

Destination Maternity Corp
Form 10-Q
August 25, 2016

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 30, 2016

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)	13-3045573 (IRS Employer Identification No.)
232 Strawbridge Drive Moorestown, New Jersey (Address of principal executive offices)	08057 (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 or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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

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

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

Common Stock, \$.01 par value — 14,013,248 shares outstanding as of August 18, 2016

DESTINATION MATERNITY CORPORATION AND SUBSIDIARIES

INDEX

PART I. FINANCIAL INFORMATION

Item 1.	<u>Financial Statements (unaudited)</u>	3
	<u>Consolidated Balance Sheets</u>	3
	<u>Consolidated Statements of Operations</u>	4
	<u>Consolidated Statements of Comprehensive Income (Loss)</u>	5
	<u>Consolidated Statements of Stockholders' Equity</u>	6
	<u>Consolidated Statements of Cash Flows</u>	7
	<u>Notes to Consolidated Financial Statements</u>	8
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	17
Item 3.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	29
Item 4.	<u>Controls and Procedures</u>	30

PART II. OTHER INFORMATION

Item 1.	<u>Legal Proceedings</u>	31
Item 1A.	<u>Risk Factors</u>	31
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	31
Item 6.	<u>Exhibits</u>	32
	<u>Signatures</u>	33

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 30, 2016	January 30, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	\$2,752	\$ 2,116
Trade receivables, net	6,857	10,154
Inventories	70,528	72,509
Deferred income taxes	11,866	13,803
Prepaid expenses and other current assets	9,802	9,792
Total current assets	101,805	108,374
Property and equipment, net of accumulated depreciation and amortization of \$90,435 and \$84,798	89,793	92,673
Other assets:		
Deferred line of credit financing costs, net of accumulated amortization of \$664 and \$611	481	534
Other intangible assets, net of accumulated amortization of \$745 and \$683	1,130	1,148
Deferred income taxes	14,619	15,195
Other non-current assets	1,174	1,150
Total other assets	17,404	18,027
Total assets	\$209,002	\$ 219,074
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Line of credit borrowings	\$1,700	\$ 28,400
Current portion of long-term debt	5,897	2,897
Accounts payable	14,692	21,738
Accrued expenses and other current liabilities	32,161	39,488
Total current liabilities	54,450	92,523
Long-term debt	35,700	9,302
Deferred rent and other non-current liabilities	24,038	24,351
Total liabilities	114,188	126,176
Commitments and contingencies (Note 14)		
Stockholders' equity:		

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Preferred stock, 1,656,381 shares authorized:		
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, 13,997,679 and 13,824,535 shares issued and outstanding	140	138
Additional paid-in capital	105,149	104,784
Retained earnings (accumulated deficit)	(10,403)	(11,951)
Accumulated other comprehensive loss	(72)	(73)
Total stockholders' equity	94,814	92,898
Total liabilities and stockholders' equity	\$209,002	\$ 219,074

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 Ended		Six Months Ended	
	July 30, 2016	August 1, 2015	July 30, 2016	August 1, 2015
Net sales	\$106,529	\$119,306	\$230,959	\$260,918
Cost of goods sold	51,699	63,998	108,857	134,207
Gross profit	54,830	55,308	122,102	126,711
Selling, general and administrative expenses	56,619	61,640	115,394	125,676
Store closing, asset impairment and asset disposal expenses (income)	442	(3,951)	1,048	(2,943)
Other charges	875	1,637	1,544	3,445
Operating income (loss)	(3,106)	(4,018)	4,116	533
Interest expense, net	973	344	1,625	773
Income (loss) before income taxes	(4,079)	(4,362)	2,491	(240)
Income tax (benefit) provision	(1,570)	(1,680)	959	(93)
Net income (loss)	\$(2,509)	\$(2,682)	\$1,532	\$(147)
Net income (loss) per share— Basic	\$(0.18)	\$(0.20)	\$0.11	\$(0.01)
Average shares outstanding— Basic	13,700	13,585	13,692	13,583
Net income (loss) per share— Diluted	\$(0.18)	\$(0.20)	\$0.11	\$(0.01)
Average shares outstanding— Diluted	13,700	13,585	13,697	13,583

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 Ended		Six Months Ended	
	July 30, 2016	August 1, 2015	July 30, 2016	August 1, 2015
Net income (loss)	\$ (2,509)	\$ (2,682)	\$ 1,532	\$ (147)
Foreign currency translation adjustments	(1)	(1)	1	(4)
Comprehensive income (loss)	\$ (2,510)	\$ (2,683)	\$ 1,533	\$ (151)

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

5

DESTINATION MATERNITY CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(in thousands)

(unaudited)

	Common Stock			Retained	Accumulated	Total
	Number of Shares	Amount	Additional Paid-in Capital	Earnings (Accumulated Deficit)	Other Comprehensive Loss	
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 options and restricted stock	—	—	(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
Balance as of January 31, 2015	13,807	\$ 138	\$ 102,370	\$ 3,558	\$ (64)	\$ 106,002
Net loss	—	—	—	(147)	—	(147)
Foreign currency translation adjustments	—	—	—	—	(4)	(4)
Cash dividends	—	—	—	(5,531)	—	(5,531)
Stock-based compensation	54	1	1,551	—	—	1,552
Exercise of stock options, net	5	—	42	—	—	42
Tax benefit shortfall from stock options and restricted stock	—	—	(18)	—	—	(18)
Repurchase and retirement of common stock	(4)	—	(57)	—	—	(57)
Balance as of August 1, 2015	13,862	\$ 139	\$ 103,888	\$ (2,120)	\$ (68)	\$ 101,839

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

6

DESTINATION MATERNITY CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	Six Months Ended	
	July 30, 2016	August 1, 2015
Operating Activities		
Net income (loss)	\$1,532	\$(147)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	8,927	8,139
Stock-based compensation expense	968	1,552
Loss on impairment of long-lived assets	733	1,054
Loss on disposal of assets	215	14
Grow NJ award benefit	1,833	—
Deferred income tax benefit	(75)	(18)
Amortization of deferred financing costs	139	100
Changes in assets and liabilities:		
Decrease (increase) in:		
Trade receivables	3,297	(1,082)
Inventories	1,981	2,208
Prepaid expenses and other current assets	(10)	3,048
Other non-current assets	(24)	130
Increase (decrease) in:		
Accounts payable, accrued expenses and other current liabilities	(14,057)	(7,611)
Deferred rent and other non-current liabilities	(153)	(135)
Net cash provided by operating activities	5,306	7,252
Investing Activities		
Capital expenditures	(6,800)	(18,884)
Proceeds from sale of property and equipment	2	21
Additions to intangible assets	(45)	(83)
Net cash used in investing activities	(6,843)	(18,946)
Financing Activities		
Decrease in cash overdraft	(425)	(1,047)
(Decrease) increase in line of credit borrowings	(26,700)	21,000
Proceeds from long-term debt	32,000	—
Repayment of long-term debt	(1,436)	(1,622)
Deferred financing costs paid	(1,252)	(38)
Withholding taxes on stock-based compensation paid in connection with repurchase of common stock	(18)	(57)
Cash dividends paid	—	(5,531)
Proceeds from exercise of stock options	3	42

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Net cash provided by financing activities	2,172	12,747
Effect of exchange rate changes on cash and cash equivalents	1	(3)
Net Increase in Cash and Cash Equivalents	636	1,050
Cash and Cash Equivalents, Beginning of Period	2,116	1,349
Cash and Cash Equivalents, End of Period	\$2,752	\$2,399
Supplemental Disclosures of Cash Flow Information:		
Cash paid for interest	\$1,245	\$755
Cash paid for income taxes	\$214	\$(1,612)

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 30, 2016 and August 1, 2015 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 30, 2016 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 on the Saturday nearest January 31 of each year. References to the Company's fiscal 2016 refer to the fiscal year, or periods within such fiscal year, which began January 31, 2016 and will end January 28, 2017. References to the Company's fiscal 2015 refer to the fiscal year, or periods within such fiscal year, which began February 1, 2015 and ended January 30, 2016.

2. EARNINGS PER SHARE ("EPS") AND CASH 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 exercise of outstanding stock options and from the assumed lapse of restrictions on restricted stock awards. 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).

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

	Three Months Ended			August 1, 2015		
	July 30, 2016			Net		
	Loss	Shares	EPS	Loss	Shares	EPS
Basic EPS	\$(2,509)	13,700	\$(0.18)	\$(2,682)	13,585	\$(0.20)

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Incremental shares from the assumed exercise of outstanding stock options	—	—	—	—		
Incremental shares from the assumed lapse of restrictions on restricted stock awards	—	—	—	—		
Diluted EPS	\$(2,509)	13,700	\$(0.18)	\$(2,682)	13,585	\$(0.20)

	Six Months Ended			August 1, 2015		
	July 30, 2016			Net		
	Income	Shares	EPS	Loss	Shares	EPS
Basic EPS	\$1,532	13,692	\$0.11	\$(147)	13,583	\$(0.01)

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