
| Net income (loss)                                           | \$(2,774 )            | \$(2,509 )       | \$(3,916 )       | \$1,532          |
| Net income (loss) per share— Basic                          | \$(0.20 )             | \$(0.18 )        | \$(0.28 )        | \$0.11           |
| Average shares outstanding— Basic                           | 13,793                | 13,700           | 13,771           | 13,692           |
| Net income (loss) per share— Diluted                        | \$(0.20 )             | \$(0.18 )        | \$(0.28 )        | \$0.11           |
| Average shares outstanding— Diluted                         | 13,793                | 13,700           | 13,771           | 13,697           |

The accompanying notes are an integral part of these consolidated financial statements.

DESTINATION MATERNITY CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(in thousands)

(unaudited)

|                                          | Three Months<br>Ended |                  | Six Months<br>Ended |                  |
|------------------------------------------|-----------------------|------------------|---------------------|------------------|
|                                          | July 29,<br>2017      | July 30,<br>2016 | July 29,<br>2017    | July 30,<br>2016 |
| Net income (loss)                        | \$(2,774)             | \$(2,509)        | \$(3,916)           | \$1,532          |
| Foreign currency translation adjustments | —                     | (1 )             | 2                   | 1                |
| Comprehensive income (loss)              | \$(2,774)             | \$(2,510)        | \$(3,914)           | \$1,533          |





The accompanying notes are an integral part of these consolidated financial statements.

## DESTINATION MATERNITY CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(in thousands)

(unaudited)

|                                                                                | Common Stock           |        |                                  | Accumulated            |                                |           |
|--------------------------------------------------------------------------------|------------------------|--------|----------------------------------|------------------------|--------------------------------|-----------|
|                                                                                | Number<br>of<br>Shares | Amount | Additional<br>Paid-in<br>Capital | Accumulated<br>Deficit | Other<br>Comprehensive<br>Loss | Total     |
| Balance as of January 28, 2017                                                 | 14,010                 | \$ 140 | \$ 105,775                       | \$ (44,693 )           | \$ (72 )                       | \$ 61,150 |
| Net loss                                                                       | —                      | —      | —                                | (3,916 )               | —                              | (3,916 )  |
| Foreign currency translation adjustments                                       | —                      | —      | —                                | —                      | 2                              | 2         |
| Dividends forfeited                                                            | —                      | —      | —                                | 4                      | —                              | 4         |
| Stock-based compensation                                                       | (15 )                  | —      | 830                              | —                      | —                              | 830       |
| Repurchase and retirement of common stock                                      | (9 )                   | —      | (37 )                            | —                      | —                              | (37 )     |
| Balance as of July 29, 2017                                                    | 13,986                 | \$ 140 | \$ 106,568                       | \$ (48,605 )           | \$ (70 )                       | \$ 58,033 |
| Balance as of January 30, 2016                                                 | 13,825                 | \$ 138 | \$ 104,784                       | \$ (11,951 )           | \$ (73 )                       | \$ 92,898 |
| Net income                                                                     | —                      | —      | —                                | 1,532                  | —                              | 1,532     |
| Foreign currency translation adjustments                                       | —                      | —      | —                                | —                      | 1                              | 1         |
| Dividends forfeited                                                            | —                      | —      | —                                | 16                     | —                              | 16        |
| Stock-based compensation                                                       | 174                    | 2      | 966                              | —                      | —                              | 968       |
| Exercise of stock options, net                                                 | 1                      | —      | 3                                | —                      | —                              | 3         |
| Tax benefit shortfall from stock option exercises and restricted stock vesting | —                      | —      | (586 )                           | —                      | —                              | (586 )    |
| Repurchase and retirement of common stock                                      | (2 )                   | —      | (18 )                            | —                      | —                              | (18 )     |
| Balance as of July 30, 2016                                                    | 13,998                 | \$ 140 | \$ 105,149                       | \$ (10,403 )           | \$ (72 )                       | \$ 94,814 |

The accompanying notes are an integral part of these consolidated financial statements.

## DESTINATION MATERNITY CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

Six Months Ended  
July  
July 29, 2017 2016

|                                                                                                  |            |          |
|--------------------------------------------------------------------------------------------------|------------|----------|
| <b>Operating Activities</b>                                                                      |            |          |
| Net income (loss)                                                                                | \$ (3,916) | \$ 1,532 |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities:         |            |          |
| Depreciation and amortization                                                                    | 8,888      | 8,927    |
| Stock-based compensation expense                                                                 | 830        | 968      |
| Loss on impairment of long-lived assets                                                          | 2,446      | 733      |
| Loss on disposal of assets                                                                       | 116        | 215      |
| Grow NJ award benefit                                                                            | 1,815      | 1,833    |
| Deferred income tax benefit                                                                      | —          | (75 )    |
| Amortization of deferred financing costs                                                         | 235        | 139      |
| Changes in assets and liabilities:                                                               |            |          |
| Decrease (increase) in:                                                                          |            |          |
| Trade receivables                                                                                | (221 )     | 3,297    |
| Inventories                                                                                      | (719 )     | 1,981    |
| Prepaid expenses and other current assets                                                        | 1,962      | (10 )    |
| Other non-current assets                                                                         | (44 )      | (24 )    |
| Increase (decrease) in:                                                                          |            |          |
| Accounts payable, accrued expenses and other current liabilities                                 | (2,965)    | (14,057) |
| Deferred rent and other non-current liabilities                                                  | (179 )     | (153 )   |
| Net cash provided by operating activities                                                        | 8,248      | 5,306    |
| <b>Investing Activities</b>                                                                      |            |          |
| Capital expenditures                                                                             | (3,611)    | (6,800 ) |
| Proceeds from sale of property and equipment                                                     | —          | 2        |
| Additions to intangible assets                                                                   | (18 )      | (45 )    |
| Net cash used in investing activities                                                            | (3,629)    | (6,843 ) |
| <b>Financing Activities</b>                                                                      |            |          |
| Decrease in cash overdraft                                                                       | (1,342)    | (425 )   |
| Decrease in line of credit borrowings                                                            | (400 )     | (26,700) |
| Proceeds from long-term debt                                                                     | 3,401      | 32,000   |
| Repayment of long-term debt                                                                      | (6,673)    | (1,436 ) |
| Deferred financing costs paid                                                                    | (268 )     | (1,252 ) |
| Withholding taxes on stock-based compensation paid in connection with repurchase of common stock | (37 )      | (18 )    |
| Proceeds from exercise of stock options                                                          | —          | 3        |
| Net cash (used in) provided by financing activities                                              | (5,319)    | 2,172    |

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|                                                              |           |         |
|--------------------------------------------------------------|-----------|---------|
| Effect of exchange rate changes on cash and cash equivalents | 2         | 1       |
| Net (Decrease) Increase in Cash and Cash Equivalents         | (698 )    | 636     |
| Cash and Cash Equivalents, Beginning of Period               | 2,859     | 2,116   |
| Cash and Cash Equivalents, End of Period                     | \$2,161   | \$2,752 |
| Supplemental Disclosures of Cash Flow Information:           |           |         |
| Cash paid for interest                                       | \$1,751   | \$1,245 |
| Cash (received) paid for income taxes                        | \$(4,294) | \$214   |

The accompanying notes are an integral part of these consolidated financial statements.

DESTINATION MATERNITY CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

1. BASIS OF FINANCIAL STATEMENT PRESENTATION

The accompanying unaudited consolidated financial statements for the three and six months ended July 29, 2017 and July 30, 2016 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. See the Company's Annual Report on Form 10-K as of and for the year ended January 28, 2017 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. Certain prior year amounts have been reclassified to conform to the current year presentation.

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

On December 19, 2016 the Company entered into an Agreement and Plan of Merger (the "Merger Agreement") with Orchestra-Prémaman S.A. ("Orchestra"), a société anonyme organized under the laws of France, and US OP Corporation, a Delaware corporation and a wholly-owned subsidiary of Orchestra, to complete a proposed business combination (the "Merger"). On July 27, 2017 the Company, Orchestra, and certain other affiliates of Orchestra entered into a Termination Agreement (the "Termination Agreement") pursuant to which the parties agreed to terminate the Merger Agreement and various ancillary agreements entered into in connection with and in contemplation of the Merger.

2. EARNINGS PER SHARE ("EPS") AND  
DIVIDENDS

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

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

|                       | Three Months Ended |        |          | July 30, 2016 |        |          |
|-----------------------|--------------------|--------|----------|---------------|--------|----------|
|                       | July 29, 2017      |        |          | Net           |        |          |
|                       | Loss               | Shares | EPS      | Loss          | Shares | EPS      |
| Basic and Diluted EPS | \$(2,774)          | 13,793 | \$(0.20) | \$(2,509)     | 13,700 | \$(0.18) |



## DESTINATION MATERNITY CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

|                                                                                                                    | Six Months Ended<br>July 29, 2017 |        |          | July 30, 2016 |        |        |
|--------------------------------------------------------------------------------------------------------------------|-----------------------------------|--------|----------|---------------|--------|--------|
|                                                                                                                    | Net<br>Loss                       | Shares | EPS      | Net<br>Income | Shares | EPS    |
| Basic EPS                                                                                                          | \$(3,916)                         | 13,771 | \$(0.28) | \$1,532       | 13,692 | \$0.11 |
| Incremental shares from the assumed exercise of<br>outstanding stock options                                       | —                                 | —      |          | —             | 1      |        |
| Incremental shares from the assumed lapse of<br>restrictions on restricted stock and deferred stock unit<br>awards | —                                 | —      |          | —             | 4      |        |
| Diluted EPS                                                                                                        | \$(3,916)                         | 13,771 | \$(0.28) | \$1,532       | 13,697 | \$0.11 |

In addition to performance-based RSUs, for the six months ended July 30, 2016 stock options and unvested restricted stock totaling approximately 1,124,000 shares were excluded from the calculation of Diluted EPS as their effect would have been antidilutive. Stock options, unvested restricted stock and unvested deferred stock units totaling approximately 1,142,000 and 1,171,000 shares of the Company's common stock were outstanding as of July 29, 2017 and July 30, 2016, respectively, but were not included in the computation of Diluted EPS for the three and six months ended July 29, 2017 and for the three months ended July 30, 2016 due to the Company's net loss. Had the Company reported a profit for the three and six months ended July 29, 2017 and for the three months ended July 30, 2016 the weighted average number of dilutive shares outstanding for computation of Diluted EPS would have been approximately 13,814,000, 13,795,000 and 13,707,000 shares, respectively.

During the six months ended July 29, 2017 and July 30, 2016 \$4,000 and \$16,000, respectively, of previously declared and undistributed dividends, for which payment was subject to completion of service requirements under restricted stock awards, were forfeited back to the Company in connection with the cancellation of the awards.

### 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 July 29, 2017 and January 28, 2017 the Company's trade receivables were net of allowance for doubtful accounts of \$166,000 and \$163,000, respectively.

#### 4. INVENTORIES

Inventories were comprised of the following (in thousands):

|                  | July 29,<br>2017 | January<br>28,<br>2017 |
|------------------|------------------|------------------------|
| Finished goods   | \$69,010         | \$68,346               |
| Work-in-progress | 245              | 212                    |
| Raw materials    | 504              | 482                    |
|                  | \$69,759         | \$69,040               |

## DESTINATION MATERNITY CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

## 5. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

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

|                                              | July 29,<br>2017 | January<br>28,<br>2017 |
|----------------------------------------------|------------------|------------------------|
| Insurance, primarily self-insurance reserves | \$5,338          | \$5,421                |
| Employee compensation and benefits           | 4,602            | 6,754                  |
| Deferred rent                                | 3,278            | 3,507                  |
| Sales and use taxes                          | 2,826            | 2,591                  |
| Gift certificates and store credits          | 2,646            | 4,305                  |
| Product return reserve                       | 1,909            | 1,615                  |
| Accounting and legal                         | 1,396            | 1,276                  |
| Accrued property and equipment additions     | 935              | 316                    |
| Income taxes payable                         | 349              | 12                     |
| Other                                        | 5,124            | 5,562                  |
|                                              | <b>\$28,403</b>  | <b>\$31,359</b>        |

## 6. LINE OF CREDIT

After completion of a debt refinancing on March 25, 2016 the Company has a \$70,000,000 senior secured revolving credit facility (the "Credit Facility"), which was amended and restated in connection with the issuance of the Company's \$32,000,000 Term Loan (see Note 7). Previously the Credit Facility was \$76,000,000 and consisted of two tranches: 1) a senior secured revolving credit and letter of credit facility of up to \$70,000,000 ("Tranche A") and 2) a senior secured first-in, last-out revolving credit facility of up to \$6,000,000 ("Tranche A-1"). On March 25, 2016 proceeds from the Term Loan were used to repay a portion of the outstanding indebtedness under the Credit Facility, including repayment of the entire balance outstanding under Tranche A-1, which was then terminated. In connection with the Term Loan financing the maturity date of the Credit Facility was extended from August 25, 2020 to March 25, 2021. Proceeds from advances under the Credit Facility, with certain restrictions may be used to provide financing for working capital, letters of credit, capital expenditures, and other general corporate purposes. Effective December 19, 2016 the Company's Credit Facility lender consented to the Merger and the Credit Facility was amended to require a \$10,000,000 EBITDA Reserve (as defined in the related Credit Facility agreement) against availability under the Credit Facility. Effective April 7, 2017 the Credit facility was further amended to allow the Company to enter into certain equipment financing arrangements, on the condition that a portion of the proceeds of such financing be applied as a prepayment of the Term Loan (see Note 7). The amendment also provided for an additional reserve of \$5,000,000 against availability under the Credit Facility that will be reduced dollar for dollar for prepayments of the Term Loan in accordance with the amendment. On June 6, 2017 \$3,401,000 of proceeds from an equipment financing transaction (see Note 7) were used to prepay a portion of the Company's Term Loan and to reduce the required additional reserve

to \$1,599,000.

The Credit Facility contains various affirmative and negative covenants and representations and warranties. In the event that the outstanding balance of the Term Loan exceeds the Term Loan Borrowing Base (as defined in the related Term Loan Agreement) then a reserve will be imposed against availability under the Credit Facility. The Credit Facility, as amended on April 7, 2017, also requires the Company to maintain minimum Excess Availability (as defined in the related Credit Facility agreement) equal to the greater of 10% of the Combined Loan Cap (as defined in the Credit Facility agreement) or \$10,000,000. The Credit Facility is secured by a security interest in the Company's trade receivables, inventory, letter of credit rights, cash, intangibles and certain other assets. The interest rate on outstanding borrowings is equal to, at the Company's election, either 1) the lender's base rate plus the applicable margin, or 2) a LIBOR rate plus the applicable margin. The applicable margin for base rate borrowings is 0.50% for Tranche A borrowings and was 2.00% for Tranche A-1 borrowings. The applicable margin for LIBOR rate borrowings is 1.50% for Tranche A borrowings and was 3.00% for Tranche A-1 borrowings. Tranche A-1 borrowings were deemed to be the first loans made and the last loans repaid. The Company also pays an unused line fee under the Credit Facility of 0.25% per annum. In connection with the original execution and subsequent amendments of the Credit Facility, the Company incurred deferred financing costs of \$1,179,000. These deferred financing costs are being amortized over the term of the Credit Facility agreement and included in "interest expense, net" in the consolidated statements of operations.

As of July 29, 2017 the Company had \$4,200,000 in outstanding borrowings under the Credit Facility and \$5,827,000 in letters of credit, with \$14,851,000 of availability under the Credit Facility based on the Company's Borrowing Base formula and availability reserve requirements. As of July 30, 2016 the Company had \$1,700,000 outstanding borrowings under the Credit Facility and

DESTINATION MATERNITY CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

\$6,228,000 in letters of credit, with \$34,508,000 of availability under the Credit Facility based on the Company's Borrowing Base formula and minimum Excess Availability requirement. For the three months ended July 29, 2017 and July 30, 2016 Tranche A borrowings had a weighted interest rate of 3.70% and 4.00%, respectively, per annum. For the six months ended July 29, 2017 and July 30, 2016 Tranche A borrowings had a weighted interest rate of 3.31% and 2.54%, respectively, per annum. For the six months ended July 30, 2016 Tranche A-1 borrowings had a weighted interest rate of 3.43% per annum. During the six months ended July 29, 2017 and July 30, 2016 the Company's average level of direct borrowings under the Credit Facility was \$8,451,000 and \$14,989,000, respectively, and the Company's maximum borrowings at any time were \$15,700,000 and \$42,700,000, respectively.

## 7. LONG-TERM DEBT

On March 25, 2016 the Company entered into a Term Loan Credit Agreement (the "Term Loan Agreement") for a \$32,000,000 term loan due March 25, 2021 (the "Term Loan"), the proceeds of which were received on March 25, 2016 and were used to repay a portion of the outstanding indebtedness under the Company's existing Credit Facility (see Note 6). The interest rate on the Term Loan is equal to a LIBOR rate (with a 1.00% LIBOR floor) plus 7.50%. The Company is required to make minimum repayments of the principal amount of the Term Loan in quarterly installments of \$800,000 each, with the remaining outstanding balance payable on the maturity date. Additionally, the Term Loan can be prepaid at the Company's option subject to certain restrictions, in part or in whole at any time, subject to the payment of a prepayment premium as follows: 1) 3% on or prior to the first anniversary of the closing date, 2) 2% from the first anniversary to the second anniversary of the closing date, and 3) 1% after the second anniversary but on or prior to the third anniversary of the closing date. Effective December 19, 2016 the Company's Term Loan lenders consented to the Merger and the Term Loan Agreement was amended to change the definition of Consolidated EBITDA (see below) to allow the Company to add back certain transaction costs relating to the Merger and modified the financial covenant limiting capital expenditures (see below). Effective April 7, 2017 the Term Loan Agreement was further amended to allow the Company to enter into certain equipment financing arrangements, on the condition that a portion of the proceeds of such financing be applied as a prepayment of the Term Loan. The April 7, 2017 Term Loan Agreement amendment also provided for an additional reserve of \$5,000,000 against availability under the Credit Facility that will be reduced dollar for dollar for prepayments of the Term Loan in accordance with the amendment (see Note 6) and eliminated the covenant requiring maintenance of a minimum level of Consolidated EBITDA (see below). On June 6, 2017 \$3,401,000 of proceeds from an equipment financing transaction (see below) were used to prepay a portion of the Company's Term Loan and to reduce the required additional reserve to \$1,599,000.

The Term Loan is secured by a security interest in substantially all of the assets of the Company, including accounts receivable, inventory, equipment, letter of credit rights, cash, intellectual property and other intangibles, and certain other assets. The security interest granted to the Term Lenders is, in certain respects, subordinate to the security interest granted to the Credit Facility Lender. The Term Loan Agreement prohibits the payment of dividends or share repurchases by the Company for three years and imposes certain restrictions on the Company's ability to, among other things, incur additional indebtedness and enter into other various types of transactions. The Term Loan Agreement, as amended on April 7, 2017, requires the Company to maintain Excess Availability (as defined in the related Credit

Facility agreement) equal to the greater of 10% of the Combined Loan Cap (as defined in the related Credit Facility agreement) or \$10,000,000. Prior to the April 7, 2017 Term Loan Agreement amendment, the Company was required to maintain specified levels of quarterly Consolidated EBITDA (as defined in the related Term Loan Agreement). For all periods prior to the elimination of the Consolidated EBITDA covenant, the Company's Consolidated EBITDA exceeded the Consolidated EBITDA requirements under the Term Loan Agreement. The April 7, 2017 Term Loan Agreement amendment prohibits the Company from making capital expenditures (net of tenant allowances) in excess of a specified amount in any period of four fiscal quarters (subject to carryforward of 50% of any underutilization). The limitation on capital expenditures ranges from \$16,000,000 for the four fiscal quarters ended on January 28, 2017 to \$10,500,000 for the four fiscal quarters ending on February 3, 2018, and increases to \$17,000,000 for the four fiscal quarters ending on May 5, 2018 and thereafter. For the four fiscal quarters ended on July 29, 2017 the Company's net capital expenditures did not exceed the \$13,250,000 limit. Any amounts outstanding under the Term Loan may be accelerated and become due and payable immediately upon an event of default and expiration of any applicable cure period.

In connection with the execution of the Term Loan Agreement and subsequent amendments, the Company incurred deferred financing costs of \$1,518,000. These deferred financing costs are reflected as a direct deduction from the Term Loan liability in the consolidated balance sheet and are being amortized over the term of the Term Loan Agreement and included in "interest expense, net" in the consolidated statements of operations.

As of July 29, 2017 and July 30, 2016 there was \$7,816,000 and \$10,763,000, respectively, outstanding under a five-year equipment financing arrangement with the Company's Credit Facility bank. The equipment note bears annual interest at 3.38%, with payments of \$272,000 (including interest) due monthly through December 2019. The equipment note is collateralized by substantially

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all of the material handling equipment at the Company's distribution facility in Florence, New Jersey. Any amounts outstanding under the equipment note may be accelerated and become due and payable immediately upon an event of default and expiration of any applicable cure period.

On June 6, 2017 the Company received \$3,401,000 in proceeds from a three-year financing arrangement in the form of a sale and leaseback for certain furniture, fixtures and software. Monthly payments under the leaseback arrangement are \$123,000 for the first 24 months and \$48,000 for months 25 to 36. At the end of the leaseback term, the Company has the option to extend the financing arrangement for an additional year or to repurchase the financed property for a price to be agreed. All of the proceeds from the transaction were used to prepay a portion of the Company's Term Loan. As of July 29, 2017 there was \$3,008,000 of principal outstanding under the financing arrangement.

#### 8. FAIR VALUE MEASUREMENTS

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

Level 1 – Quoted market prices in active markets for identical assets or liabilities

- Level 2 – Observable market-based inputs or inputs that are corroborated by observable market data

Level 3 – Unobservable inputs that are not corroborated by market data

At both July 29, 2017 and January 28, 2017 the Company had cash equivalents of \$4,000. The Company's cash equivalents consist of investments in money market funds for which the carrying value approximates fair value (based on Level 1 inputs) due to the short-term nature of those instruments. The carrying values of trade receivables and accounts payable approximate fair value due to the short-term nature of those instruments.

The Company's Credit Facility has variable interest rates that are tied to market indices. As of July 29, 2017 and January 28, 2017 the Company had \$4,200,000 and \$4,600,000, respectively, of direct borrowings outstanding under the Credit Facility. The carrying value of the Company's Credit Facility borrowings approximates fair value as the variable interest rates approximate current market rates, which the Company considers to be Level 2 inputs.

The Company's Term Loan, which represents a significant majority of the Company's long-term debt, bears interest at variable rates, which adjust based on market conditions with a minimum annual rate of 8.73%. The carrying value of the Company's Term Loan approximates fair value as the variable interest rates approximate current market rates for similar instruments available to companies with comparable credit quality, which the Company considers to be Level 2 inputs. The fair value of the Company's fixed-rate equipment notes was determined using a discounted cash flow analysis based on interest rates currently available to the Company, which the Company considers to be Level 2 inputs. The difference between the carrying value and fair value of long-term debt held by the Company with a fixed

rate of interest is not material.

#### 9. OTHER CHARGES, NET

During the fourth quarter of fiscal 2015, the Company announced that it had received an unsolicited, non-binding preliminary merger proposal from the Company's largest shareholder, Orchestra, a France-based retailer of children's wear. On December 19, 2016 the Company entered into the Merger Agreement. During the second quarter of fiscal 2017 the parties determined that it was in the best interests of their respective stockholders to terminate the Merger. On July 27, 2017 the Company, Orchestra, and certain other affiliates of Orchestra entered into the Termination Agreement. In connection with the Termination Agreement, Orchestra and the Company agreed to reimburse each other for certain costs incurred in connection with their effort to implement the Merger Agreement, with a net amount of \$1,000,000 paid to the Company on July 31, 2017. During the six months ended July 29, 2017 and July 30, 2016 the Company incurred \$649,000 and \$873,000, respectively, of net charges related to the Merger.

The Termination Agreement also terminated certain ancillary agreements between the Company and a wholly-owned subsidiary of Orchestra, under which the Company provided real estate and construction project consulting services, and offered for purchase



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infant and childrenswear merchandise for sale in certain of the Company's stores. For the first six months of fiscal 2017 the Company recognized \$44,000 of revenue under such agreements.

Subsequent to the appointment of Anthony M. Romano as the Company's Chief Executive Officer in August 2014, the Company commenced a program to evaluate its business processes, key management personnel and planning resources. In connection with this evaluation, the Company has implemented changes with a focus on improving inventory management, driving sales productivity, optimizing real estate and controlling costs. The Company implemented an improved product life cycle calendar in fiscal 2015, completed the implementation of a new planning and allocation tool in fiscal 2016 and completed a re-platforming of its e-commerce sites during the first quarter of fiscal 2017, as it continues to improve its planning and allocation methodologies and e-commerce platform. The Company's real estate strategy includes increased focus on the Company's two key maternity apparel brands with strategic phase-out and elimination of certain non-core brands and business relationships. During the six months ended July 29, 2017 and July 30, 2016 the Company recognized \$(3,000) and \$671,000, respectively, of net charges related to these management and organizational changes.

A summary of the net charges incurred in connection with the proposed business combination and the management and organizational changes is as follows (in thousands):

|                                              | Three Months<br>Ended |                     | Six Months<br>Ended |                     |
|----------------------------------------------|-----------------------|---------------------|---------------------|---------------------|
|                                              | July<br>29,<br>2017   | July<br>30,<br>2016 | July<br>29,<br>2017 | July<br>30,<br>2016 |
| <b>Proposed Business Combination</b>         |                       |                     |                     |                     |
| Legal and other professional fees            | \$835                 | \$652               | \$1,649             | \$873               |
| Net reimbursement for certain costs incurred | (1,000)               | —                   | (1,000)             | —                   |
| Total proposed business combination          | (165 )                | 652                 | 649                 | 873                 |
| <b>Management and Organizational Changes</b> |                       |                     |                     |                     |
| Severance and related benefits               | (6 )                  | 3                   | (3 )                | 121                 |
| Non-core brand contract terminations         | —                     | 220                 | —                   | 545                 |
| Consulting fees                              | —                     | —                   | —                   | 5                   |
| Total management and organizational changes  | (6 )                  | 223                 | (3 )                | 671                 |
| Total other charges, net                     | \$(171 )              | \$875               | \$646               | \$1,544             |

## 10. GOVERNMENT INCENTIVES

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

The Grow NJ award will be earned on an annual basis over the ten-year period, subject to the \$4,000,000 annual award limit, and requires an annual compliance report that includes certification of average annual employment figures after the end of each fiscal year. After the end of the ten-year Grow NJ award earnings period there is a five-year compliance period during which the Company must maintain the average of its annual eligible jobs certified during the preceding ten years or a pro-rata amount up to one-tenth of the previously awarded income tax credits would be subject to recapture and repayment to the State of New Jersey annually during the five-year compliance period. The Company believes the likelihood of any recapture and repayment is remote.

The annual benefit from the Grow NJ award available to the Company is expected to significantly exceed the Company's annual income tax liability to the State of New Jersey. In order to maximize the realizable value of the incentive package, in December 2013 the Company entered into an agreement with a third party to sell 75% or more of the annual income tax credits awarded to the

## DESTINATION MATERNITY CORPORATION AND SUBSIDIARIES

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Company. The Company recognizes its Grow NJ award on an annual basis for each fiscal year based on the realizable value of the award earned and expected to be received, primarily from the sale of the income tax credits, net of any associated costs. The Grow NJ award is reflected in the Company's consolidated financial statements as a reduction to the costs incurred by the Company in connection with the relocations. The expected realizable amount of the Grow NJ award is included in the consolidated balance sheet in deferred income taxes. In April 2017 the Company received \$3,251,000 cash proceeds, net of costs, from the receipt and subsequent sale of the \$3,621,000 tax credit certificate earned for fiscal 2016. During the three and six months ended July 29, 2017 the Company recognized \$718,000 and \$1,436,000, respectively, of cost reduction related to the Grow NJ award, of which \$718,000 and \$1,436,000, respectively, is included in the consolidated statements of operations, including reductions of cost of goods sold of \$519,000 and \$1,038,000, respectively, and reductions of selling, general and administrative expenses of \$199,000 and \$398,000, respectively. During the three and six months ended July 30, 2016 the Company recognized \$867,000 and \$1,767,000, respectively, of cost reduction related to the Grow NJ award, of which \$867,000 and \$1,693,000, respectively, is included in the consolidated statements of operations, including reductions of cost of goods sold of \$625,000 and \$1,199,000, respectively, and reductions of selling, general and administrative expenses of \$242,000 and \$494,000, respectively. Additionally, \$770,000 and \$810,000, is included in the consolidated balance sheets as of July 29, 2017 and January 28, 2017, respectively, as a reduction to overhead in inventory.

## 11. INCOME TAXES

Accounting Standards Codification ("ASC") Topic 740, Income Taxes, requires that a valuation allowance be recorded to reduce deferred tax assets when it is more likely than not that the tax benefit of the deferred tax assets will not be realized. The evaluation includes the consideration of all available evidence, both positive and negative, regarding historical operating results including recent years with reported losses, the estimated timing of future reversals of existing taxable temporary differences, estimated future taxable income exclusive of reversing temporary differences and carryforwards, and potential tax planning strategies which may be employed to prevent an operating loss or tax credit carryforward from expiring unused. In situations where a three-year cumulative loss condition exists, accounting standards limit the ability to consider projections of future results as positive evidence to assess the realizability of deferred tax assets. In fiscal 2016 the Company's financial results reflected a three-year cumulative loss. The three-year cumulative loss constituted significant negative evidence, limiting the Company's ability to consider other positive evidence, such as the Company's projections for future growth. Consequently, the Company's consolidated balance sheets as of July 29, 2017 and January 28, 2017 include a valuation allowance of \$29,255,000 and \$27,758,000, respectively, against substantially all of its deferred tax assets. The establishment of this valuation allowance has no effect on the Company's ability to utilize the deferred tax assets to offset future taxable income, if generated. As required by generally accepted accounting principles in the United States ("GAAP"), the Company will continue to assess the likelihood that the deferred tax assets will be realizable in the future and, accordingly, the valuation allowance was increased by a non-cash charge to income tax expense of \$1,497,000 in the first six months of fiscal 2017. The tax benefits relating to any reversal of the valuation allowance on the net deferred tax assets in a future period will be recognized as a reduction of future income tax expense in that period.

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As of July 29, 2017 the Company had \$776,000 of unrecognized tax benefits related to uncertain income tax positions, including accrued interest and penalties of \$349,000. 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 \$563,000, net of federal benefit.

During the 12 months subsequent to July 29, 2017 it is reasonably possible that the gross unrecognized tax benefits could potentially decrease by approximately \$378,000 (of which \$267,000 would affect the effective tax rate, net of federal expense) for uncertain tax positions, primarily from the effect of expiring statutes of limitations, partially offset by the continued effect of interest on unrecognized tax benefits.

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

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## 12. EQUITY AWARD PLANS

The Compensation Committee of the Company's Board of Directors established performance goals for the award of performance-based RSUs for the Company's executive officers, under the Amended and Restated Destination Maternity Corporation 2005 Equity Incentive Plan, in each of August 2016 and April 2016 (collectively the "Fiscal 2016 Awards"), and April 2015 (the "Fiscal 2015 Awards"). The RSUs earned, if any, under the awards will be based on the Company's cumulative adjusted EBITDA, as defined in the applicable award agreement ("RSU Adjusted EBITDA") for a specified three-year period ("Performance Period"). The grant of any RSUs under these awards will generally be further contingent on the continued employment of the executive officers with the Company through the dates on which the shares in respect of these RSUs, if any, are issued following the end of the applicable Performance Periods, as well as the achievement of certain minimum levels of RSU Adjusted EBITDA in the final fiscal year of each applicable Performance Period. The additional RSUs, if any, will be earned on the same terms as the original RSUs.

The following table sets forth the aggregate minimum, target and maximum RSUs, that may be earned by the executive officers for each fiscal year award cycle.

| Awards             | Performance Period                   | Minimum RSUs | Target RSUs | Maximum RSUs |
|--------------------|--------------------------------------|--------------|-------------|--------------|
| Fiscal 2016 Awards | January 31, 2016 to February 2, 2019 | 13,698       | 54,789      | 82,815       |
| Fiscal 2015 Awards | February 1, 2015 to February 3, 2018 | 15,218       | 30,436      | 45,655       |

Fiscal 2015 Awards include the prorated number of RSUs that may be earned by the Company's former President and exclude RSUs forfeited by the Company's former Executive Vice President & Chief Financial Officer. During fiscal 2016 the Company determined that the Fiscal 2016 Awards and Fiscal 2015 Awards were unlikely to be earned, even at the minimum level.

During the six months ended July 29, 2017 and July 30, 2016 certain vesting restricted stock awards were net-share settled by the Company such that the Company withheld shares of the Company's common stock, which had a fair market value equivalent to the minimum statutory obligation for the applicable income and employment taxes for the awards, and the Company remitted the cash value to the appropriate taxing authorities. The total shares withheld in connection with the tax obligations, which were approximately 9,000 and 2,000 shares, respectively, during the six months ended July 29, 2017 and July 30, 2016, are reflected as repurchase of common stock in the accompanying financial statements, and were based on the value of the Company's common stock on the 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 \$37,000 and \$18,000 for the six months ended July 29, 2017 and July 30, 2016, respectively.

## 13. RECENT ACCOUNTING PRONOUNCEMENTS AND CHANGE IN ACCOUNTING PRINCIPLE

a. Newly Adopted Accounting Pronouncements

In March 2016 the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. ASU No. 2016-09 affects all entities that issue share-based payment awards to their employees. ASU No. 2016-09 simplifies several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows, including recognizing all excess tax benefits and tax deficiencies as income tax expense or benefit in the income statement rather than in additional paid-in capital. The Company adopted ASU No. 2016-09 effective January 29, 2017 and the adoption did not have a material impact on the Company’s consolidated financial position, results of operations or cash flows.

In November 2015 the FASB issued ASU No. 2015-17, Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes. To simplify the presentation of deferred income taxes, ASU No. 2015-17 requires that deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position. The Company adopted ASU No. 2015-17 effective January 29, 2017 and applied the required reclassifications on a retrospective basis. Accordingly, in the consolidated balance sheet as of January 28, 2017, \$3,251,000 of deferred tax assets were reclassified from current assets to other assets. The adoption of ASU No. 2015-17 did not have any impact on the Company’s net consolidated financial position, results of operations or cash flows.

In July 2015 the FASB issued ASU No. 2015-11, Inventory (Topic 330): Simplifying the Measurement of Inventory. ASU No. 2015-11 changes the measurement principle for inventory from the lower of cost or market to the lower of cost and net realizable

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value. The Company adopted ASU No. 2015-11 effective January 29, 2017 and the adoption did not have a material impact on the Company's consolidated financial position, results of operations or cash flows.

b. Proposed Accounting Pronouncements

In May 2017 the FASB issued ASU No. 2017-09, Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting. ASU No. 2017-09 provides guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. ASU No. 2017-09 is effective for financial statements issued for annual reporting periods beginning after December 15, 2017 and interim periods within those years. Earlier application is permitted. The impact from adoption of the new requirements of ASU No. 2017-09 on the Company's consolidated financial position or results of operations has not yet been determined.

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

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

In February 2016 the FASB issued ASU No. 2016-02, Leases (Topic 842). ASU No. 2016-02 affects any entity that enters into a lease (as that term is defined in the ASU) and its guidance supersedes Topic 840, Leases. As it substantively relates to the Company, ASU No. 2016-02 requires lessees to recognize a right-of-use asset and a lease liability, initially measured at the present value of the lease payments, in the statement of financial position. For finance leases, lessees are required to recognize interest on the lease liability separately from amortization of the right-of-use asset in the statement of comprehensive income and to classify repayments of the principal portion of the lease liability within financing activities and payments of interest on the lease liability and variable lease payments within operating activities in the statement of cash flows. For operating leases, lessees are required to recognize a single lease cost, calculated so that the cost of the lease is allocated over the lease term on a generally straight-line basis, and to classify all cash payments within operating activities in the statement of cash flows. In transition, lessees are required to recognize and measure leases at the beginning of the earliest period presented using a modified

retrospective approach. ASU No. 2016-02 is effective for financial statements issued for annual reporting periods beginning after December 15, 2018 and interim periods within those years. Earlier application is permitted. While the Company is still evaluating this standard, given the significant number of leases the Company is party to, the Company expects this standard will have a material impact on the Company's consolidated balance sheets from the recognition of right-of-use assets and related liabilities but does not expect it to have a material impact on the consolidated statements of operations.

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



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adoption of the new requirements of ASU No. 2014-09 on the Company's consolidated financial position or results of operations has not yet been determined.

c. Change in Accounting Principle

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

The Company determined that this accounting change represented a change in accounting estimate effected by a change in accounting principle. In accordance with the requirements of ASC Topic 250 related to such accounting changes, during the first quarter of fiscal 2017 the Company recognized \$764,000 of revenue as a cumulative adjustment for the accounting change.

14.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.

15.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.

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

|               | Three Months Ended |               | Six Months Ended |               |
|---------------|--------------------|---------------|------------------|---------------|
|               | July 29, 2017      | July 30, 2016 | July 29, 2017    | July 30, 2016 |
| Net Sales     |                    |               |                  |               |
| United States | \$92,663           | \$99,985      | \$193,092        | \$216,271     |
| Foreign       | 5,617              | 6,544         | 11,614           | 14,688        |

|                   | July 29, 2017 | January 28, 2017 |
|-------------------|---------------|------------------|
| Long-Lived Assets |               |                  |
| United States     | \$75,162      | \$81,811         |
| Foreign           | 2,013         | 2,310            |

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

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16.INTEREST EXPENSE, NET

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

|                       | Three<br>Months<br>Ended |                     | Six Months<br>Ended |                     |
|-----------------------|--------------------------|---------------------|---------------------|---------------------|
|                       | July<br>29,<br>2017      | July<br>30,<br>2016 | July<br>29,<br>2017 | July<br>30,<br>2016 |
| Interest expense      | \$980                    | \$974               | \$1,985             | \$1,626             |
| Interest income       | (1 )                     | (1 )                | (2 )                | (1 )                |
| Interest expense, net | \$979                    | \$973               | \$1,983             | \$1,625             |

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

We operate on a 52/53-week fiscal year ending on the Saturday nearest January 31 of each year. References in this discussion to our fiscal 2017 refer to the 53-week fiscal year, or periods within such fiscal year, which began January 29, 2017 and will end February 3, 2018. References to our fiscal 2016 refer to the 52-week fiscal year, or periods within such fiscal year, which began January 31, 2016 and ended January 28, 2017.

### Overview

We are the leading designer and retailer of maternity apparel in the United States with 1,150 retail locations, including 507 stores in the United States, Canada and Puerto Rico, and 643 leased departments located within department stores and baby specialty stores throughout North America. We also sell merchandise on the Internet, primarily through our brand-specific websites, [motherhood.com](http://motherhood.com) and [apeainthepod.com](http://apeainthepod.com), as well as through our [destinationmaternity.com](http://destinationmaternity.com) website. We have store franchise and product supply relationships in the Middle East, South Korea, Mexico, Israel and India. As of July 29, 2017 we have 210 international franchised locations, including 18 stand-alone stores operated under one of our retail nameplates and 192 shop-in-shop locations.

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

Comparable sales figures represent sales at retail locations (which does not include licensed brand or international franchise relationships) that have been in operation by us for at least 13 full months, as well as Internet sales. Our comparable sales figures generally do not include: 1) retail locations which change location type or format, 2) retail locations which are expanded, contracted or relocated if the square footage of the retail location has changed by 20% or more, or, if in the judgment of management, such expansion, contraction or relocation materially alters the comparability of the retail location (either with respect to the manner of its operation or otherwise), 3) in the case of relocations only, retail locations which are not in the same immediate geographical vicinity (such as, without limitation, the same mall, the same part of a mall, or the same street) after the relocation, 4) retail locations that have temporarily closed for any reason for 30 days or more, or 5) retail locations which, in the judgment of management, have undergone other significant changes which materially alter the comparability of the retail location (either with respect to the manner of its operation or otherwise) (such as, for example only, in the case of closure of retail locations in connection with the cessation of a leased department relationship where the manner of operation of such retail location has been materially altered prior to closure, or in the case of construction in, on or near a retail location, which significantly interferes with the customer traffic, visibility or operation of a retail location). Comparable sales exclude the 53<sup>rd</sup> week of sales for 53-week fiscal years. In the 52-week fiscal year subsequent to a 53-week fiscal year, we exclude the sales in the non-comparable week from the comparable sales calculation. There may be variations in the way in which other retailers calculate comparable sales. As a result, data in this quarterly report regarding our comparable sales may not be comparable to similar data made available by other retailers.

### Termination of Planned Merger

On December 19, 2016 we entered into the Merger Agreement, pursuant to which, subject to the satisfaction or waiver of certain conditions, a subsidiary of Orchestra would merge with and into the Company, with the Company surviving

as a wholly-owned subsidiary of Orchestra. Despite substantial and sustained efforts by both parties since execution of the Merger Agreement, and in light of the challenges of satisfying applicable securities regulations in France and in the U.S. as well as the uncertainty as to whether those regulatory requirements could be satisfied without unreasonable effort and expense, particularly in connection with the completion of the registration and listing of Orchestra securities in the U.S., where such securities previously have not been publicly traded, the parties determined that it was in the best interests of their respective stockholders to terminate the Merger Agreement. Accordingly, on July 27, 2017 the Company, Orchestra, and certain other affiliates of Orchestra entered into a Termination Agreement pursuant to which the parties agreed to terminate the Merger Agreement and various ancillary agreements entered into in connection with and in contemplation of the Merger. Orchestra and the Company agreed to reimburse each other for certain costs incurred in connection with their effort to implement the Merger Agreement, with a net amount of \$1.0 million paid to the Company on July 31, 2017. Orchestra and its affiliates last reported they continue to own 1.9 million shares of the outstanding common stock of Destination Maternity.

## Turnaround Plan

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

Although we have made some progress, we have experienced challenges in implementing our turnaround given the overall weakness in the women’s specialty apparel retail space, declining mall-based traffic, and other factors. These challenges have led to a slower pace of progress than originally planned, resulting in a decline in net sales from fiscal 2016 and underperformance to 2017 expectations.

In the second quarter and first six months of fiscal 2017 we recognized nominal amounts related to our turnaround plan. During the second quarter and first six months of fiscal 2016 we incurred \$0.2 million and \$0.7 million, respectively, of charges related to our turnaround plan.

## Change in Accounting Principle

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

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

## Leased Department and Licensed Relationships

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

Presented below is a summary of our results for the second quarter and first six months of fiscal 2017 with regard to each of the key measures noted above:

Second Quarter Fiscal 2017 Financial Results

Net loss for the second quarter of fiscal 2017 was \$2.8 million, or \$0.20 per share (diluted), compared to net loss of \$2.5 million, or \$0.18 per share (diluted), for the second quarter of fiscal 2016.

Net loss for the second quarter of fiscal 2017 includes a \$1.1 million, non-cash income tax charge related to a change in the valuation allowance against net deferred tax assets and other income of \$0.1 million, net of tax, or \$0.01 per share (diluted), related to the Merger, which was terminated on July 27, 2017 (as discussed above). Net loss for the second quarter of fiscal 2016 includes other charges of \$0.4 million, net of tax, or \$0.03 per share (diluted), related to the now terminated Merger and \$0.1 million, net of tax, or \$0.01 per share (diluted), related to management and organizational changes

Adjusted net loss for the second quarter of fiscal 2017 was \$1.8 million, or \$0.13 per share (diluted), compared to the comparably adjusted net loss for the second quarter of fiscal 2016 of \$2.0 million, or \$0.14 per share (diluted).

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Adjusted EBITDA was \$4.3 million for the second quarter of fiscal 2017, an increase of 79.1% compared to \$2.4 million of Adjusted EBITDA for the second quarter of fiscal 2016.

Adjusted EBITDA before other charges was \$4.1 million for the second quarter of fiscal 2017, an increase of 25.7% compared to \$3.3 million of Adjusted EBITDA before other charges for the second quarter of fiscal 2016.

Net sales for the second quarter of fiscal 2017 decreased 7.7% to \$98.3 million from \$106.5 million for the second quarter of fiscal 2016.

Comparable sales for the second quarter of fiscal 2017 decreased 3.4% compared to a comparable sales decrease of 2.7% for the second quarter of fiscal 2016.

#### First Six Months of Fiscal 2017 Financial Results

Net loss for the first six months of fiscal 2017 was \$3.9 million, or \$0.28 per share (diluted), compared to net income of \$1.5 million, or \$0.11 per share (diluted), for the first six months of fiscal 2016.

Net loss for the first six months of fiscal 2017 includes a \$1.5 million, non-cash income tax charge related to a change in the valuation allowance against net deferred tax assets, revenue of \$0.5 million, net of tax, or \$0.03 per share (diluted), related to a cumulative adjustment for change in accounting principle, and other charges of \$0.4 million, net of tax, or \$0.03 per share (diluted), related to the now terminated Merger. Net income for the first six months of fiscal 2016 includes other charges of \$0.5 million, net of tax, or \$0.04 per share (diluted), related to the now terminated Merger and \$0.4 million, net of tax, or \$0.03 per share (diluted), related to management and organizational changes.

Adjusted net loss for the first six months of fiscal 2017 was \$2.5 million, or \$0.18 per share (diluted), compared to the comparably adjusted net income for the first six months of fiscal 2016 of \$2.5 million, or \$0.18 per share (diluted).

Adjusted EBITDA was \$10.5 million for the first six months of fiscal 2017, a decrease of 29.6% compared to \$15.0 million of Adjusted EBITDA for the first six months of fiscal 2016.

Adjusted EBITDA before other charges and effect of change in accounting principle was \$10.4 million for the first six months of fiscal 2017, a decrease of 36.9% compared to \$16.5 million of Adjusted EBITDA before other charges for the first six months of fiscal 2016.

Net sales for the first six months of fiscal 2017 decreased 11.4% to \$204.7 million from \$231.0 million for the first six months of fiscal 2016.

Comparable sales for the first six months of fiscal 2017 decreased 5.5% compared to a comparable sales decrease of 4.2% for the first six months of fiscal 2016.



## Results of Operations

The following table sets forth certain operating data as a percentage of net sales and as a percentage change for the three and six months ended July 29, 2017 and July 30, 2016:

|                                                             | % of Net Sales (1) |               |                  |               | % Change Period to Period Favorable (Unfavorable)  |                                                  |
|-------------------------------------------------------------|--------------------|---------------|------------------|---------------|----------------------------------------------------|--------------------------------------------------|
|                                                             | Three Months Ended |               | Six Months Ended |               | Three Months Ended July 29, 2017 vs. July 30, 2016 | Six Months Ended July 29, 2017 vs. July 30, 2016 |
|                                                             | July 29, 2017      | July 30, 2016 | July 29, 2017    | July 30, 2016 | July 30, 2016                                      | July 30, 2016                                    |
| Net sales                                                   | 100.0%             | 100.0%        | 100.0%           | 100.0%        | (7.7 )%                                            | (11.4 )%                                         |
| Cost of goods sold (2)                                      | 47.0               | 48.5          | 46.3             | 47.1          | 10.6                                               | 13.0                                             |
| Gross profit                                                | 53.0               | 51.5          | 53.7             | 52.9          | (5.1 )                                             | (9.9 )                                           |
| Selling, general and administrative expenses (3)            | 53.7               | 53.1          | 53.0             | 50.0          | 6.7                                                | 6.0                                              |
| Store closing, asset impairment and asset disposal expenses | 1.1                | 0.4           | 1.3              | 0.5           | (153.4)                                            | (151.7)                                          |
| Other charges, net                                          | (0.2 )             | 0.8           | 0.3              | 0.7           | 119.5                                              | 58.2                                             |
| Operating income (loss)                                     | (1.7 )             | (2.9 )        | (0.9 )           | 1.8           | 45.2                                               | (142.4)                                          |
| Interest expense, net                                       | 1.0                | 0.9           | 1.0              | 0.7           | (0.6 )                                             | (22.0 )                                          |
| Income (loss) before income taxes                           | (2.7 )             | (3.8 )        | (1.8 )           | 1.1           | 34.3                                               | (249.7)                                          |
| Income tax (benefit) provision                              | 0.1                | (1.5 )        | 0.1              | 0.4           | (105.9)                                            | 80.6                                             |
| Net income (loss)                                           | (2.8 )%            | (2.4 )%       | (1.9 )%          | 0.7 %         | (10.6 )%                                           | (355.6 )%                                        |

(1) Components may not add to total due to rounding.

(2) “Cost of goods sold” includes merchandise costs (including customs duty expenses), expenses related to inventory shrinkage, product related corporate expenses (including expenses related to our payroll, benefit costs and operating expenses of our buying departments), inventory reserves (including lower of cost or net realizable value reserves), inbound freight charges, purchasing and receiving costs, inspection costs, distribution center costs (including occupancy expenses and equipment depreciation), internal transfer costs, and the other costs of our distribution network, partially offset by the allocable amount of our Grow NJ benefit.

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

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

| Retail Locations (1) | Three Months Ended<br>July 29, 2017 |                       |                              | July 30, 2016 |                       |                              |
|----------------------|-------------------------------------|-----------------------|------------------------------|---------------|-----------------------|------------------------------|
|                      | Stores                              | Leased<br>Departments | Total<br>Retail<br>Locations | Stores        | Leased<br>Departments | Total<br>Retail<br>Locations |
| Beginning of period  | 511                                 | 646                   | 1,157                        | 530           | 957                   | 1,487                        |
| Opened               | 1                                   | 2                     | 3                            | 3             | 2                     | 5                            |
| Closed (2)           | (5 )                                | (5 )                  | (10 )                        | (7 )          | (258 )                | (265 )                       |
| End of period        | 507                                 | 643                   | 1,150                        | 526           | 701                   | 1,227                        |

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| Retail Locations (1) | Six Months Ended<br>July 29, 2017 |                       |                              | July 30, 2016 |                       |                              |
|----------------------|-----------------------------------|-----------------------|------------------------------|---------------|-----------------------|------------------------------|
|                      | Stores                            | Leased<br>Departments | Total<br>Retail<br>Locations | Stores        | Leased<br>Departments | Total<br>Retail<br>Locations |
| Beginning of period  | 515                               | 705                   | 1,220                        | 536           | 1,279                 | 1,815                        |
| Opened               | 5                                 | 2                     | 7                            | 6             | 3                     | 9                            |
| Closed (2)           | (13 )                             | (64 )                 | (77 )                        | (16 )         | (581 )                | (597 )                       |
| End of period        | 507                               | 643                   | 1,150                        | 526           | 701                   | 1,227                        |

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

(2) During the six months ended July 29, 2017 Macy's completed closure of 59 stores where we had a leased department within the store. During the three and six months ended July 30, 2016 we closed 253 and 475, respectively, leased departments within Sears stores. During the six months ended July 30, 2016, we closed 100 leased departments within Gordmans stores.

| International Franchised Locations | Three Months Ended<br>July 29, 2017 |                               |                                                   | July 30, 2016 |                               |                                                   |
|------------------------------------|-------------------------------------|-------------------------------|---------------------------------------------------|---------------|-------------------------------|---------------------------------------------------|
|                                    | Stores                              | Shop-in-<br>Shop<br>Locations | Total<br>International<br>Franchised<br>Locations | Stores        | Shop-in-<br>Shop<br>Locations | Total<br>International<br>Franchised<br>Locations |
| Beginning of period                | 19                                  | 200                           | 219                                               | 23            | 180                           | 203                                               |
| Opened                             | —                                   | —                             | —                                                 | 1             | 37                            | 38                                                |
| Closed                             | (1 )                                | (8 )                          | (9 )                                              | (3 )          | (1 )                          | (4 )                                              |
| End of period                      | 18                                  | 192                           | 210                                               | 21            | 216                           | 237                                               |

| International Franchised Locations | Six Months Ended<br>July 29, 2017 |                               |                                                   | July 30, 2016 |                               |                                                   |
|------------------------------------|-----------------------------------|-------------------------------|---------------------------------------------------|---------------|-------------------------------|---------------------------------------------------|
|                                    | Stores                            | Shop-in-<br>Shop<br>Locations | Total<br>International<br>Franchised<br>Locations | Stores        | Shop-in-<br>Shop<br>Locations | Total<br>International<br>Franchised<br>Locations |
| Beginning of period                | 19                                | 194                           | 213                                               | 25            | 168                           | 193                                               |
| Opened                             | —                                 | 8                             | 8                                                 | 1             | 50                            | 51                                                |
| Closed                             | (1 )                              | (10 )                         | (11 )                                             | (5 )          | (2 )                          | (7 )                                              |
| End of period                      | 18                                | 192                           | 210                                               | 21            | 216                           | 237                                               |

Three Months Ended July 29, 2017 and July 30, 2016

**Net Sales.** Our net sales for the second quarter of fiscal 2017 decreased by 7.7%, or \$8.2 million, to \$98.3 million from \$106.5 million for the second quarter of fiscal 2016. Comparable sales for the second quarter of fiscal 2017 decreased 3.4% compared to a comparable sales decrease of 2.7% for the second quarter of fiscal 2016. The decrease

in total reported sales for the second quarter of fiscal 2017 compared to the second quarter of fiscal 2016 resulted primarily from the closure of underperforming stores, the decrease in comparable sales, and decreased licensed sales, reflecting the wind down of the Kohl's relationship. The primary drivers of the comparable sales decrease were decreased store traffic and a decrease in our average selling prices reflecting product mix, partially offset by a 30.2% increase in e-commerce sales.

**Gross Profit.** Our gross profit for the second quarter of fiscal 2017 decreased by 5.1%, or approximately \$2.7 million, to \$52.1 million from \$54.8 million for the second quarter of fiscal 2016, and our gross profit as a percentage of net sales (gross margin) for the second quarter of fiscal 2017 was 53.0% compared to 51.5% for the second quarter of fiscal 2016. The decrease in gross profit for the second quarter of fiscal 2017 compared to the second quarter of fiscal 2016 was primarily due to our lower sales volume as a result of the factors discussed above, partially offset by the increased gross margin. The year-over-year increase in gross margin primarily reflects reduced product costs and our exit from former leased department and licensed relationships, which had historically generated lower than average gross margins.

**Selling, General and Administrative Expenses.** Our selling, general and administrative expenses for the second quarter of fiscal 2017 decreased by 6.7%, or \$3.8 million, to \$52.8 million from \$56.6 million for the second quarter of fiscal 2016. As a

percentage of net sales, selling, general and administrative expenses increased to 53.7% for the second quarter of fiscal 2017 from 53.1% for the second quarter of fiscal 2016. This decrease in expense for the quarter reflects cost reductions resulting from our closure of underperforming stores, the wind down of the Kohl's and Sears relationships and other headcount reductions, and lower variable incentive compensation, partially offset by higher marketing and advertising expense. The increase in expense percentage for the three-month period reflects the unfavorable leverage from our decreased sales due to the relatively fixed nature of much of our expenses.

**Store Closing, Asset Impairment and Asset Disposal Expenses.** Our store closing, asset impairment and asset disposal expenses for the second quarter of fiscal 2017 increased by \$0.7 million, to \$1.1 million from \$0.4 million for the second quarter of fiscal 2016, reflecting higher impairment charges for write-downs of long-lived assets.

**Other Charges, Net.** In the second quarter of fiscal 2017 we recognized other income of \$0.2 million primarily related to the Merger, which was terminated on July 27, 2017. Other charges related to the Merger included \$0.8 million, primarily for legal and advisory fees, which were offset by the \$1.0 million net reimbursement to us under the Termination Agreement for certain costs incurred in connection with the effort to implement the Merger Agreement. In the second quarter of fiscal 2016 we incurred other charges of \$0.9 million related to management and organizational changes and the now terminated Merger. Other charges related to management and organizational changes were \$0.2 million, primarily for costs to terminate a non-core apparel brand relationship. Other charges related to the Merger were \$0.7 million, primarily for legal and advisory fees.

**Operating Income (Loss).** We had an operating loss of \$1.7 million for the second quarter of fiscal 2017 compared to an operating loss of \$3.1 million for the second quarter of fiscal 2016. The \$1.4 million decrease in operating loss reflects our 6.7% reduction in selling, general and administrative expenses, partially offset by our lower gross profit as a result of the decline in sales volume.

**Interest Expense, Net.** Our net interest expense of \$1.0 million for the second quarter of fiscal 2017 was approximately the same as the second quarter of fiscal 2016. During the second quarter of fiscal 2017, interest expense from our new equipment financing arrangement was offset by lower interest cost due to lower average borrowings under our Credit Facility, and reductions in the principal balances due under our Term Loan and our previous equipment note, as compared to the second quarter of fiscal 2016.

**Income Tax Provision (Benefit).** For the second quarter of fiscal 2017 our income tax provision was \$0.1 million. In the second quarter of fiscal 2017 we recorded a noncash charge of \$1.1 million to increase the valuation allowance against substantially all of our deferred tax assets. Excluding the effect of the valuation allowance charge, our effective tax benefit rate for the second quarter of fiscal 2017 was 36.5%. This rate is higher than the statutory federal tax rate of 35% primarily due to state income tax benefits, net of federal expense, partially offset by certain state minimum income taxes and the impact from recognizing tax deficiencies from share-based payment awards as income tax expense rather than in additional paid-in capital, as required by the adoption of ASU No. 2016-09. For the second quarter of fiscal 2016 our effective tax rate was 38.5%. Our effective tax rate was higher than the statutory federal tax rate of 35% primarily due to state income tax benefits, net of federal expense.

**Net Income (Loss).** Net loss for the second quarter of fiscal 2017 was \$2.8 million, or \$0.20 per share (diluted), compared to net loss of \$2.5 million, or \$0.18 per share (diluted), for the second quarter of fiscal 2016. Net loss for the second quarter of fiscal 2017 includes a \$1.1 million non-cash income tax charge related to a change in the valuation allowance against net deferred tax assets and other income of \$0.1 million, net of tax, related to the Merger, which was terminated on July 27, 2017. Net loss for the second quarter of fiscal 2016 includes other charges of \$0.4 million, net of tax, related to the now terminated Merger and other charges of \$0.1 million, net of tax, related to management and organizational changes.

Our average diluted shares outstanding of 13.8 million were slightly higher than the 13.7 million average diluted shares for the second quarter of fiscal 2016. We had higher shares outstanding in the second quarter of fiscal 2017 compared to the second quarter of fiscal 2016 as a result of vesting restricted stock awards.

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Following is a reconciliation of net loss and net loss per share (diluted) ("Diluted EPS") to adjusted net loss and adjusted Diluted EPS for the three months ended July 29, 2017 and July 30, 2016 (in thousands, except per share amounts):

|                                                               | Three Months Ended<br>July 29, 2017 |                   |                | July 30, 2016 |                   |                |
|---------------------------------------------------------------|-------------------------------------|-------------------|----------------|---------------|-------------------|----------------|
|                                                               | Net<br>Loss                         | Diluted<br>Shares | Diluted<br>EPS | Net<br>Loss   | Diluted<br>Shares | Diluted<br>EPS |
| As reported                                                   | \$(2,774)                           | 13,793            | \$(0.20 )      | \$(2,509)     | 13,700            | \$(0.18 )      |
| Other charges for proposed business combination               | (165 )                              | —                 |                | 652           | —                 |                |
| Other charges for management and organizational changes       | (6 )                                | —                 |                | 223           | —                 |                |
| Income tax effect of other charges (1) (2)                    | 64                                  | —                 |                | (334 )        | —                 |                |
| Deferred tax valuation allowance related to cumulative losses | 1,073                               | —                 |                | —             | —                 |                |
| As adjusted                                                   | \$(1,808)                           | 13,793            | \$(0.13 )      | \$(1,968)     | 13,700            | \$(0.14 )      |

(1) For the second quarter of fiscal 2017 income tax effect of other charges includes \$62 related to the Merger, which was terminated on July 27, 2017, and \$2 related to management and organizational changes, which represent the differences in income tax provision calculated with and without the specified pretax income.

(2) For the second quarter of fiscal 2016 income tax effect of other charges includes \$(249) related to the now terminated Merger and \$(85) related to management and organizational changes, which represent the differences in income tax benefit calculated with and without the specified pretax expense.

Following is a reconciliation of net loss to Adjusted EBITDA and Adjusted EBITDA before other charges for the second quarter of fiscal 2017 and 2016 (in thousands):

|                                                              | Three Months Ended<br>July 29, 2017      July 30, 2016 |            |
|--------------------------------------------------------------|--------------------------------------------------------|------------|
| Net loss                                                     | \$(2,774 )                                             | \$(2,509 ) |
| Add: income tax provision (benefit)                          | 93                                                     | (1,570 )   |
| Add: interest expense, net                                   | 979                                                    | 973        |
| Operating loss                                               | (1,702 )                                               | (3,106 )   |
| Add: depreciation and amortization expense                   | 4,427                                                  | 4,541      |
| Add: loss on impairment of long-lived assets                 | 1,100                                                  | 322        |
| Add: loss on disposal of assets                              | 22                                                     | 113        |
| Add: stock-based compensation expense                        | 416                                                    | 510        |
| Adjusted EBITDA                                              | 4,263                                                  | 2,380      |
| Add: other charges for proposed business combination         | (165 )                                                 | 652        |
| Add: other charges for management and organizational changes | (6 )                                                   | 223        |
| Adjusted EBITDA before other charges                         | \$4,092                                                | \$3,255    |

Six Months Ended July 29, 2017 and July 30, 2016

**Net Sales.** Our net sales for the six months of fiscal 2017 decreased by 11.4%, or \$26.3 million, to \$204.7 million from \$231.0 million for the first six months of fiscal 2016. Comparable sales for the first six months of fiscal 2017 decreased 5.5% compared to a comparable sales decrease of 4.2% for the first six months of fiscal 2016. The decrease in total reported sales for the first six months of fiscal 2017 compared to the first six months of fiscal 2016 resulted primarily from the decrease in comparable sales, the closure of underperforming stores, and decreased leased department and licensed sales, reflecting the wind down of the Kohl's, Sears and Gordmans relationships and the closure of Macy's stores in which we had a leased department within the store, partially offset by recognition of \$0.8 million of revenue related to the change in our method of accounting for gift card breakage. The primary drivers of the comparable sales decrease were decreased store traffic and a decrease in our average selling prices reflecting both product mix and promotional activity.

**Gross Profit.** Our gross profit for the first six months of fiscal 2017 decreased by 9.9%, or \$12.1 million, to \$110.0 million from \$122.1 million for the first six months of fiscal 2016, and our gross margin for the first six months of fiscal 2017 was 53.7% compared to 52.9% for the first six months of fiscal 2016. The decrease in gross profit for the first six months of fiscal 2017 compared to the first six months of fiscal 2016 was primarily due to our lower sales volume as a result of the factors discussed above, partially



offset by the increased gross margin. The year-over-year increase in gross margin primarily reflects reduced product costs and our exit from former leased department and licensed relationships, which had historically generated lower than average gross margins.

**Selling, General and Administrative Expenses.** Our selling, general and administrative expenses for the first six months of fiscal 2017 decreased by 6.0%, or \$6.9 million, to \$108.5 million from \$115.4 million for the first six months of fiscal 2016. As a percentage of net sales, selling, general and administrative expenses increased to 53.0% for the first six months of fiscal 2017 from 50.0% for the first six months of fiscal 2016. This decrease in expense for the quarter reflects cost reductions resulting from our closure of underperforming stores, the wind down of the Kohl's, Sears and Gordmans relationships and other headcount reductions, and lower variable incentive compensation, partially offset by higher marketing and advertising expense. The increase in expense percentage for the six-month period reflects the unfavorable leverage from our decreased sales due to the relatively fixed nature of much of our expenses.

**Store Closing, Asset Impairment and Asset Disposal Expenses.** Our store closing, asset impairment and asset disposal expenses for the first six months of fiscal 2017 increased by \$1.6 million, to \$2.6 million from \$1.0 million for the first six months of fiscal 2017, reflecting higher impairment charges for write-downs of long-lived assets.

**Other Charges, Net.** In the first six months of fiscal 2017 we incurred other charges of \$0.6 million primarily related to the now terminated Merger. Other charges related to the Merger included \$1.6 million, primarily for legal and advisory fees, which were partially offset by the \$1.0 million net reimbursement to us under the Termination Agreement for certain costs incurred in connection with the effort to implement the Merger Agreement. In the first six months of fiscal 2016 we incurred other charges of \$1.5 million primarily related to management and organizational changes and the now terminated Merger. Other charges related to management and organizational changes were approximately \$0.6 million, primarily for costs to terminate non-core apparel brand relationships, and to a lesser extent, severance and other benefits. Other charges related to the Merger were \$0.9 million, primarily for legal and advisory fees.

**Operating Income (Loss).** We had an operating loss of \$1.7 million for the first six months of fiscal 2017 compared to operating income of \$4.1 million for the first six months of fiscal 2016. The approximately \$5.8 million increase in operating loss reflects our lower gross profit as a result of the decline in sales volume, partially offset by our 6.0% reduction in selling, general and administrative expenses.

**Interest Expense, Net.** Our net interest expense for the first six months of fiscal 2017 increased to \$2.0 million from \$1.6 million for the first six months of fiscal 2016. This increase was due to our higher effective borrowing rate and timing related to our first quarter of fiscal 2016 debt refinancing, and to a lesser extent interest expense from our new equipment financing arrangement, partially offset by lower average borrowings under our Credit Facility and reductions in the principal balance due under our Term Loan and our previous equipment note during the first six months of fiscal 2017 as compared to the first six months of fiscal 2016.

**Income Tax Provision (Benefit).** For the first six months of fiscal 2017 our income tax provision was \$0.2 million. In the first six months of fiscal 2017 we recorded a noncash charge of \$1.5 million to increase the valuation allowance against substantially all of our deferred tax assets. Excluding the effect of the valuation allowance charge, our effective tax benefit rate for the first six months of fiscal 2017 was 35.1%. This rate is slightly higher than the statutory federal tax rate of 35% due to state income tax benefits, net of federal expense, offset by certain state minimum income taxes and the impact from recognizing tax deficiencies from share-based payment awards as income tax expense rather than in additional paid-in capital, as required by the adoption of ASU No. 2016-09. For the first six months of fiscal 2016 our effective tax rate was 38.5%. Our effective tax rate was higher than the statutory federal tax rate of 35% primarily due to state income tax benefits, net of federal expense.

Net Income (Loss). Net loss for the first six months of fiscal 2017 was \$3.9 million, or \$0.28 per share (diluted), compared to net income of \$1.5 million, or \$0.11 per share (diluted), for the first six months of fiscal 2016. Net loss for the first six months of fiscal 2017 includes a \$1.5 million non-cash income tax charge related to a change in the valuation allowance against net deferred tax assets, revenue of \$0.5 million, net of tax, related to a cumulative adjustment for the effect of a change in accounting principle, and other charges of \$0.4 million, net of tax, related to the now terminated Merger. Net income for the first six months of fiscal 2016 includes other charges of \$0.5 million, net of tax, related to the now terminated Merger and other charges of \$0.4 million, net of tax, related to management and organizational changes.

Our average diluted shares outstanding of 13.8 million were slightly higher than the 13.7 million average diluted shares for the first six months of fiscal 2016. We had higher shares outstanding in the first six months of fiscal 2017 compared to the first six months months of fiscal 2016 as a result of vesting restricted stock awards.

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Following is a reconciliation of net income (loss) and Diluted EPS to adjusted net income (loss) and adjusted Diluted EPS for the six months ended July 29, 2017 and July 30, 2016 (in thousands, except per share amounts):

|                                                               | Six Months Ended<br>July 29, 2017 |                   |                | July 30, 2016 |                   |                |
|---------------------------------------------------------------|-----------------------------------|-------------------|----------------|---------------|-------------------|----------------|
|                                                               | Net<br>Loss                       | Diluted<br>Shares | Diluted<br>EPS | Net<br>Income | Diluted<br>Shares | Diluted<br>EPS |
| As reported                                                   | \$(3,916)                         | 13,771            | \$(0.28 )      | \$1,532       | 13,697            | \$ 0.11        |
| Other charges for proposed business combination               | 649                               | —                 |                | 873           | —                 |                |
| Other charges for management and organizational changes       | (3 )                              | —                 |                | 671           | —                 |                |
| Income tax effect of other charges (1) (2)                    | (242 )                            | —                 |                | (590 )        | —                 |                |
| Effect of change in accounting principle                      | (764 )                            | —                 |                | —             | —                 |                |
| Income tax effect of change in accounting principle (3)       | 284                               | —                 |                | —             | —                 |                |
| Deferred tax valuation allowance related to cumulative losses | 1,497                             | —                 |                | —             | —                 |                |
| As adjusted                                                   | \$(2,495)                         | 13,771            | \$(0.18 )      | \$2,486       | 13,697            | \$ 0.18        |

- (1) For the first six months of fiscal 2017 income tax effect of other charges includes \$(243) related to the Merger, which was terminated on July 27, 2017, and \$1 related to management and organizational changes, which represent the differences in income tax provision calculated with and without the specified pretax amounts.
- (2) For the six months ended July 30, 2016 income tax effect of other charges includes \$(334) related to the now terminated Merger and \$(256) related to management and organizational changes, which represent the differences in income tax provision calculated with and without the specified pretax expense.
- (3) For the first six months of fiscal 2017 income tax effect of change in accounting principle represents the difference in income tax provision calculated with and without the specified pretax income.

Following is a reconciliation of net income (loss) to Adjusted EBITDA and Adjusted EBITDA before other charges and effect of change in accounting principle for the six months ended July 29, 2017 and July 30, 2016 (in thousands):

|                                                      | Six Months Ended |                  |
|------------------------------------------------------|------------------|------------------|
|                                                      | July 29,<br>2017 | July 30,<br>2016 |
| Net income (loss)                                    | \$(3,916 )       | \$1,532          |
| Add: income tax provision                            | 186              | 959              |
| Add: interest expense, net                           | 1,983            | 1,625            |
| Operating income (loss)                              | (1,747 )         | 4,116            |
| Add: depreciation and amortization expense           | 8,888            | 8,927            |
| Add: loss on impairment of long-lived assets         | 2,446            | 733              |
| Add: loss on disposal of assets                      | 116              | 215              |
| Add: stock-based compensation expense                | 830              | 968              |
| Adjusted EBITDA                                      | 10,533           | 14,959           |
| Add: other charges for proposed business combination | 649              | 873              |

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|                                                                                   |          |          |
|-----------------------------------------------------------------------------------|----------|----------|
| Add: other charges for management and organizational changes                      | (3 )     | 671      |
| Less: effect of change in accounting principle                                    | (764 )   | —        |
| Adjusted EBITDA before other charges and effect of change in accounting principle | \$10,415 | \$16,503 |

## 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: 1) Adjusted net income (loss), 2) Adjusted net income (loss) per share (diluted), 3) Adjusted EBITDA (operating income (loss) before deduction for the following non-cash charges: (i) depreciation and amortization expense, (ii) loss on impairment of tangible and intangible assets, (iii) loss on disposal of assets, and (iv) stock-based compensation expense), and 4) Adjusted EBITDA before other charges.

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. In addition, certain of the Company's cash and equity incentive compensation plans are based on our level of achievement of Adjusted EBITDA before other charges, which is substantially identical to our non-GAAP financial measure of Adjusted EBITDA before other charges.

We provide these various non-GAAP financial 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 (loss) or operating income (loss) 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 GAAP. 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 the peak Spring selling season, which will generally occur during the calendar months of March through May, in our first fiscal quarter and the early part of our second fiscal quarter. Given the typically higher sales level in that timeframe and the relatively fixed nature of most of our operating expenses, we have historically generated a very significant percentage of our full year operating income and net income during this period. Results for any quarter are not necessarily indicative of the results that may be achieved for a full fiscal year. Quarterly results may fluctuate materially depending upon, among other things, increases or decreases in comparable sales, the timing of new store openings and closings, new leased department openings and closings, net sales and profitability contributed by new stores and leased departments, the timing of the fulfillment of purchase orders under our product and license arrangements, adverse weather conditions, shifts in the timing of certain holidays and promotions, changes in inventory and production levels and the timing of deliveries of inventory, and changes in our merchandise mix.

#### Liquidity and Capital Resources

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

Cash and cash equivalents decreased by \$0.6 million during the first six months of fiscal 2017 compared to an increase of \$0.6 million for the first six months of fiscal 2016.

Cash provided by operations was \$8.2 million for the first six months of fiscal 2017, an increase of \$2.9 million from the \$5.3 million in cash provided by operations for the first six months of fiscal 2016. This increase in cash provided by operations compared to the prior year primarily reflects the effect of net working capital and other asset/liability

changes that used \$2.2 million of cash in the first six months of fiscal 2017 compared to \$9.0 million of cash used in the first six months of fiscal 2016, partially offset by our net loss in the first six months of fiscal 2017 compared to net income in the first six months of fiscal 2016, net of the change in non-cash adjustments. The \$6.8 million year-over-year decrease in use of cash from net working capital and other asset/liability changes was primarily the result of 1) a smaller year-over-year decrease in accounts payable and accrued expenses in the first six months of fiscal 2017 compared to the first six months of fiscal 2016 reflecting timing of vendor and payroll related payments (\$11.1 million) and 2) a decrease in prepaid expenses and other current assets in the first six months of fiscal 2017 compared to an increase in the first six months of fiscal 2016 primarily reflecting receipt of a \$4.5 million federal income tax refund in the first quarter of fiscal 2017 less partial offsets from increases in other miscellaneous receivables, including the \$1.0 million Merger cost reimbursement received early in the third quarter of fiscal 2017, partially offset by small increases in trade receivables and inventories in the first six months of fiscal 2017 as compared to decreases in the first six months of fiscal 2016 that reflect working capital reductions in fiscal 2016 related to the winddown of certain business relationships. Our working capital changes, quarterly net income (loss) and cash flow adjustments may fluctuate significantly and net cash provided by or used in operating activities for any interim period is not necessarily indicative of the results that may be achieved for a full fiscal year.

During the first six months of fiscal 2017 \$3.4 million of proceeds from an equipment financing transaction were used to prepay a portion of our Term Loan. Additionally, cash from operations was used to provide cash for capital expenditures, and the regular periodic payments on our Term Loan and capital equipment loans. For the first six months of fiscal 2017 we spent \$3.6 million on capital expenditures, including \$2.9 million for leasehold improvements, fixtures and equipment for new store facilities, as well as improvements to existing stores, and \$0.7 million for our information systems. We expect to use borrowings under our Credit Facility to fund a portion of our capital requirements from time to time during the remainder of fiscal 2017.

During the first six months of fiscal 2016 we received \$32.0 million from our Term Loan, which we used to repay a portion of the outstanding indebtedness under the Credit Facility and to pay financing costs of the Term Loan. Cash from operations and net incremental borrowings under our Credit Facility and our Term Loan, which were approximately \$4.0 million, were used to provide cash for capital expenditures, monthly payments on our capital equipment loan and to slightly increase available cash. For the first six months of fiscal 2016 we spent \$6.8 million on capital expenditures, including \$4.3 million for leasehold improvements, fixtures and equipment for new store facilities, as well as improvements to existing stores, and \$2.5 million primarily for our information systems.

On March 25, 2016 we entered into a Term Loan Agreement for a \$32.0 million Term Loan due March 25, 2021, the proceeds of which were received on March 25, 2016 and were used to repay a portion of the outstanding indebtedness under our existing Credit Facility. The interest rate on the Term Loan is equal to a LIBOR rate (with a 1.00% LIBOR floor) plus 7.50%. We are required to make minimum repayments of the principal amount of the Term Loan in quarterly installments of \$0.8 million each, with the remaining outstanding balance payable on the maturity date. Additionally, the Term Loan can be prepaid at our option subject to certain restrictions, in part or in whole at any time, subject to the payment of a prepayment premium as follows: 1) 3% on or prior to the first anniversary of the closing date, 2) 2% from the first anniversary to the second anniversary of the closing date, and 3) 1% after the second anniversary but on or prior to the third anniversary of the closing date.

Effective December 19, 2016 our Term Loan lenders consented to the Merger and the Term Loan Agreement was amended to change the definition of Consolidated EBITDA (see below) to allow us to add back certain transaction costs relating to the Merger and to modify the financial covenant limiting capital expenditures (see below). Effective April 7, 2017 the Term Loan Agreement was further amended to allow us to enter into certain equipment financing arrangements, on the condition that a portion of the proceeds of such financing be applied as a prepayment of the Term Loan. The April 7, 2017 Term Loan Agreement amendment also provided for an additional reserve of \$5.0 million against availability under our Credit Facility that will be reduced dollar for dollar for prepayments of the Term Loan in accordance with the amendment (see below) and eliminated the covenant requiring maintenance of a minimum level of Consolidated EBITDA (see below). On June 6, 2017 \$3.4 million of proceeds from an equipment financing transaction (see below) were used to prepay a portion of our Term Loan and to reduce the required additional reserve to \$1.6 million. Under the Term Loan Agreement, as amended on April 7, 2017, we are required to maintain Excess Availability (as defined in the related Credit Facility agreement) equal to the greater of 10% of the Combined Loan Cap (as defined in the related Credit Facility agreement) or \$10.0 million. Prior to the April 7, 2017 Term Loan Agreement amendment, we were required to maintain specified levels of quarterly Consolidated EBITDA (as defined in the related Term Loan Agreement). For all periods prior to the elimination of the Consolidated EBITDA covenant, our Consolidated EBITDA exceeded the Consolidated EBITDA requirements under the Term Loan Agreement. The April 7, 2017 Term Loan Agreement amendment prohibits us from making capital expenditures (net of tenant allowances) in excess of a specified amount in any period of four fiscal quarters (subject to carryforward of 50% of any underutilization). The limitation on capital expenditures ranges from \$16.0 million for the four fiscal quarters ended on January 28, 2017 to \$10.5 million for the four fiscal quarters ending on February 3, 2018, and increases to \$17.0 million for the four fiscal quarters ending on May 5, 2018 and thereafter. For the four fiscal quarters ended on July 29, 2017 our net capital expenditures did not exceed the \$13.3 million limit. The Term Loan Agreement also prohibits the payment of dividends or share repurchases by us for three years. The Term Loan is secured by a

security interest in substantially all of our assets, including accounts receivable, inventory, equipment, letter of credit rights, cash, intellectual property and other intangibles, and certain other assets. The security interest granted to the Term Lenders is, in certain respects, subordinate to the security interest granted to the Credit Facility Lender.

After completion of our debt refinancing on March 25, 2016 we have a \$70.0 million Credit Facility, which was amended and restated in connection with the issuance of our \$32.0 million Term Loan. Previously the Credit Facility was \$76.0 million and consisted of two tranches: 1) a senior secured revolving credit and letter of credit facility of up to \$70.0 million (“Tranche A”) and 2) a senior secured first-in, last-out revolving credit facility of up to \$6.0 million (“Tranche A-1”). On March 25, 2016 proceeds from the Term Loan were used to repay a portion of the outstanding indebtedness under the Credit Facility, including repayment of the entire balance outstanding under Tranche A-1, which was then terminated. In connection with the Term Loan financing the maturity date of the Credit Facility was extended from August 25, 2020 to March 25, 2021. Proceeds from advances under the Credit Facility, with certain restrictions, may be used to provide financing for working capital, letters of credit, capital expenditures and other general corporate purposes. Effective April 7, 2017 the Credit Facility was further amended to allow us to enter into certain equipment financing arrangements, on the condition that a portion of the proceeds of such financing be applied as a prepayment of our Term Loan (see above). The amendment also provided for an additional reserve of \$5.0 million against availability under the Credit Facility that will be reduced dollar for dollar for prepayments of the Term Loan in accordance with the amendment. On June 6, 2017 \$3.4 million of proceeds from an equipment financing transaction (see above) were used to prepay a portion of our Term Loan and to



reduce the required additional reserve to \$1.6 million. Under the Credit Facility, we are required to maintain minimum Excess Availability (as defined in the related Credit Facility agreement) equal to the greater of 10% of the Combined Loan Cap (as defined in the Credit Facility agreement) or \$10.0 million. The Credit Facility is secured by a security interest in our trade receivables, inventory, letter of credit rights, cash, intangibles and certain other assets.

As of July 29, 2017 we had \$4.2 million of borrowings under the Credit Facility and \$5.8 million in letters of credit, with \$14.9 million of availability under our Credit Facility based on our Borrowing Base formula and availability reserve requirements. As of July 30, 2016 we had \$1.7 million of borrowings under the Credit Facility and \$6.2 million in letters of credit, with \$34.5 million of availability under our Credit Facility based on our Borrowing Base formula and minimum Excess Availability requirement. For the first six months of fiscal 2017 and 2016 Tranche A borrowings had a weighted interest rate of 3.31% and 2.54% per annum, respectively. For the first six months of fiscal 2016 Tranche A-1 borrowings had a weighted interest rate of 3.43% per annum. During the first six months of fiscal 2017 and 2016 our average level of direct borrowings was \$8.5 and \$15.0 million, respectively, and our maximum borrowings at any time were \$15.7 million and \$42.7 million, respectively.

As of July 29, 2017 there was \$7.8 million outstanding under a five-year equipment financing arrangement with our Credit Facility bank. The equipment note bears annual interest at 3.38%, with payments of \$0.3 million (including interest) due monthly through December 2019. The equipment note is collateralized by substantially all of the material handling equipment at our distribution facility in Florence, New Jersey.

On June 6, 2017 we received \$3.4 million in proceeds from a three-year financing arrangement in the form of a sale and leaseback for certain furniture, fixtures and software. Monthly payments under the leaseback arrangement are \$123 thousand for the first 24 months and \$48 thousand for months 25 to 36. At the end of the leaseback term, we have the option to extend the financing arrangement for an additional year or to repurchase the financed property for a price to be agreed. All of the proceeds from the transaction were used to prepay a portion of our Term Loan. As of July 29, 2017 there was \$3.0 million principal outstanding under the financing arrangement.

In connection with the relocation of our corporate headquarters and our distribution operations from Philadelphia, Pennsylvania to southern New Jersey, the Board of the NJEDA approved us for an incentive package of up to \$4 million in annual benefits under Grow NJ in the form of transferrable income tax credits over a ten-year period from the State of New Jersey. The annual benefit amount available to us is based on an average of eligible jobs within the state and is expected to significantly exceed our annual income tax liability to New Jersey. In order to maximize the realizable value of our incentive package we have an agreement with a third party to sell 75% or more of the annual income tax credits awarded to us. For fiscal 2016 we qualified for \$3.6 million in tax credits for which we realized \$3.3 million cash proceeds, net of costs, from the April 2017 sale of the tax credits to the third party under our agreement. For fiscal 2017 our average eligible jobs are expected to be lower than in fiscal 2016 and we project that we will realize approximately \$2.9 million, net of costs, from the incentive package, subject to our compliance with the requirements under our Grow NJ award. Cost reductions from lower headcount are expected to more than offset any decline in the amount realized from our incentive package.

Based on our current operating plan, our management believes that our current cash and working capital positions, expected operating cash flows and available borrowing capacity will be sufficient to fund our cash requirements for working capital and capital expenditures for at least the next 12 months. We have based this belief on assumptions (which include a positive sustained turn in comparable sales as well as significant expense savings) that we believe are reasonable but may not be realized due to a variety of factors including lower than anticipated net sales or gross margins, higher than expected expenses, a failure to actualize these assumptions, continued or declining levels of economic or retail industry conditions, or other events, including those factors discussed in Part I, Item 1A "Risk Factors" of our Annual Report on Form 10-K for the year ended January 28, 2017. As a result, we could use our available capital resources sooner than we currently expect. Furthermore, our operating plan may change and we may

need additional funds sooner than planned. If we are unable to obtain needed funds from the aforementioned sources, we will likely need to seek other sources of financing as well as defer, reduce or eliminate planned expenditures, which would impair our growth prospects and could otherwise negatively impact our business.

#### 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 critical 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 January 28, 2017. Other than as noted below, as of July 29, 2017 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.

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

#### Recent Accounting Pronouncements

##### Adopted

In March 2016 the FASB issued ASU No. 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. ASU No. 2016-09 affects all entities that issue share-based payment awards to their employees. ASU No. 2016-09 simplifies several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows, including recognizing all excess tax benefits and tax deficiencies as income tax expense or benefit in the income statement rather than in additional paid-in capital. We adopted ASU No. 2016-09 effective January 29, 2017 and the adoption did not have a material impact on our consolidated financial position, results of operations or cash flows.

In November 2015 the FASB issued ASU No. 2015-17, Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes. To simplify the presentation of deferred income taxes, ASU No. 2015-17 requires that deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position. We adopted ASU No. 2015-17 effective January 29, 2017 and applied the required reclassifications on a retrospective basis. Accordingly, in our consolidated balance sheet as of January 28, 2017, \$3.3 million in deferred tax assets were reclassified from current assets to other assets. The adoption of ASU No. 2015-17 did not have any impact on our net consolidated financial position, results of operations or cash flows.

In July 2015 the FASB issued ASU No. 2015-11, Inventory (Topic 330): Simplifying the Measurement of Inventory. ASU No. 2015-11 changes the measurement principle for inventory from the lower of cost or market to the lower of cost and net realizable value. We adopted ASU No. 2015-11 effective January 29, 2017 and the adoption did not have a material impact on our consolidated financial position, results of operations or cash flows.

##### Proposed

In May 2017 the FASB issued ASU No. 2017-09, Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting. ASU No. 2017-09 provides guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. ASU No. 2017-09 is effective for financial statements issued for annual reporting periods beginning after December 15, 2017 and interim periods within those years. Earlier application is permitted. The impact from adoption of the new requirements of ASU No. 2017-09 on our consolidated financial position or results of operations has not yet been determined.

In October 2016 the FASB issued ASU No. 2016-16, Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory. ASU No. 2016-16 amends the accounting for income taxes and requires the recognition of the

income tax consequences of an intercompany asset transfer, other than transfers of inventory, when the transfer occurs. For intercompany transfers of inventory, the income tax effects will continue to be deferred until the inventory has been sold to a third party. ASU No. 2016-16 is effective for financial statements issued for annual reporting periods beginning after December 15, 2017 and interim periods within those years, using a modified retrospective application method through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. Earlier application is permitted. The impact from adoption of the new requirements of ASU No. 2016-16 on our consolidated financial position or results of operations has not yet been determined.

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

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

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

#### 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. The following factors, among others, in some cases have affected and in the future could cause our actual results, performance, achievements or industry results to be materially different from any future results, performance or achievements expressed or implied by these forward-looking statements. These factors include, but are not limited to: the strength or weakness of the retail industry in general and of apparel purchases in particular, our ability to successfully manage our various business initiatives, the success of our international business and its expansion, our ability to successfully manage, retain and expand our leased department and international franchise relationships and marketing partnerships, future sales trends in our various sales channels, unusual weather patterns, changes in consumer spending patterns, raw material price increases, overall economic conditions and other factors affecting consumer confidence, demographics and other macroeconomic factors that may impact the level of spending for maternity apparel (such as fluctuations in pregnancy rates and birth rates), expense savings initiatives,

our ability to anticipate and respond to fashion trends and consumer preferences, unanticipated fluctuations in our operating results, the impact of competition and fluctuations in the price, availability and quality of raw materials and contracted products, availability of suitable store locations, continued availability of capital and financing, our ability to hire, develop and retain senior management and sales associates, our ability to develop and source merchandise, our ability to receive production from foreign sources on a timely basis, our compliance with applicable financial and other covenants under our financing arrangements, potential debt prepayments, the trading liquidity of our common stock, changes in market interest rates, our compliance with certain tax incentive and abatement programs, war or acts of terrorism and other factors referenced in 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 discussions of our outlook, plans, goals, strategy or intentions. Forward-looking statements speak only as of the date made. Except as required by applicable law, including the securities laws of the United States

and the rules and regulations of the SEC, we assume no obligation to update any of these forward-looking statements to reflect actual results, changes in assumptions or changes in other factors affecting these forward-looking statements.

### Item 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 July 29, 2017 we had cash and cash equivalents of \$2.2 million. Our cash equivalents consist of investments in money market funds that bear interest at variable rates. A change in market interest rates earned on our investments impacts the interest income and cash flows, but does not materially impact the fair market value of the financial instruments. Due to the low balance, average maturity and conservative nature of our investment portfolio, we believe a sudden change in interest rates would not have a material effect on the value of our investment portfolio. The impact on our future interest income resulting from changes in investment yields will depend largely on the gross amount of our investment portfolio at that time. However, based upon the conservative nature of our investment portfolio and current experience, we do not believe a decrease in investment yields would have a material negative effect on our interest income.

As of July 29, 2017 the components of our debt portfolio were the \$25.4 million Term Loan, the \$7.8 million and \$3.0 million equipment notes, and the \$70.0 million Credit Facility. Each of the components of our debt portfolio are denominated in United States dollars. The fair value of the debt portfolio is referred to as the “debt value.” The equipment notes bear interest at a weighted fixed rate of 6.06%. Although a change in market interest rates would not affect the interest incurred or cash flow related to this fixed rate portion of the debt portfolio, the debt value would be affected.

The Term Loan carries a variable interest rate that is tied to market indices with a minimum annual rate of 8.73%. The sensitivity analysis as it relates to this portion of our debt portfolio assumes an instantaneous 100 basis point move in interest rates above and below the minimum threshold, with all other variables held constant. The debt value of the Term Loan is approximately \$25.4 million. A 100 basis point increase in market interest rates above the minimum threshold would result in additional annual interest expense on the Term Loan of approximately \$0.3 million. A 100 basis point decline in market interest rates below the minimum threshold would have no effect on our annual interest expense on the Term Loan.

Our Credit Facility has variable interest rates that are tied to market indices. As of July 29, 2017 we had \$4.2 million of direct borrowings and \$5.8 million of letters of credit outstanding under our Credit Facility. As of July 29, 2017 Tranche A borrowings under the Credit Facility would have resulted in interest at a rate between 2.73% and 4.75% per annum. Interest on any future borrowings under the Credit Facility would, to the extent of outstanding borrowings, be affected by changes in market interest rates. A change in market interest rates on the variable rate portion of our debt portfolio would impact the interest expense incurred and cash flows.

The sensitivity analysis as it relates to the fixed rate portion of our debt portfolio assumes an instantaneous 100 basis point move in interest rates from their levels as of July 29, 2017, with all other variables held constant. A 100 basis point increase in market interest rates would result in a decrease in the value of the debt by approximately \$0.1 million as of July 29, 2017. A 100 basis point decline in market interest rates would cause the debt value to increase by approximately \$0.1 million as of July 29, 2017.

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

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 July 29, 2017. Based on this evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that as of July 29, 2017 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 July 29, 2017 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## 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. Litigation is inherently unpredictable and although the amount of any liability that could arise with respect to currently pending actions cannot be accurately predicted, we do not believe that the resolution of any pending action will have a material adverse effect on our financial position, results of operations or liquidity.

## Item 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 Annual Report on Form 10-K for the year ended January 28, 2017. 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 three month period April 30, 2017 to July 29, 2017 of equity securities that are registered by us pursuant to Section 12 of the Exchange Act:

| Period                   | Total<br>Number of<br>Shares<br>Purchased (1) | Average Price<br>Paid per Share | Total Number of<br>Shares Purchased<br>as Part of a<br>Publicly<br>Announced<br>Program (2) | Maximum<br>Approximate Dollar<br>Value of Shares that<br>May Yet Be Purchased<br>Under the Program (2) |
|--------------------------|-----------------------------------------------|---------------------------------|---------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------|
| April 30 to May 27, 2017 | 546                                           | \$ 3.89                         | —                                                                                           | —                                                                                                      |
| May 28 to July 1, 2017   | —                                             | —                               | —                                                                                           | —                                                                                                      |
| July 2 to July 29, 2017  | —                                             | —                               | —                                                                                           | —                                                                                                      |
| Total                    | 546                                           | \$ 3.89                         | —                                                                                           | —                                                                                                      |

(1) Represents shares reacquired 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) Our Board of Directors previously approved a program to repurchase up to \$10.0 million of our outstanding common stock that expired as of July 31, 2016. Under the program, we were authorized to repurchase shares from time to time through solicited or unsolicited transactions in the open market or in negotiated or other transactions. No shares were repurchased under this program. Our Term Loan Agreement, effective March 25, 2016, prohibits share repurchases for three years.



Item 6. Exhibits

Exhibit No. Description

|         |                                                                                                                                                                                                                                                                  |
|---------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| *10.1   | <u>Termination Agreement dated July 27, 2017, by and among Orchestra Prémaman, S.A., US OP Corporation, the Company, Yeled Invest S. à r. l., and Orchestra Prémaman USA Inc. (Exhibit 10.1 to the Company's Current Report on Form 8-K dated July 27, 2017)</u> |
| 31.1    | <u>Certification of the Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>                                                                                                                                                    |
| 31.2    | <u>Certification of the Executive Vice President &amp; Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>                                                                                                                     |
| 32.1    | <u>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</u>                                                                                                     |
| 32.2    | <u>Certification of the Executive Vice President &amp; Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>                                                                      |
| 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

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: September 7, 2017 By: /s/ Anthony M. Romano  
Anthony M. Romano  
Chief Executive Officer & President

Date: September 7, 2017 By: /s/ David Stern  
David Stern  
Executive Vice President &  
Chief Financial Officer

INDEX OF EXHIBITS FILED WITH  
FORM 10-Q OF DESTINATION MATERNITY CORPORATION  
FOR THE QUARTER ENDED JULY 29, 2017

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|-------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
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| 101.INS     | XBRL Instance Document                                                                                                                                                                      |
| 101.SCH     | XBRL Taxonomy Extension Schema Document                                                                                                                                                     |
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| 101.PRE     | XBRL Taxonomy Extension Presentation Linkbase Document                                                                                                                                      |