

Destination Maternity Corp  
Form 10-Q  
May 10, 2010  
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**United States**  
**Securities and Exchange Commission**  
Washington, D.C. 20549

**FORM 10-Q**

x **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**  
For the quarterly period ended March 31, 2010

Or

.. **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**  
For the transition period from            to

Commission file number 0-21196

**Destination Maternity Corporation**

(Exact name of registrant as specified in its charter)

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<b>Delaware</b> (State or other jurisdiction of incorporation or organization)	<b>13-3045573</b> (IRS Employer Identification No.)
<b>456 North 5th Street, Philadelphia, Pennsylvania</b> (Address of principal executive offices)	<b>19123</b> (Zip code)
<b>Registrant's telephone number, including area code (215) 873-2200</b>	

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

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

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

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

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 6,338,271 shares outstanding as of May 3, 2010

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**DESTINATION MATERNITY CORPORATION AND SUBSIDIARIES**

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

(in thousands, except share and per share amounts)

(unaudited)

	March 31, 2010	September 30, 2009
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 16,299	\$ 20,626
Trade receivables	8,554	6,529
Inventories	77,064	78,872
Deferred income taxes	7,494	6,035
Prepaid expenses and other current assets	6,670	3,857
Total current assets	116,081	115,919
Property, plant and equipment, net	60,949	62,852
Other assets:		
Deferred financing costs, net of accumulated amortization of \$641 and \$547	455	585
Other intangible assets, net of accumulated amortization of \$2,107 and \$2,096	974	924
Deferred income taxes	14,527	15,413
Other non-current assets	335	314
Total other assets	16,291	17,236
Total assets	\$ 193,321	\$ 196,007
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities:		
Line of credit borrowings	\$	\$
Current portion of long-term debt	3,440	9,204
Accounts payable	14,856	16,316
Accrued expenses and other current liabilities	44,683	42,010
Total current liabilities	62,979	67,530
Long-term debt	47,428	48,205
Deferred rent and other non-current liabilities	27,275	30,472
Total liabilities	137,682	146,207
Commitments and contingencies (Note 13)		
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, 6,252,168 and 6,111,669 shares issued and outstanding, respectively

Additional paid-in capital	63	61
Accumulated deficit	85,797	84,557
Accumulated other comprehensive loss	(29,288)	(33,177)
	(933)	(1,641)
<b>Total stockholders' equity</b>	<b>55,639</b>	<b>49,800</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 193,321</b>	<b>\$ 196,007</b>

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

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

(in thousands, except per share amounts)

(unaudited)

	Three Months Ended March 31,		Six Months Ended March 31,	
	2010	2009	2010	2009
Net sales	\$ 131,130	\$ 130,082	\$ 264,901	\$ 264,894
Cost of goods sold	59,742	60,227	121,819	127,184
Gross profit	71,388	69,855	143,082	137,710
Selling, general and administrative expenses	63,782	66,019	127,715	132,009
Store closing, asset impairment and asset disposal expenses	920	164	1,608	166
Restructuring and other charges	1,478		5,255	171
Goodwill impairment expense		3,389		50,389
Operating income (loss)	5,208	283	8,504	(45,025)
Interest expense, net	851	1,162	1,806	2,556
Loss on extinguishment of debt			30	66
Income (loss) before income taxes	4,357	(879)	6,668	(47,647)
Income tax provision	1,724	1,036	2,779	1,183
Net income (loss)	\$ 2,633	\$ (1,915)	\$ 3,889	\$ (48,830)
Net income (loss) per share Basic	\$ 0.43	\$ (0.32)	\$ 0.64	\$ (8.17)
Average shares outstanding Basic	6,115	5,994	6,082	5,980
Net income (loss) per share Diluted	\$ 0.42	\$ (0.32)	\$ 0.62	\$ (8.17)
Average shares outstanding Diluted	6,304	5,994	6,263	5,980

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

**Table of Contents****DESTINATION MATERNITY CORPORATION AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY****AND COMPREHENSIVE INCOME (LOSS)**

(in thousands)

(unaudited)

	Common Stock					Total	Comprehensive Income (Loss)	
	Number of Shares	Amount	Additional Paid-in Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Loss		Quarter	Year to Date
Balance as of September 30, 2009	6,112	\$ 61	\$ 84,557	\$ (33,177)	\$ (1,641)	\$ 49,800		
Net income				3,889		3,889	\$ 2,633	\$ 3,889
Amortization of prior service cost for retirement plans, net of tax					61	61	30	61
Retirement plan amendment, net of tax					281	281		281
Change in fair value of interest rate swap, net of tax					366	366	150	366
Comprehensive income							\$ 2,813	\$ 4,597
Stock-based compensation	50	1	948			949		
Exercise of stock options, net	132	1	259			260		
Excess tax benefit from stock option exercises and restricted stock vesting			925			925		
Repurchase and retirement of common shares	(42)		(892)			(892)		
Balance as of March 31, 2010	6,252	\$ 63	\$ 85,797	\$ (29,288)	\$ (933)	\$ 55,639		
Balance as of September 30, 2008	6,071	\$ 61	\$ 83,274	\$ 7,505	\$ (1,372)	\$ 89,468		
Net loss				(48,830)		(48,830)	\$ (1,915)	\$ (48,830)
Amortization of prior service cost for retirement plans, net of tax					62	62	31	62
Change in fair value of interest rate swap, net of tax					(779)	(779)	153	(779)
Comprehensive loss							\$ (1,731)	\$ (49,547)
Stock-based compensation	35		1,088			1,088		
Tax benefit shortfall from stock option exercises and restricted stock vesting			(732)			(732)		
Repurchase and retirement of common shares	(2)		(12)			(12)		
Balance as of March 31, 2009	6,104	\$ 61	\$ 83,618	\$ (41,325)	\$ (2,089)	\$ 40,265		

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





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

(in thousands)

(unaudited)

	<b>Six Months Ended March 31,</b>	
	<b>2010</b>	<b>2009</b>
<b>Operating Activities</b>		
Net income (loss)	\$ 3,889	\$ (48,830)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	6,681	7,731
Stock-based compensation expense	949	1,088
Loss on impairment of long-lived assets	1,234	363
Loss on impairment of goodwill		50,389
Loss (gain) on disposal of assets	122	(142)
Loss on extinguishment of debt	30	66
Deferred income tax benefit	(1,315)	(792)
Amortization of deferred financing costs	100	114
Changes in assets and liabilities:		
Decrease (increase) in:		
Trade receivables	(2,025)	(595)
Inventories	1,808	8,214
Prepaid expenses and other current assets	(1,313)	1,999
Other non-current assets	(21)	(15)
Increase (decrease) in:		
Accounts payable, accrued expenses and other current liabilities	(682)	3,779
Deferred rent and other non-current liabilities	1,935	1,291
Net cash provided by operating activities	11,392	24,660
<b>Investing Activities</b>		
Contribution to grantor trust	(1,500)	
Capital expenditures	(6,339)	(7,706)
Proceeds from sale of assets held for sale		526
Purchase of intangible assets	(108)	(201)
Net cash used in investing activities	(7,947)	(7,381)
<b>Financing Activities</b>		
Decrease in cash overdraft	(1,524)	(1,452)
Repayment of long-term debt	(6,541)	(10,541)
Repurchase of common stock	(892)	(12)
Proceeds from exercise of stock options	260	
Excess tax benefit from exercise of stock options	925	
Net cash used in financing activities	(7,772)	(12,005)
<b>Net (Decrease) Increase in Cash and Cash Equivalents</b>	<b>(4,327)</b>	<b>5,274</b>
<b>Cash and Cash Equivalents, Beginning of Period</b>	<b>20,626</b>	<b>12,148</b>

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<b>Cash and Cash Equivalents, End of Period</b>	\$ 16,299	\$ 17,422
Supplemental Disclosures of Cash Flow Information:		
Cash paid for interest	\$ 1,899	\$ 2,653
Cash paid for income taxes	\$ 1,252	\$ 215

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

**Table of Contents****DESTINATION MATERNITY CORPORATION AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****March 31, 2010****(unaudited)****1. BASIS OF FINANCIAL STATEMENT PRESENTATION**

The accompanying unaudited consolidated financial statements have been prepared in accordance with the requirements for Form 10-Q and Article 10 of Regulation S-X and, accordingly, certain information and footnote disclosures have been condensed or omitted. Reference is made to the Annual Report on Form 10-K as of and for the year ended September 30, 2009 for Destination Maternity Corporation and subsidiaries (the Company or Destination Maternity), as filed with the Securities and Exchange Commission (SEC), for additional disclosures including a summary of the Company's accounting policies.

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

The Company operates on a fiscal year ending September 30 of each year. All references to fiscal years of the Company refer to fiscal years, or periods within such fiscal years, ended on September 30 in those years. For example, the Company's fiscal 2010 will end on September 30, 2010.

**2. EARNINGS (LOSS) PER SHARE (EPS)**

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

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

	Three Months Ended March 31, 2010			Three Months Ended March 31, 2009		
	Net Income	Shares	EPS	Net Loss	Shares	EPS
Basic EPS	\$ 2,633	6,115	\$ 0.43	\$ (1,915)	5,994	\$ (0.32)
Incremental shares from the assumed lapse of restrictions on restricted stock		26				
Incremental shares from the assumed exercise of outstanding stock options		163				
Diluted EPS	\$ 2,633	6,304	\$ 0.42	\$ (1,915)	5,994	\$ (0.32)

**Table of Contents****DESTINATION MATERNITY CORPORATION AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****March 31, 2010****(unaudited)****2. EARNINGS (LOSS) PER SHARE (EPS) (Continued)**

	Six Months Ended March 31, 2010			Six Months Ended March 31, 2009		
	Net Income	Shares	EPS	Net Loss	Shares	EPS
Basic EPS	\$ 3,889	6,082	\$ 0.64	\$ (48,830)	5,980	\$ (8.17)
Incremental shares from the assumed lapse of restrictions on restricted stock		31				
Incremental shares from the assumed exercise of outstanding stock options		150				
Diluted EPS	\$ 3,889	6,263	\$ 0.62	\$ (48,830)	5,980	\$ (8.17)

For the three months and six months ended March 31, 2010, options and unvested restricted stock totaling 193,043 and 141,952 shares, respectively, were excluded from the calculation of Diluted EPS as their effect would have been antidilutive. Options and unvested restricted stock totaling 964,403 shares of the Company's common stock were outstanding as of March 31, 2009 but were not included in the computation of Diluted EPS for the three months and six months ended March 31, 2009, due to the Company's net loss. Had the Company reported a profit for the three months and six months ended March 31, 2009, the weighted average number of dilutive shares outstanding for computation of Diluted EPS would have been approximately 5,997,000 and 5,990,000, respectively.

**3. INVENTORIES**

Inventories were comprised of the following (in thousands):

	March 31, 2010	September 30, 2009
Finished goods	\$ 71,233	\$ 72,814
Work-in-progress	1,860	2,470
Raw materials	3,971	3,588
	\$ 77,064	\$ 78,872

**4. RESTRUCTURING AND OTHER CHARGES**

The Company implemented a significant restructuring and cost reduction program, which commenced in July 2008, with the objectives of streamlining its merchandise brands and store nameplates, continuing to improve and simplify critical processes and continuing to reduce its expense structure. The Company has substantially completed the planned activities of these initiatives and incurred \$3,568,000 of pretax expense related to these initiatives in the first six months of fiscal 2010, primarily for consulting services, of which \$1,103,000 was incurred in the three months ended March 31, 2010. The Company incurred pretax expense of \$171,000 from its restructuring in the first six months of fiscal 2009.

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A summary of the charges incurred and reserves recorded in connection with the restructuring and cost reduction activities during the first six months of fiscal 2010 and 2009 is as follows (in thousands):

	Balance Accrued September 30, 2009	Six Months Ended March 31, 2010		Balance Accrued March 31, 2010	Cumulative Charges Incurred to March 31, 2010
		Charges Incurred	Payments/ Adjustments		
Severance and related benefits	\$ 37	\$ 218	\$ (52)	\$ 203	\$ 1,266
Accelerated depreciation of store signage					373
Other cost reduction initiatives	638	3,350	(3,008)	980	4,422
<b>Total</b>	<b>\$ 675</b>	<b>\$ 3,568</b>	<b>\$ (3,060)</b>	<b>\$ 1,183</b>	<b>\$ 6,061</b>

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

**March 31, 2010**

**(unaudited)**

**4. RESTRUCTURING AND OTHER CHARGES (Continued)**

	Balance Accrued September 30, 2008	Six Months Ended March 31, 2009		Balance Accrued March 31, 2009	Cumulative Charges Incurred to March 31, 2009
		Charges Incurred	Payments/ Adjustments		
Severance and related benefits	\$ 224	\$ 43	\$ (198)	\$ 69	\$ 734
Accelerated depreciation of store signage		128	(128)(1)		373
<b>Total</b>	<b>\$ 224</b>	<b>\$ 171</b>	<b>\$ (326)</b>	<b>\$ 69</b>	<b>\$ 1,107</b>

(1) Adjustment to reduce net book value of associated property, plant and equipment

After his retirement on September 30, 2008, Dan Matthias, the Company's former Chief Executive Officer (Former CEO), agreed to continue to serve the Company as a director and as non-executive Chairman of the Board and agreed to remain available to the Company in an advisory capacity through September 2012. For these services, the Company agreed to pay the Former CEO an annual retainer of \$200,000 through September 2012. In November 2009, the Former CEO entered into a letter agreement with the Company, which confirmed that he would not seek reelection to the Board of Directors (and, therefore, would no longer serve as the Company's non-executive Chairman of the Board) after the expiration of his current term in January 2010. The letter agreement does not change the terms of payment under the annual retainer for advisory services, however the Company incurred a pretax charge of \$585,000, representing the amount due for the remaining term of the arrangement, which was recorded in the first six months of fiscal 2010.

In connection with the announced retirement of Rebecca Matthias, the Company's President and Chief Creative Officer, at the end of fiscal 2010, the Company incurred pretax charges of \$1,102,000 in the first six months of fiscal 2010. The charges primarily reflect benefit costs related to an amendment to the executive's supplemental retirement agreement.

**5. GOODWILL IMPAIRMENT**

As a result of a substantial decrease in the market price of the Company's common stock subsequent to September 30, 2008, reflecting deteriorating overall economic conditions and the very difficult equity market conditions, the Company reassessed the carrying value of its goodwill as of December 31, 2008, in accordance with interim period accounting requirements, and concluded that its goodwill was impaired. Consequently, the Company recorded a preliminary non-cash goodwill impairment charge of \$47,000,000, on both a pretax and after tax basis, in the first quarter of fiscal 2009. The final results of the Company's evaluation completed during the second quarter of fiscal 2009 indicated the goodwill totaling \$50,389,000 was fully impaired. Accordingly, the Company recorded a \$3,389,000 non-cash goodwill impairment charge, on both a pretax and after tax basis, in the second quarter of fiscal 2009, representing the remaining carrying value of the goodwill as of December 31, 2008.

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

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

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	<b>March 31, 2010</b>	<b>September 30, 2009</b>
Employee compensation and benefits	\$ 12,290	\$ 15,379
Income taxes payable	2,143	512
Interest	594	749
Deferred rent	3,627	3,320
Sales taxes	3,411	2,646
Insurance	1,094	1,275
Accounting and legal	1,256	1,114
Accrued store construction costs	930	