

Destination Maternity Corp  
Form 10-K  
April 13, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended January 28, 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  
of incorporation or organization)

232 Strawbridge Drive

13-3045573  
(IRS Employer  
Identification No.)

08057

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Moorestown, New Jersey  
(Address of principal executive offices) (Zip Code)

(856) 291-9700

(Registrant’s telephone number, including area code)

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

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

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

Series B Junior Participating Preferred Stock Purchase Rights

(Title of class)

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

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

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

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

Large accelerated filer	Accelerated filer
Non-accelerated filer	(Do not check if a smaller reporting company) Smaller reporting company

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

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The aggregate market value of the voting and non-voting common equity held by non-affiliates computed using \$5.62, the price at which the common equity was last sold as of July 29, 2016 (the last trading day of the Registrant's most recently completed second fiscal quarter), was approximately \$66,000,000.

On April 6, 2017 there were 13,987,637 shares of the Registrant's common stock, \$.01 par value, outstanding.

### DOCUMENTS INCORPORATED BY REFERENCE

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

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## PART I

Historically, our fiscal year ended on September 30. On December 4, 2014 we announced that our Board of Directors approved a change in our fiscal year end from September 30 to the Saturday nearest January 31 of each year. The fiscal year end change aligns our reporting cycle with the National Retail Federation fiscal calendar. We had a transition period from October 1, 2014 through January 31, 2015 and filed a Transition Report on Form 10-Q on March 12, 2015 for such transition period. Our fiscal year 2015 covers the period that began February 1, 2015 and ended January 30, 2016. Our fiscal year 2016 covers the period that began January 31, 2016 and ended January 28, 2017. References in this Form 10-K to our fiscal years prior to fiscal 2015 refer to the fiscal years ended on September 30 in those years, unless otherwise indicated. For example, our “fiscal 2014” ended on September 30, 2014.

As used in this report, the term “retail locations” includes our stores and leased departments and excludes locations where Kohl’s® sells our products under an exclusive product and license agreement, and also excludes international franchised locations. As used in this report, “stores” means our stand-alone stores that we operate in the United States, Canada and Puerto Rico. As used in this report, the term “GAAP” refers to generally accepted accounting principles in the United States.

### Item 1. Business

#### Recent Developments

#### Agreement and Plan of Merger

On December 19, 2016 Destination Maternity Corporation (the “Company”, “we”, “us”, “our”) entered into an Agreement and Plan of Merger (the “Merger Agreement”) with Orchestra-Prémaman S.A., a société anonyme organized under the laws of France, and US OP Corporation, a Delaware corporation and a wholly-owned subsidiary of Orchestra-Prémaman (“Merger Sub”), pursuant to which, subject to the satisfaction or waiver of certain conditions, Merger Sub will merge with and into the Company, with the Company surviving as a wholly-owned subsidiary of Orchestra-Prémaman (the “Merger”). The Merger is expected to close during the third fiscal quarter of 2017 or as soon as possible thereafter.

Our Board of Directors unanimously approved and declared advisable the Merger Agreement and the transactions contemplated by the Merger Agreement and resolved, subject to the terms of the Merger Agreement, to recommend that the Company’s stockholders adopt the Merger Agreement.

Subject to the terms and conditions set forth in the Merger Agreement, at the effective time of the Merger (the “Effective Time”), each of the Company’s issued and outstanding shares of common stock, par value \$0.01 per share (other than shares owned directly by Orchestra-Prémaman, Merger Sub or the Company immediately prior to the Effective Time) will be converted into the right to receive 0.515 (the “Exchange Ratio”) American depositary shares of Orchestra-Prémaman (“Orchestra ADSs”). Each Orchestra ADS represents one Orchestra-Prémaman ordinary share with a nominal value of €1.20 per ordinary share (“Orchestra Ordinary Share”) and will be evidenced by an American depositary receipt. The Orchestra ADSs to be issued in the Merger will be listed on the Nasdaq Stock Market.

The Merger Agreement contains representations, warranties, covenants, agreements and closing conditions customary for a transaction of this nature. We are also subject to restrictions on our ability to solicit alternative acquisition

proposals and to provide information to, and engage in discussion with, third parties regarding such proposals, except under limited circumstances to permit the our Board of Directors to comply with its fiduciary duties.

The Merger Agreement contains certain termination rights for both the Company and Orchestra-Prémaman, including, in the case of the Company, in specified circumstances in connection with an alternative acquisition proposal that has been determined by the Company's Board of Directors to be a superior proposal (as defined in the Merger Agreement). Upon termination of the Merger Agreement, under specified circumstances (including, in the case of the Company, in connection with a superior proposal and, in the case of Orchestra-Prémaman, the failure to obtain the required Orchestra-Prémaman shareholder approval), either the Company or Orchestra-Prémaman may be required to pay the other party a termination fee of \$5.0 million. In addition, and except in certain limited circumstances, if the Merger Agreement is terminated due to the failure to obtain the required vote from the Company's stockholders to adopt the Merger Agreement, the Company will be obligated to reimburse Orchestra-Prémaman for its reasonable out-of-pocket fees and expenses incurred in connection with the Merger Agreement, subject to a cap of \$2.5 million. Such expense reimbursement may be deducted from any termination fee payable by the Company, if applicable.

The foregoing description of the Merger Agreement and the transactions contemplated thereby is not complete and is qualified in its entirety by reference to the more complete description of the Merger Agreement set forth in our Current Report on Form 8-K dated December 19, 2016, and to the full text of the Merger Agreement, a copy of which is filed as Exhibit 2.1 to such Current Report.

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Except to the extent that the context requires otherwise, the information in this Form 10-K has been presented as if the Company were continuing as a stand-alone Company and does not address changes that may take place if the Merger is completed.

### Overview

We are the leading designer and retailer of maternity apparel in the United States and are the only nationwide chain of maternity apparel specialty stores. As of January 28, 2017 we operate 1,220 retail locations, including 515 stores in the United States, Canada and Puerto Rico, and 705 leased departments located within department stores and baby specialty stores throughout the United States and in Puerto Rico. We sell merchandise on the Internet, primarily through our Motherhood.com, APeaInThePod.com and DestinationMaternity.com websites. We also sell our merchandise through our Canadian website, MotherhoodCanada.ca, through Amazon.com in the United States, and through websites of certain of our retail partners. We operate our 515 stores under three retail nameplates: Motherhood Maternity®, A Pea in the Pod® and Destination Maternity®. In addition to our 515 stores, we operate 705 maternity apparel departments, which we refer to as leased departments, within leading retailers such as Macy's®, buybuy BABY® and Boscov's®. Generally we are the exclusive maternity apparel provider in our leased department locations. As previously announced, in an effort to direct resources to the highest return opportunities and further optimize real estate while reducing costs, in June 2016 we discontinued our Two Hearts® Maternity by Destination Maternity® (“Two Hearts”) line, thus ending our relationship with Sears resulting in the closure of 475 leased departments within Sears stores. We were the exclusive provider of maternity apparel to Kohl's, which offered our maternity apparel in a significant number of its stores. After being informed that Kohl's had elected to scale back and ultimately discontinue its exclusive license with us for our Oh Baby by Motherhood® (“Oh Baby”) line, we phased out production of this line during fiscal 2016. Our license agreement with Kohl's ended in February 2017.

We have international store franchise and product supply relationships in the Middle East, South Korea, Mexico, Israel and India. As of January 28, 2017 we have 213 international franchised locations, comprised of 19 stand-alone stores in the Middle East, South Korea, Mexico, Israel and India operated under our retail nameplates, and 194 shop-in-shop locations in South Korea, Mexico, Israel and India, in which we have a Company-branded department operated by our franchise partners within other retail stores.

We maintain our leading position through our two key brands, which enable us to reach a broad range of maternity customers. Through our 515 stores and certain of our leased departments, we offer maternity apparel under one or both of our two primary brands, Motherhood Maternity (“Motherhood” or “Motherhood Maternity”) at value prices and A Pea in the Pod (“Pea” or “A Pea in the Pod”) at both contemporary and premium prices. Our A Pea in the Pod Collection (“Pea Collection”) is the distinctive premier maternity apparel line within the A Pea in the Pod brand, featuring exclusive designer label product at premium prices.

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

In fiscal 2016 we opened 11 stores and closed 32 stores, primarily consisting of closings of underperforming stores. In recent years we have evaluated our retail store base to identify and, in many cases, close underperforming stores where we can do so without disproportionate exit cost.

Currently, we operate 31 stores and five leased department in Canada, including 27 Motherhood stores, three Destination Maternity combo stores and one Destination Maternity superstore, and a Motherhood website under a Canadian URL (MotherhoodCanada.ca). In addition, we currently have franchise agreements in place in the Middle

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East, South Korea, Mexico, Israel and India. As of January 28, 2017 our merchandise is offered in 213 international franchised locations, including 19 stand-alone stores operated under one of our retail nameplates and 194 shop-in-shop locations.

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

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

## Industry Overview

We are unaware of any reliable external data on the size of the maternity apparel business. We believe that there is an opportunity to grow our business by selling maternity clothes to those pregnant women who currently purchase loose-fitting or larger-sized non-maternity clothing as a substitute or partial substitute for maternity wear. We also believe that our business can grow by reducing the amount of “hand-me-down” and “borrowing” associated with maternity apparel, particularly in the value-priced segment. Additionally, although we are not wholly unaffected by external factors (such as fluctuations in the birth rate), we believe that the demand for maternity apparel is relatively stable when compared to non-maternity apparel. The current rate of approximately four million United States births per year has remained relatively stable over the last decade and this rate is forecasted to continue through 2018.

## Our Competitive Strengths

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

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

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

We are able to enhance our leadership position by distributing our products under select exclusive leased department relationships. As of January 28, 2017 we operate 705 leased departments within leading retailers such as Macy’s, buybuy BABY and Boscov’s. Generally we are the exclusive maternity apparel provider in our leased department locations. As previously announced, in June 2016 we discontinued our Two Hearts line, thus ending our relationship with Sears, resulting in the closure of 475 leased departments within Sears stores. In addition, our leased department relationship with Gordmans ended in March 2016. We also phased out production of our Oh Baby line during fiscal 2016 after being informed that Kohl’s had 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. We believe that we have an opportunity to increase the sales we generate from our ongoing leased department relationships by growing our relationships with our current retail partners, as well as potentially developing leased department or licensed relationships with new retail partners.

We have an experienced management team. We have a management team with significant experience in all aspects of the retail and apparel business, including our Chief Executive Officer (“CEO”), Anthony Romano, who has over 25 years of experience in specialty retail, our Chief Financial Officer (“CFO”), David Stern, who has over 15 years of senior financial management experience, including over nine years of experience with retail organizations, and our Chief Administrative Officer, Ronald Masciantonio, who has over a decade of senior management experience at



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Destination Maternity. We have complemented our leadership team by adding experienced specialty retail executives with proven track records in Sourcing, Planning & Allocation, Store Operations, Human Resources, Merchandising, e-Commerce and Strategic Partnerships.

4

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Our Brands

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

Brand	Brand Positioning	Typical Apparel Price Range
Motherhood Maternity	Expansive on-trend fashion assortment ranging from wardrobe essentials to special occasion; offering quality merchandise at affordable value prices	\$10 - \$50
A Pea in the Pod	Contemporary, fashion-forward assortment including a curated selection of exclusive designer labels at better and premium prices	\$25 - \$300

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

**A Pea in the Pod.** Our A Pea in the Pod brand is a contemporary, fashion-forward assortment including a curated selection of exclusive designer labels at better and premium pricing, offering the mom2be fashionable maternity pieces that reflect her uncompromising sense of style in both casual and career apparel. In our stores that carry A Pea in the Pod brand merchandise, we also offer exclusive maternity versions of select styles from well-known designer and contemporary brands, where we have assisted in developing these maternity versions. We believe that the typical Pea customer shops at upscale department stores and specialty apparel chains when she is not expecting, with the Pea Collection customer typically shopping at higher-end department stores and designer boutiques when she is not expecting.

Retail Nameplates

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

Store Nameplate	Description of Target Location	Brand(s) Carried	Typical	
			Apparel Price Range	Average Size (Sq. Ft.)
Motherhood Maternity	Mid-priced and moderate regional malls, strip and power centers, and central business districts	Motherhood	\$10 - \$50	1,800
A Pea in the Pod	Mid-priced and high-end regional malls, lifestyle centers, central business districts	Pea (including, in some cases, Pea Collection)	\$25 - \$300	2,000

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	and some stand-alone stores in affluent street locations			
Destination Maternity	Combo stores located in mid-priced regional malls and lifestyle centers	Motherhood; Pea (including, in some cases, Pea Collection)	\$10 - \$300	Combo stores 3,200
	Superstores located primarily in outdoor and power centers and central business districts			Superstores 5,700
Leased Departments:				
Macy's	Mid-priced regional malls	Motherhood; Pea (including, in some cases, Pea Collection)	\$10 - \$300	—
buybuy BABY	Big box power centers	Motherhood; Pea	\$10 - \$115	—
Boscov's	Mid-priced and moderate regional malls	Motherhood	\$10 - \$50	—

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The following table sets forth our store count by nameplate as of January 28, 2017.

Store Nameplate	Number of Stores
Motherhood Maternity	408
A Pea in the Pod	26
Destination Maternity:	
Combo stores	48
Superstores	33
Total Destination Maternity stores	81
Total stores (1)	515

(1) Excludes leased departments, international franchised locations and locations where Kohl's sells our products under an exclusive product and license agreement. Our license agreement with Kohl's ended in February 2017. We believe our ability to lease attractive real estate locations is enhanced due to the brand awareness of our concepts, our multiple price point approach, our highly sought after maternity customer and our real estate management and procurement capabilities. We are the only maternity apparel retailer to provide mall operators with differently priced retail concepts, depending on the mall's target demographics. We are also able to provide varied store formats for malls whose maternity customers seek a wide range of price alternatives. In addition, in the case of multi-mall operators, we have the flexibility to provide several stores across multiple malls.

**Motherhood Maternity Stores.** Motherhood Maternity is our largest chain with 408 stores as of January 28, 2017. Our Motherhood Maternity brand serves the moderate priced portion of the maternity apparel business, which has the greatest number of customers. The Motherhood brand is positioned with an expansive on-trend fashion assortment ranging from wardrobe essentials to special occasion, offering quality merchandise at affordable value. Motherhood stores average approximately 1,800 square feet and are located primarily in mid-priced and moderate regional malls, strip and power centers, and central business districts. Motherhood stores include 97 outlet locations that carry Motherhood-branded merchandise as well as some closeout merchandise. In fiscal 2016 we opened seven new Motherhood stores including outlets and closed 24 Motherhood stores including outlets. As of January 28, 2017 we operated 27 Motherhood stores in Canada and believe that market opportunities may permit us to open additional stores in Canada in the future.

**A Pea in the Pod Stores.** As of January 28, 2017 we had 26 A Pea in the Pod stores. Our A Pea in the Pod brand is a contemporary, fashion-forward assortment including a curated selection of exclusive designer labels at better and premium pricing, offering the mom2be fashionable maternity pieces. A Pea in the Pod stores average approximately 2,000 square feet and are located in mid-priced regional malls, lifestyle centers and central business districts while others are located in upscale venues, including Beverly Hills, Water Tower Place (Chicago), South Coast Plaza (Orange County, California) and Newbury Street (Boston). In fiscal 2016 we opened four Pea stores and closed one Pea store.

**Destination Maternity Stores.** As of January 28, 2017 we had 81 Destination Maternity nameplate stores averaging approximately 4,200 square feet, including 48 Destination Maternity combo stores and 33 Destination Maternity superstores. Our Destination Maternity stores carry both of our primary brands (Motherhood and Pea). Our Destination Maternity combo stores are larger (average of approximately 3,200 square feet) than our single-brand stores. Our Destination Maternity superstores carry both of our primary brands, plus an expanded line of maternity-related accessories, nursing products, health and fitness products, books, and body and nutritional products.

Our Destination Maternity superstores also typically feature a “relax area” for husbands and shoppers alike, and an inside play area for the pregnant mom’s toddlers and young children. Destination Maternity superstores range from nearly 3,700 square feet to approximately 8,900 square feet, with an average of approximately 5,700 square feet for the 33 stores open as of January 28, 2017. In fiscal 2016 we did not open any Destination Maternity stores and closed seven Destination Maternity stores.

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

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The following table sets forth our leased department count by retail partner as of January 28, 2017.

Retail Partner	Number of Leased Departments
Macy's (1)	549
buybuy BABY	111
Boscov's	45
Total leased departments (2)	705

(1) As part of Macy's previously announced closure of approximately 100 stores, early in fiscal 2017 Macy's completed closure of 68 stores, which included 59 locations where we had a leased department within the store.

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

International. Currently, we operate 31 stores and five leased departments in Canada, including 27 Motherhood stores, three Destination Maternity combo stores and one Destination Maternity superstore, and a Motherhood website under a Canadian URL (MotherhoodCanada.ca).

We have a franchise agreement with Multi Trend, a member of the Al-Homaizi Group, covering six key markets in the Middle East. As of January 28, 2017 our Motherhood and Pea merchandise is offered in 16 franchise stores operating in the Middle East.

We have a franchise agreement with Agabang & Company to sell our brands in South Korea. Our Motherhood and Pea merchandise is available for sale in maternity shop-in-shops operated by Agabang in its Agabang Gallery and Nextmom stores (which carry infant and children's apparel and non-apparel merchandise, as well as maternity apparel) and other retail stores, and in franchise stores in South Korea. As of January 28, 2017 our Motherhood and Pea merchandise is offered in 40 shop-in-shops and three franchise stores in South Korea.

We have a franchise agreement with El Puerto de Liverpool, S.A.B. de C.V., the largest department store company in Mexico. Our Motherhood and Pea merchandise is available for sale primarily in maternity shop-in-shops located in Liverpool's department stores (which carry a wide range of products, including infant and children's apparel and non-apparel merchandise, as well as maternity apparel) throughout Mexico. As of January 28, 2017 our Motherhood and Pea merchandise is offered in 102 shop-in-shops in Mexico.

We have a franchise agreement with H&O Fashion Ltd., one of Israel's largest and dominant fashion-retail chains. Our Motherhood and Pea merchandise is offered through shop-in-shops in select H&O stores. As of January 28, 2017 our Motherhood and Pea merchandise is offered in 27 shop-in-shops in Israel.

In October 2015 we entered into a franchise agreement with Rhea Retail Private Limited, a leader in the sale of women's, children's, and infants' clothing and accessories in India. As of January 28, 2017 our Motherhood and Pea merchandise is offered in 25 shop-in-shops in India.

We continue to evaluate other international sales opportunities. As our Middle East, South Korea, Mexico, Israel and India franchise relationships demonstrate, our initial international strategy has primarily consisted of franchising, licensing or similar arrangements with foreign partners. Our future international strategy may include franchising or licensing arrangements with foreign partners, as well as potentially entering into wholesale business arrangements, entering into joint ventures or developing our own operations in certain countries.

## Internet Operations

We sell our merchandise on the Internet primarily through our brand-specific websites, Motherhood.com and APeaInThePod.com, as well as through our DestinationMaternity.com website. We also sell our merchandise through our Canadian website, MotherhoodCanada.ca, through Amazon.com in the United States, and through websites of certain of our leased department and licensed brand retail partners. We believe that many pregnant women, particularly millennials, use the Internet to find maternity-related information and to purchase maternity clothes. Our websites are therefore important tools for educating existing and potential customers about our brands and driving traffic to our stores. Our marketing and technology capabilities and the replenishment capabilities of our distribution facilities and stores enable us to incorporate Internet design, operations and fulfillment into our existing operations. We believe that our Internet operations represent a continued growth opportunity for us both by increasing Internet sales and by using the Internet to drive store sales. In light of the importance of this channel, in early fiscal 2017 we completed a re-platforming of each of our sites through integration with a best-in-class enterprise cloud commerce solution. The provider is the category-defining leader of enterprise cloud commerce solutions used by a variety of best-in-class Internet retailers, including a

7

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significant number of fashion focused specialty retailers. We believe this integration will help us keep current with the ever changing digital landscape while focusing our efforts on our core merchandising and operational strengths. Our re-designed sites launched in the first quarter of fiscal 2017.

#### Marketing Partnerships

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

#### Operations

**Merchandising Operations Teams.** To obtain maximum efficiencies, we are organized primarily along functional lines, such as merchandising, design, planning and allocation, and production. Our merchandising, design, and planning and allocation teams are organized on a brand-specific basis. Each brand team is led by