

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

FORM 10-K

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended February 1, 2014
(Fiscal 2013)

Commission File Number 01-34219

DESTINATION XL GROUP, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

04-2623104
(IRS Employer
Identification No.)

555 Turnpike Street, Canton, MA
(Address of principal executive offices)

02021
(Zip Code)

(781) 828-9300

(Registrant's telephone number, including area code)

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

Title of each class
Common Stock, \$0.01 par value

Name of each exchange on which registered
The NASDAQ Stock Market, LLC

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

None

(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 (§232.405 of this chapter) 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 the 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. (Check one):

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

As of August 3, 2013, the aggregate market value of the Common Stock held by non-affiliates of the registrant was approximately \$235.5 million, based on the last reported sale price on that date. Shares of Common Stock held by each executive officer and director and by each person who owns 10% or more of the outstanding Common Stock have been excluded on the basis that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily determinative for other purposes.

The registrant had 50,607,809 shares of Common Stock, \$0.01 par value, outstanding as of March 7, 2014.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the 2014 Annual Meeting of Stockholders are incorporated by reference into Part III.

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PART I.

Certain statements contained in this Annual Report on Form 10-K constitute “forward-looking statements” within the meaning of the United States Private Securities Litigation Reform Act of 1995. In some cases, forward-looking statements can be identified by the use of forward-looking terminology such as “may,” “will,” “estimate,” “intend,” “plan,” “continue,” “believe,” “expect” or “anticipate” or the negatives thereof, variations thereon or similar terminology. The forward-looking statements contained in this Annual Report are generally located in the material set forth under the headings “Business” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” but may be found in other locations as well. These forward-looking statements generally relate to plans and objectives for future operations and are based upon management’s reasonable estimates of future results or trends. The forward-looking statements in this Annual Report should not be regarded as a representation by us or any other person that the objectives or plans of the Company will be achieved. Numerous factors could cause our actual results to differ materially from such forward-looking statements, including, without limitation, those risks and uncertainties, set forth under Item 1A, *Risk Factors*, which begins on page 14 of this report. Readers are encouraged to review these risks and uncertainties carefully.

All subsequent written and oral forward-looking statements attributable to the Company or to persons acting on the Company’s behalf are expressly qualified in their entirety by the foregoing. These forward-looking statements speak only as of the date of the document in which they are made. We disclaim any obligation or undertaking to provide any updates or revisions to any forward-looking statement to reflect any change in its expectations or any change in events, conditions or circumstances in which the forward-looking statement is based.

Item 1. *Business*

Destination XL Group, Inc., together with our subsidiaries (the “Company”), is the largest specialty retailer of big & tall men’s apparel with retail and direct operations in the United States and London, England and direct operations in Canada. We operate under the trade names of Destination XL®, DXL®, Casual Male XL®, Casual Male XL Outlets, Rochester Clothing, B&T Factory Direct™, ShoesXL® and LivingXL®. We operate 99 Destination XL stores, 198 Casual Male XL retail stores, 52 Casual Male XL outlet stores and 10 Rochester Clothing stores. Our direct business includes our DestinationXL.com e-commerce site and several brand mailers which support our brands and product extensions. Unless the context indicates otherwise, all references to “we,” “our,” “ours,” “us” and “the Company” refer to Destination XL Group, Inc. and our consolidated subsidiaries. We refer to our fiscal years ended February 1, 2014, February 2, 2013 and January 28, 2012 as “fiscal 2013,” “fiscal 2012” and “fiscal 2011,” respectively.

OUR INDUSTRY

The men’s big & tall apparel market, which includes pants with a waist size of 42” and greater, as well as tops sized 1XL and greater, generates approximately \$3.5 billion to \$4.0 billion in sales annually and represents approximately 11% of the overall men’s apparel business. Growth in this segment has been driven by rapidly changing market demographics. We estimate that our current market share is approximately 11% and believe that we have the potential to reach 17-20%. We believe that we can ultimately achieve this goal by catering to the broader target market, attracting customers from various incomes, age and lifestyle segments and offering the widest selection of sizes and styles that fit well. A substantial opportunity continues to exist for market share growth from the lower-size range of our market, that is, men in the 42”-46” waist size. These sizes are usually at the high end of the size range for most retailers and, as a result, the selection is usually limited at such retailers.

HISTORY

Our Company was incorporated in the State of Delaware in 1976 under the name Designs, Inc. Until fiscal 1995, we operated exclusively Levi Strauss & Co. branded apparel mall and outlet stores. In May 2002, we

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acquired the Casual Male business from Casual Male Corp. at a bankruptcy court-ordered auction. At the time of the acquisition, Casual Male was the largest specialty retailer of men's clothing in the big & tall market in the United States. As a result of the acquisition, on August 8, 2002, we changed our name to "Casual Male Retail Group, Inc."

Through fiscal 2010, we primarily operated Casual Male XL retail stores, Casual Male XL outlet stores, Rochester Clothing stores and associated websites and catalogs. We catered to all customers through these three store formats, from our value-oriented customer (Casual Male XL outlets) to our luxury-oriented customer (Rochester Clothing stores). During that year, we tested a new store concept, Destination XL ("DXL"). The DXL store concept merged all of our existing brands under one roof, offering our customers a superior shopping environment with an extensive assortment of product and an increased presence of name brands, without having to shop multiple stores. In addition to offering our customers a wide assortment, we also wanted to provide them with an outstanding and unique shopping experience. As we discuss below, we are focused on providing outstanding customer service through our DXL concept, with everything from larger fitting rooms to professional, trained associates providing both personal attention and on-site tailoring. With the success of this store format, we then made a similar change to our e-commerce business in fiscal 2011 when we launched our DestinationXL.com website which, like our DXL store, merged all of our previous websites into one consolidated site providing our customers the ability to cross-shop our brands easily.

Our DXL store format has proven to be successful for us and our customers and, based on the positive performance and future growth opportunities of this concept, we are in the process of completely transitioning our business by opening DXL stores and exiting the majority of our Casual Male XL retail stores and a number of our Rochester stores. As part of our new direction, in December 2012, we changed our NASDAQ stock ticker symbol to "DXLG" followed by a change in February 2013 of our corporate name to "Destination XL Group, Inc." Changing our corporate name to Destination XL Group, Inc. better reflects who we are today as we expand the Destination XL concept and rebrand our Company as a whole.

BUSINESS STRATEGY

Our primary business strategy over the near term is to convert the majority of our Casual Male XL and Rochester Clothing stores to our DXL store format. Initially, we had planned to convert to our DXL format over a five-year period. However, during the first half of fiscal 2012, we began to see a shift in our Casual Male XL stores. Those Casual Male XL stores that were in close proximity to a DXL store initially were experiencing negative sales trends compared to the remainder of the chain. At the same time, our DXL stores were outperforming the chain. As a result, in August 2012, we made the decision to accelerate the roll-out of our DXL stores and shut down the majority of our Casual Male XL stores by fiscal 2016. Fiscal 2013 represented the first full year of this three-year accelerated plan. We opened 51 DXL stores and closed 102 Casual Male XL stores and 2 Rochester Clothing stores. In addition, in spring 2013 we launched our first national marketing campaign with the primary focus of building DXL brand awareness. We expected fiscal 2013 to be a break-even year for us because of the increased costs to grow our DXL store base, close our Casual Male XL stores and launch our marketing campaign. However, while comparable sales from our DXL chain were up 19.3% for fiscal 2013, our sales results for fiscal 2013 were below our expectations. The sales shortfall we experienced can be attributed to:

- Erosion of our Casual Male customer base, as we have closed stores but those customers have taken longer to migrate to our DXL stores than first anticipated;
- Delays in opening certain DXL stores, due to construction, permitting and leasing issues;
- Closures of our Casual Male XL stores before a DXL store was ready to open;
- Eliminating our catalogs which displayed a much broader selection of merchandise compared to our more concise direct mail pieces; and,
- An overall decrease in customer traffic across the chain, due in part to the general economy and consumers' lack of confidence that the retail industry as a whole experienced.

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While our DXL stores are performing well, our forecasts, especially with respect to immediate sales contribution, proved to be overly aggressive. At the time, our forecasts were based on the results of a limited number of stores and we lacked the benefit of historical data. At the end of fiscal 2013, we engaged a third-party consultant to review the reasonableness of our forecasts and projections. Overall, we believe our expectations for our DXL concept are achievable; however, we do expect that the transition and top-line benefit will take an additional two years to accomplish. For fiscal 2014, our business strategy includes:

- Opening 40 DXL stores while closing an estimated 38 Casual Male XL stores and 2 Rochester Clothing stores;
- Planning our store openings earlier in the fiscal year so that we can benefit our top-line and help to offset the transition costs;
- Continuing to operate certain Casual Male XL stores through the transition if the store is generating positive cash flow and if the store is not a direct roll-in to the new DXL store. Our accelerated plan was to exit our Casual Male XL stores as leases expired or sooner if market conditions were favorable. In fiscal 2013, we lost an estimated \$1.8 million in operating income by closing stores upon lease expirations;
- Pursuing a smaller DXL store format. During fiscal 2013, we identified certain markets where our customer base is not dense enough to support a 7,000-9,000 square foot DXL store but would be able to support a smaller DXL store. We will be opening several smaller DXL stores in smaller markets in fiscal 2014; and
- Continuing to build our marketing program with a primary focus on increasing customer traffic. We saw positive results in fiscal 2013 from a national marketing campaign as our brand awareness went from 13% before our spring campaign to 25% after our fall campaign. See “Marketing and Advertising” below for a detailed discussion.

We expect that our transition will now take until the end of fiscal 2017. By the end of fiscal 2017, we expect we will have opened approximately 250 DXL stores. In addition, we plan to be operating approximately 75-100 Casual Male XL stores and three of our high-volume Rochester Clothing stores.

From a financial perspective, we expect incremental transition costs, in the aggregate, of approximately \$30.0 million from fiscal 2013 through fiscal 2017, primarily associated with lease terminations and additional selling, general and administrative (“SG&A”) expenses. The capital expenditures and incremental SG&A and other charges of approximately \$150 million, associated with the rollout, are expected to be funded primarily from operating cash flows, equipment financings of up to \$28.0 million and borrowings under our credit facility. Our projections, which are based on current economic conditions, suggest that this investment will significantly enhance revenues and produce double digit operating margins for the longer term.

During our roll-out, another key component to our business strategy is to continue to improve our sales productivity. We have invested in our sales associates and changed our culture to a more customer-centric environment focused on helping our customer identify and select their wardrobe needs. We are seeing results of these efforts through our store metrics. Even though store traffic continues to be an area of focus for us, our average dollar per transaction is increasing. We are continually making changes to our merchandise to meet our customers’ needs, varying merchandise selection by market, increasing size offerings, maintaining in-stock position on core products and offering a balanced mix of private label merchandise as well as branded apparel.

OUR BUSINESS

We operate as a multi-channel retailer with two operating segments: Retail and Direct. Through our multiple brands, which include both branded apparel and private-label, we offer a broad range of merchandise at varying price points, catering to the value-oriented customer to the luxury-oriented customer. Our objective is to appeal to all of our customers by providing a good, better, best array of product assortments in all primary lifestyles with multiple and convenient ways to shop.

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Our DXL stores cater to all income demographics and offer our customers merchandise in all lifestyles from casual to business, young to mature, in all price ranges and in all large sizes from XL and up. Our Casual Male XL stores carry primarily moderately priced branded and private label casual sportswear and dresswear, while our Rochester Clothing stores carry fine quality, designer and branded menswear. We also operate Casual Male XL outlets for our value-oriented consumer.

Lastly, we operate a direct business both online and through direct mail, which caters to all of our customers across all brands. Our Destination XL e-commerce site which, similar to our DXL store concept, brings all of our existing websites together, making it easier for our customer to shop the full array of product selection that we have to offer from all of our brands with the ease of one shopping cart. Full product assortments from Casual Male XL, Rochester Clothing, ShoesXL and LivingXL can be found at www.destinationxl.com.

Another critical part of the business operation is managing the number of sizes offered to our customers and optimizing our in-stock position throughout each season. We maintain a consolidated inventory across all channels which enables us to manage our in-stock position of all sizes effectively, ultimately improving customer service. Moreover, our planning and allocation methodologies, with respect to store assortment planning, help to optimize each location's market potential without excessive inventory levels. In addition, at the end of fiscal 2013, we began to test our ability to fulfill orders directly from stores, making our customer's shopping experience truly omnichannel. To this point, we are pleased with the results of that test and are in the process of rolling it out to all of our DXL stores across all lifestyles. We expect to complete the rollout in fiscal 2014.

MERCHANDISE

A vital component of our business strategy is to offer our customers a broad assortment of apparel that is appropriate to our diverse customer base. Regardless of our customers' age, socioeconomic status, or lifestyle preference, we are able to assemble a wardrobe to fit our customers' apparel needs. In addition, we offer such assortments in private-label product, balanced with an array of brand name labels. With over 5,000 styles available, we carry tops in sizes up to 6XLT and 8XL, bottoms with waist sizes 36" to 66", and shoes 10W to 18. In addition, we added to our product assortment a smaller fit XL and XLT to appeal to our target "end-of-rack" customer.

Our stores are merchandised to showcase entire outfits by lifestyle, including traditional, active, jeanswear, dress wear and contemporary. This format allows us to merchandise key items and seasonal goods in prominent displays and makes coordinating outfits easier for the customer while encouraging multi-item purchases. This lifestyle layout also allows us to manage store space more effectively in each market to target local demographics. The key item strategy is also fully integrated by lifestyle, allowing us to focus on merchandise presentation and offer our customers a compelling value proposition.

Merchandise assortments in our DXL store format are organized not only by lifestyle, but within each lifestyle, the assortments are shown in a "good", "better", "best" and "luxury" visual presentation, again to benefit our customers' ease of shopping. With the "best" merchandise assortments featured most prominently in the DXL store, our customers are able to visualize current fashion trends, and easily select their wardrobes within their desired price points in a convenient manner.

We carry several well-known national brands of merchandise as well as a number of our own private-label lines within each of our "good", "better", "best" and "luxury" price points:

Higher-End Luxury Fashion Apparel - "Best" and "Luxury" Merchandise

Within this higher-end price range we carry a broad selection of quality apparel from well-known branded manufacturers such as Bogosse®, Gran Sasso, John Laing, Remy, Jack & Jokers, Psycho Bunny, Agave, Derek Rose, Brioni®, Copley, Eton®, Hickey Freeman®, Ike Behar, Jack Victor®, Michael Kors®, Pantherella®, Paul & Shark, Peter Millar, Robert Graham®, Robert Talbot, St. Hillaire, Tallia®, Ted Baker®, Tulliani, True Religion®, Turnbull & Asser® and David Donahue.

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Moderate-Priced Apparel -“Better” Merchandise

We offer our customer an extensive selection of quality sportswear and dress clothing at moderate prices carrying such well-known brands such as: Brooks Brothers®, Nautica, Nautica Jeans, Lucky, Junk Food, Rainforest, Retro Brand, Cubavera, Cutter & Buck, Dockers, Lee, Levis, Pery Ellis, Wrangler, Reebok, Adidas Golf, Columbia, Creekwood, Beme, Carhart, Callaway®, CK Jeans®, CK Sport®, DKNY®, Haines & Bonner, Jockey®, Lacoste®, Majestic, Polo Ralph Lauren®, Tommy Bahama®, Tommy Hilfiger® and Trafalger.

In addition, within this price range we offer our customers several private-label lines:

- *Twenty Eight Degrees*™ is targeted as a contemporary/modern line offering sportswear, loungewear, related separates, neckwear and dress shirts.
- *Society of One*, a jeanswear brand catering to the needs of the fashion denim customer.
- *Rochester*, a line that targets traditional luxury styles. We also offer a complete selection of suits, dress shirts and neckwear under our *Rochester Black Label* private label.

Value-Priced Apparel -“Good” Merchandise

For our value-oriented customers, we carry Geoffrey Beene®, CubaVera, Nautica® and Nautica Jeans®. In addition we carry several private label lines:

- *Harbor Bay*® was our first proprietary brand and it continues to represent a significant portion of our business, specifically our core basic merchandise. Harbor Bay is a traditional line.
- *Gold Series*™ is our core performance offering of tailored-related separates, blazers, dress slacks, dress shirts and neckwear that blends comfort features such as stretch, stain resistance and wrinkle-free fabrications with basic wardrobe essentials.
- *Synrgy*™ targets the customer looking for a contemporary/modern look.
- *Oak Hill*® is a premier line catering to those customers looking for slightly more style and quality than our *Harbor Bay* but still in a traditional lifestyle.
- *True Nation*® is a denim-inspired line consisting of vintage-screen t-shirts and wovens and is geared towards our younger customer.
- *Island Passport*® is an island-inspired line of camp shirts, printed woven shirts and relaxed island inspired pants.

RETAIL CHANNEL

Destination XL Stores (“DXL”)

Our DXL store concept brings all of our brands together in one format. Our target customer group is a very diverse group, and we have previously catered to them in individual groups through our various channels and brands, such as B&T Factory Direct and Casual Male XL outlets for our value-oriented customers, Casual Male XL for our moderate-price customers and Rochester Clothing for our high-end customers. The size of the DXL stores, which contain almost triple the product assortments of a Casual Male XL store, currently averages 9,200 square feet, but is expected to average closer to 7,000 to 8,000 square feet as the Company opens future DXL stores. In fiscal 2014, we will be opening several smaller 5,000-6,000 square foot stores in locations where the customer base is not dense enough to support our larger DXL format. Because these locations will be smaller, they will carry a smaller product offering than our other DXL stores but it will be representative of the good, better, best merchandise strategy. The locations of our DXL stores are also an essential aspect of our roll-out. We require locations where our stores are highly visible, potentially adjacent to regional malls or other high-traffic shopping areas.

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Our legacy Casual Male XL store format, which averages 3,600 square feet, was small and crowded. With our larger DXL store format, we are able to provide our customers a spacious store with up to three-times the product offering of a Casual Male store. As mentioned above, the merchandise in our DXL stores are organized by lifestyle: Active, Traditional, Modern and Jeanswear with a representation of all of our brands, across all channels, utilizing a good, better, best pricing structure. Depending on the customers in each respective market, we can adjust the appropriate mix of merchandise, with varying selections from each of our price points, to cater to each demographic market. This larger store model also enables us the opportunity to carry a complete offering of dress wear, including tailored and “made-to-measure” custom clothing, as well as a selection of shoes in extended sizes and a broad assortment of accessories such as belts, ties, socks.

During fiscal 2013, we opened 51 DXL stores, bringing our store count at February 1, 2014 to 99 DXL stores. The average sales per square foot for our DXL stores were \$150 for fiscal 2013 and \$147 in fiscal 2012. Once a DXL store matures, we expect sales per square foot will be approximately \$220. For fiscal 2014, we plan to open 40 DXL stores resulting in approximately 139 DXL stores operating at the end of fiscal 2014. By the end of fiscal 2017, we expect to have approximately 250 DXL stores open.

Casual Male XL retail stores

At February 1, 2014, we operated 198 Casual Male XL full-price retail stores, located primarily in strip centers, power centers or stand-alone locations. The majority of the merchandise carried in our Casual Male XL stores is moderately priced basic or fashion-neutral items, such as jeans, casual slacks, tee-shirts, polo shirts, dress shirts and suit separates. These stores also carry a full complement of our “better” private label collections. The average Casual Male XL retail store is approximately 3,600 square feet and has approximately \$174 in sales per square foot annually.

Casual Male XL outlet stores

At February 1, 2014, we operated 52 Casual Male XL outlet stores designed to offer a wide range of casual clothing for the big & tall customer at prices that are generally 20-25% lower than our moderate-priced merchandise. Much of the merchandise in the outlet stores is offered with the purchasing interests of the value-oriented customer in mind. In addition to private-label and branded merchandise at our “good” price tier, our outlets also carry clearance product obtained from Casual Male XL, Rochester Clothing and DXL stores, offering the outlet customer the ability to purchase branded product and fashion product for a specially reduced price. As we open our DXL stores, the mix of branded product flowing into the outlets will increase to approximately 30% as we move inventory out of our DXL stores to keep it current while enhancing the branded presence in our outlets. The average Casual Male XL outlet store is approximately 3,200 square feet and has approximately \$197 in sales per square foot annually.

Rochester Clothing stores

At February 1, 2014, we operated 10 Rochester Clothing stores, located in major cities throughout the United States and one store in London, England. The Rochester Clothing stores have a wide selection of our “best” merchandise which consists primarily of high-end merchandise from well-recognized brands. In addition, the stores also carry a few private-label lines especially designed for our high-end customer. The average Rochester Clothing store is approximately 8,800 square feet and has approximately \$302 in sales per square foot annually. Although some of our Rochester Clothing stores will close over the next few fiscal years as we open DXL stores in the same geographical market, by the end of fiscal 2016 we currently expect that 3 of our high-traffic Rochester Clothing stores will remain open.

DIRECT CHANNEL

Our direct business, which consists primarily of our e-commerce business, with seasonal direct mail pieces, is a vital part of our multi-channel business, allowing us to service our customers better whether from their home or in

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our store. Our direct business bridges that gap for us by encouraging and expecting our store associates to use our websites to help fulfill our customers' clothing needs. If a wider selection of a lifestyle, or a color or size of an item is not available in our store, then our store associates can order the item for our customer through one of our direct channels and have it shipped to the store or directly to the customer. The success of this program represents 3.8% of our retail stores' sales, which are now derived from in-store orders placed through our direct channels.

In fiscal 2013, we discontinued our catalog business in order to place more emphasis on growing our more profitable e-commerce business. While this decision resulted in a decrease in sales of \$5.1 million for fiscal 2013, almost half of that loss was recovered through our internet growth. Throughout the year, we continued to improve our e-commerce promotional strategy and the overall key website functionality to make our online business more competitive and improve the customer experience. By the fourth quarter of fiscal 2013, our total direct business was up 1.2% over the prior year fourth quarter, with our website up 6.1%. As the impact of unprofitable catalog sales diminishes over time, the results will better reflect our e-commerce growth.

In fiscal 2014, we are investing in further enhancements to our website, including enhanced web in-store visibility along with "pick-up in store" purchase option. Another significant enhancement, which is described below under "Management Information Systems" is the roll-out of our pilot program, which will enable any web or store order to be fulfilled by any store in the chain if the merchandise is not available in our warehouse.

Destination XL® E-Commerce Site

Similar to our DXL store concept, our www.destinationxl.com website combines all of our existing e-commerce sites into one enhanced website, with state-of-the-art features and best practices. Destination XL allows our customers to shop across all of our brands and product extensions with ease and brings all of our customers under site with one shopping cart. Their classification as a "Rochester" customer or a "Casual Male" customer no longer limits their ability to access our full product assortment.

During fiscal 2013, we combined all of our existing web addresses: www.casualmalexl.com, www.rochesterclothing.com, www.btdirect.com, www.livingxl.com, www.shoesxl.com and www.bigandtall.com, are now redirected to our new Destination XL website.

From the ***DestinationXL*** website our customers have access to:

- **Destination XL**

From the Destination XL homepage customers can also search across all of our brands without having to shop specifically Casual Male versus Rochester. By searching for a shirt in their size, Destination XL will provide them product selection from all three of our concepts, from value-oriented to luxury. Customers can tailor their search to narrow their search enabling them to shop more effectively with ease.

- **Casual Male XL**

Our Casual Male XL web store offers an assortment of merchandise similar to what is available in the Casual Male XL stores, but also offers a broader selection of brands, styles and sizes.

- **Rochester Clothing**

Our Rochester Clothing web store comprises a large portion of our overall higher-end designer merchandise and is important because we currently have only 10 Rochester Clothing retail locations and, until our DXL roll-out is complete, there may not be a store accessible for our customers interested in our higher-end merchandise.

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- *B&T Factory Direct*

Our B&T Factory Direct web store enhances our existing Casual Male XL outlet stores. The merchandise offered on our “B&T Factory Direct” website is an expanded selection but similar to the merchandise that can be found in our Casual Male XL outlet stores. In addition, B&T Factory Direct will often feature special clearance opportunities of product obtained from Casual Male XL and Rochester Clothing, offering the B&T Factory Direct customer the ability to purchase branded product and fashion product for a specially reduced price.

- *LivingXL*

Our LivingXL web store specializes in the selling of select high-quality products which help larger people maintain a more comfortable lifestyle. The types of products sold on our website benefit both men and women and include chairs, outdoor accessories, travel accessories, bed and bath and fitness equipment.

- *ShoesXL*

Our ShoesXL web store carries a complete line of men’s footwear in extended sizes, offering our customers a full range of footwear in hard-to-find sizes. The assortment on ShoesXL is a reflection of our apparel, with a broad assortment from moderate to luxury and from casual to formal. ShoesXL currently has a selection of more than 500 styles of shoes, ranging in sizes from 10W to 18M and widths up to 5E. We carry a number of designer brands including Cole Haan®, Allen Edmonds®, Timberland®, Calvin Klein®, Lacoste® and Bruno Magli®.

Our Destination XL e-commerce site is an increasingly important channel of our direct business. If a customer goes directly to our destinationxl.com site, with the exception of LivingXL, the other business tabs are no longer visible to the customer. However, when a customer goes to one of our legacy websites above, they will be brought over to the destinationxl.com site, but will still see the tabs of our legacy businesses, such as Casual Male or Rochester.

Over the past couple of years, we have seen a significant increase in the number of visitors from a mobile device. As such, in the summer of fiscal 2013, we launched a mobile optimized website, m.destinationxl.com, creating an improved experience around product browsing, checkout, access to loyalty program information, researching inventory in a local store, and finding a local store location.

An improved experience was also created for international visitors. Upon entering our full site, these visitors are identified based on where they reside globally and are now able to shop in their local currency. In addition, checkout is customized based on their location, with local payment methods and a guaranteed cost including shipping and taxes.

Sears

Through our business relationship with Sears U.S. and Sears Canada, we offer selected Casual Male merchandise on their websites at www.Sears.com and www.Sears.ca. We also have a co-branded section in the Sears Canada catalog, in which we appeared in 3 editions during fiscal 2013.

Franchised DXL Store

In Spring 2012, pursuant to a franchise agreement between one of our subsidiaries and The Standard Arabian Business & Enterprises Company (SABECO), we opened our first franchised Destination XL® store in the Middle East in Symphony Mall, Kuwait City, Kuwait in April 2012. The franchise agreement governs the operation of the store and provides that within two years of the store’s opening to the public, we will have an option to purchase an equity interest in the store. We currently do not have an intention to exercise that purchase option.

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MERCHANDISE PLANNING AND ALLOCATION

Our merchandise planning and allocation area is critical to the effective management of our inventory, store assortments, product sizes and overall gross margin profitability. The merchandise planning and allocation team has an array of planning and replenishment tools available to assist in maintaining an appropriate level of inventory, in-stock positions at the store and direct levels, and pre-season planning for product assortments for each store and the direct channels. Additionally, in-season reporting identifies opportunities and challenges in inventory performance. Over the past several years, we have made important investments in implementing best practice tools and processes.

Our core merchandise makes up over 40% of our Casual Male assortment and over 20% of our Rochester assortment. Our planning and allocation team estimates quantity and demand several months in advance to optimize gross margin and minimize end-of-season merchandise for all seasonal merchandise. We have implemented an all-channel assortment planning methodology that customizes each store's assortment to accentuate lifestyle preferences for each store.

Our merchandising data warehouse provides the merchandising team with standardized reporting for monitoring assortment performance by product category and by store, identifying in-stock positions by size and generally monitoring overall inventory levels relative to selling. At season end, we analyze the overall performance of product category, overall assortments and specific styles by store to focus on the opportunities and challenges for the next season's planning cycle.

During the season, we utilize a markdown optimization tool developed internally to monitor the selling performance of our fashion assortments and compare against the planned selling curves. When actual selling performance significantly drops below planned selling curves, we make in-season pricing adjustments so that we maintain planned levels of residual fashion product at season's end.

Utilizing a set of specific universal reporting tools, we are able to fulfill the daily, weekly and monthly roles and responsibilities of the merchandise planning and allocation team. These reporting tools provide focused and actionable views of the business to optimize the overall assortment by category and by store. We believe that by having all members of the merchandise planning and allocation team follow a standardized set of processes with the use of standardized reporting tools, our inventory performance will be optimized.

STORE OPERATIONS

We believe that our store associates are the key to creating the highest quality experience for our customer. Over the past five years, we have worked to change the culture of our stores from essentially an operationally-driven organization to a sales-driven, customer-centric organization. Our overall goal is to help our associates become less task oriented and more focused on serving the customer. We want our associates to help our customer meet their apparel needs by building their wardrobes, not just selling our customer an item. In order to do this, we have invested in educating our associates. Our associates have been trained to be tailored clothing experts, capable of accommodating our customer's style and fit needs with ready-to-wear and made-to-measure custom clothing. Our training approach not only provides product knowledge but also behavioral training; we are teaching our associates how to interact and strengthen the relationship with each customer. A key component to the success of this program is having the right caliber of store associates. In order to accomplish this, we use two national workforce solution companies to assist us. Once hired, our new DXL store management team is enrolled in a six-week, world-class training program with time spent in one of our three regional training centers. Our Regional Sales Managers, store managers, and assistant managers are brought on board by a Regional Training Director with significant experience in providing an excellent customer experience.

Each new store management team will spend time in a DXL store practicing hands-on learning. In turn, this will allow each new store management team to be able to apply the skills learned during training to manage their

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respective stores successfully. Each new manager will then be put through a Certification Process. They will be certified in their specific store location by their Regional Sales Manager as well as the Vice President of Sales of their region. Certification ensures that each new management team is fully prepared to manage a DXL store successfully. In an effort to continue developing and enhancing our business, we are working to optimize one of our greatest opportunities, which is our Tailored Clothing category. We have added a Director of Field Training along with an Advanced Training program, centered on Tailored Clothing to directly impact this opportunity going forward.

We are able to gauge the effectiveness of our training by measuring sales productivity at each level of the field organization, including individual sales associates. We believe that these educational programs, together with monitoring sales metrics to help identify opportunities for further training, will improve sales productivity and strengthen our customer's brand loyalty.

Each DXL, Casual Male XL and Rochester Clothing store is staffed with a store manager, assistants and associates. The store manager is responsible for achieving certain sales and operational targets. Our DXL, Casual Male XL and Rochester Clothing stores have an incentive-based commission plan for managers and selling staff to encourage our staff to focus on our customer's wardrobing needs and sales productivity.

Our field organization is overseen by our Senior Vice President of Store Sales and Operations and is comprised of approximately 21 Regional Sales Managers who provide management development and guidance to individual store managers. Our organization is divided among three geographical zones, each zone consisting of 7 Regional Sales Managers and 1 Regional Operations Manager. Each Regional Sales Manager is responsible for hiring and developing store managers at the stores assigned to that Regional Sales Manager's area and for the overall operations and profitability of those stores. Regional Sales Managers report to one of our three Vice Presidents of Sales, each of whom reports directly to our Senior Vice President of Store Sales and Operations. The Senior Vice President of Store Sales and Operations and the three Vice Presidents of Sales coordinate all sales and operations initiatives and activities, along with the support of the Vice President of Store Operations and Training, the Director of Field Training, the Director of Staffing & Training, and the Director of Store Support and Communications.

MARKETING AND ADVERTISING

In fiscal 2013, we made significant advancements in Destination XL's brand awareness and increased sales during the campaign time-periods. We were able to grow the aided awareness from 13% in the spring of 2013 to 25% by the end of fall. In one year, we have built an awareness level that is rapidly approaching Casual Male's awareness level even with its decades-long history. As we built the awareness, we were also able to grow DXL comparable sales during the campaign. For the spring campaign, the DXL comparable store sales increased 16.7% and, for the fall campaign, the DXL comparable store sales increased 23.3%. While store traffic remained high through July, the month following the spring campaign which ended just before Father's Day, our store traffic did not remain at this heightened level when the fall campaign ended, just prior to Thanksgiving.

In fiscal 2014, our marketing strategy will be focused on the conversion of our Casual Male customers to DXL, increasing customer acquisition, as well as sales growth in our direct business. We will continue to communicate Destination XL and its value to consumers through a broad media approach that is similar to the one deployed in fiscal 2013. We will use a similar media strategy with a creative concept that has tested among focus groups to be superior to the ad which aired in fiscal 2013. Our strategy in fiscal 2013 was focused on building brand awareness. In fiscal 2014, our strategy will be more focused on introducing our customers to the DXL concept, educating them as to what DXL has to offer and where they can find us. Providing our customers a compelling reason to shop with us and driving increased transactions in our DXL stores will be our primary objective in fiscal 2014.

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In fiscal 2014, we will be testing an improved loyalty program to heighten awareness, increase engagement, and ultimately create a greater connection to our brand. We are changing the way we recognize and value customers who shop with us and we will test offering our more loyal customers escalating bonus points based on their patronage and exhibited loyalty. We will be segmenting and targeting our customers with differentiated offers based on behavior and shopping pattern. In summary, we will be engaging our customers in new ways to further earn their loyalty and commitment.

As we close more of our Casual Male XL stores, we will continue our efforts to increase awareness of DXL and convert Casual Male XL customers to our DXL stores. Our focus will continue to be on transitioning our best Casual Male customers first, followed by the other very active, high sales contributing tiers of customers. We have amplified the communication of DXL in Casual Male stores through more explicit and explanatory signage, greater storefront communication, and improved associate advocacy. Before the closure of every Casual Male store, we have begun an aggressive direct mail campaign to provide an incentive for Casual Male consumers to shop the new DXL store.

Our marketing spend for fiscal 2014 is expected to be relatively flat to the expense of \$27.8 million in fiscal 2013.

GLOBAL SOURCING

We have strong experience in sourcing internationally, particularly in Asia, where we manufacture a significant percentage of our private-label merchandise. We have established relationships with some of the leading and specialized agents and factories. Our sourcing network consists of over 50 factories in 6 countries. Currently, approximately 40% of all our product needs are sourced directly.

Our global sourcing strategy is a balanced approach considering quality, cost and lead time, depending on the requirements of the program. We believe our current sourcing structure is sufficient to meet our operating requirements and provide capacity for growth. The growth and effectiveness of our global direct sourcing program is a key component to our continued merchandise margin improvement.

In an effort to minimize foreign currency risk, all payments to our direct sourced vendors and buying agents are made in U.S. dollars through the use of letters of credit or payment on account.

DISTRIBUTION

All of our distribution operations are centralized at our headquarters located in Canton, Massachusetts.

We believe that having one centralized distribution facility minimizes the delivered cost of merchandise and maximizes the in-stock position of our stores. We believe that the centralized distribution system enables our stores to maximize selling space by reducing necessary levels of back-room stock carried in each store. In addition, the distribution center provides order fulfillment services for our e-commerce and catalog businesses.

Since 2003, we have utilized United Parcel Services ("UPS") for all our store shipments as well as all domestic customer deliveries. This association with UPS has improved our distribution capabilities while also reducing our shipping costs by utilizing zone skipping. By utilizing UPS, we are able to track all deliveries from the warehouse to our individual stores, including the status of in-transit shipments. In addition, we are able to provide our Direct-to-Consumer customers with Authorized Return Service and Web labels, making returns more convenient for them. Our current contract with UPS is through January 2015.

We utilize the Manhattan Associates' PKMS warehousing application for our distribution center systems, which has streamlined our distribution processes significantly, enhanced our in-transit times, and reduced our distribution costs substantially. Automated packing for single piece orders and barcode scanning technologies were added for Direct-to-Consumer, improving productivity and lowering packing costs. Various software and

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material handling improvements were made with our store replenishment systems on our retail sorter that enable us to pick size-specific product, by store, efficiently, allowing for quicker and more accurate replenishment to our retail stores. Scanning technologies were added to our sortation systems that improved the accuracy for product selection that is being sent to the various retail stores and Direct-to-Consumer. Supply chain technology was added to provide better visibility for imports, providing more accurate shipping information for buyers and allowing the distribution center to plan accurate staffing models for arriving freight, resulting in reduced costs and improved receipt efficiency. In addition, we have improved our active shelving and reserve racking to enhance our space utilization in our distribution center, while continuing to improve efficiencies through the implementation of engineered productivity standards.

In-bound calls and order fulfillment for our direct businesses are also currently handled at our Canton facility.

MANAGEMENT INFORMATION SYSTEMS

The infrastructure of our management information systems has consistently been a priority to us. The investments that we have made in this regard have substantially improved our overall efficiency and most importantly have enabled us to better manage our inventory.

Our management information systems consist of a full range of retail merchandising and financial systems which include merchandise planning and reporting, distribution center processing, inventory allocation, sales reporting, and financial processing and reporting. Our business operates primarily on an IBM AS/400 platform, with the e-commerce/catalog business on the Oracle and Intel/Microsoft environments. We believe that our current infrastructure provides us the ability and capacity to process transactions more efficiently and provides our management team with comprehensive tools with which to manage our business.

Our suite of merchandising systems consists of the JDA Portfolio Solutions, specifically the MMS Merchandise Management System and the Arthur Merchandise Planning and Advanced Allocation systems. In addition, we also utilize JDA's E3 Advanced Replenishment system to optimize fill back from vendors and adjustments from seasonal profiles which we believe has improved sales opportunities and control over our basic merchandise inventory. For our distribution operations, we use Manhattan Associates' PKMS distribution system. These systems have enabled us to improve sales, better manage inventory levels and streamline operations.

The business is supported by a POS business application provided by Epicor, formerly NSB Group. The POS applications capture daily transaction information by item, color and size. Communication between our corporate headquarters and all of our stores is facilitated on a daily basis through the use of an electronic mail system. The POS system includes a multitude of features including CRM tools that enable us to track customer buying habits and provides us with the ability to target customers with specific offers and promotions. During fiscal 2013, we upgraded our DXL stores to a state-of-the-art POS hardware platform supplied by Hewlett-Packard. In fiscal 2014, we are planning to begin implementing the latest store system solution from Epicor Software in our DXL locations to further support our business.

Our websites have all been standardized on Oracle's state-of-the-art hosted platform. We also implemented the e-SPS Product Life Cycle Management system from NGC to support the growth of our direct sourcing initiatives. To support the marketing area, we implemented the PlanSystem3 environment from Quad-Systems to manage marketing assets, schedule promotions and monitor activities.

Our merchandising management systems are updated daily with all store transactions and provide daily sales, inventory, pricing and merchandise information and management reports to assist us in operating our retail business. Our merchandising system applications also facilitate the placement and tracking of purchase orders and utilize EDI technology. We evaluate this information, together with weekly reports on merchandise statistics, prior to making decisions regarding reorders of fast-selling items and the allocation of merchandise.

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Using QuantiSense, a business intelligence and data warehousing application, we are able to provide our management team with the ability to integrate data from several sources into reports that are useful and easily obtained. With its customized reporting capabilities, we have visibility down to the lowest level: style, SKU and store. Over the past few years, we have developed customized reporting that has been extremely beneficial to our business. With the use of this software, we now have store grading applications and size scaling to the store level. In an effort to further improve our inventory management, we have created a standardized set of “best practices” for both our merchandise allocation and planning groups.

Our direct business and retail business maintain a shared inventory system and we operate a single system platform for DXL, Casual Male and Rochester Clothing which delivers excellent efficiencies and makes our full product assortment available to all of our business formats.

During fiscal 2013, we implemented significant improvements to our web environment. A mobile optimized site was introduced to capitalize on the growing use of mobile devices to look up store information, review product offerings, and complete purchases. In addition, the current web site was fully integrated with global ecommerce company, Borderfree, to accommodate international customers by providing multi-currency pricing, payment processing, and international shipping. Functionality was also implemented to support a web custom shirt program and an in-store application to support both a custom suit and custom shirt program.

In fiscal 2013, we began a pilot of eBay/VendorNet’s solution to make inventory at the store level available for web and store customer orders. The solution is fully integrated with UPS to facilitate the store shipments to customers. Also in fiscal 2013, we implemented the BrainShark communication and training platform for our stores. This provides new efficiencies in delivering information, training, and task management to all our locations.

During 2014, we plan to roll out the eBay/VendorNet solution enabling us to access our entire DXL store inventory for customer fulfillment, making us truly omnichannel. In addition, we plan to implement enhanced web in-store inventory visibility along with a pick-up in-store purchase option. We also plan to deploy improvements to optimize our assortment planning and assortment execution capabilities.

Other significant technology upgrades planned for fiscal 2014 include more accurate store customer traffic counters and the Oracle Endeca Guided Search module to improve search engine optimization and the customer experience on the web.

COMPETITION

Our business faces competition from a variety of sources, including department stores, mass merchandisers, other specialty stores and discount and off-price retailers, as well as other retailers that sell big & tall merchandise. While we have successfully competed on the basis of merchandise selection, comfort & fit, customer service and desirable store locations, there can be no assurances that other retailers will not adopt purchasing and marketing concepts similar to ours. Discount retailers with significant buying power, such as Wal-Mart and J.C. Penney, represent a source of competition for us. In addition, certain discount retailers and other specialty stores have recently announced their intentions to expand their big & tall offerings, including in some cases, the openings of specialty big & tall stores; however, we do not have a direct competitor that offers a similar one-stop shopping environment similar to our DXL stores.

The United States men’s big & tall apparel market is highly competitive with many national and regional department stores, specialty apparel retailers, single market operators and discount stores offering a broad range of apparel products similar to ours. Besides retail competitors, we consider any casual apparel manufacturer operating in outlet malls throughout the United States to be a competitor in the casual apparel market. We believe that we are the only national operator of apparel stores focused on the men’s big & tall market.

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The direct business has several competitors, including the King Size catalog and website and The Foundry Big and Tall Supply Co., (which is operated by J.C. Penney Company, Inc).

SEASONALITY

Historically, and consistent with the retail industry, we have experienced seasonal fluctuations as it relates to our operating income and net income. Traditionally, a significant portion of our operating income and net income is generated in the fourth quarter, as a result of the “Holiday” season.

TRADEMARKS/TRADEMARK LICENSE AGREEMENTS

We own several service marks and trademarks relating to our businesses, including, among others, “Destination XL®”, “DXL®”, “Big on Being Better™”, “Casual Male®”, “Casual Male XL®”, “B&T Factory Direct™”, “Rochester Big & Tall®”, “Harbor Bay®”, “Oak Hill Established 1972®”, “Oak Hill®”, “Gold Series™”, “Flex-Zone®”, “Comfort Zone®”, “Synrgy™”, “Twenty-Eight Degrees™”, “Society of One®” and “True Nation®”. We also hold a U.S. patent for an extendable collar system, which is marketed as “Neck-Relaxer®” and a U.S. copyright for a no-iron hang tag.

EMPLOYEES

As of February 1, 2014, we employed approximately 2,374 associates, of whom 1,539 were full-time personnel. We hire additional temporary employees during the peak fall and Holiday seasons. None of our employees is represented by any collective bargaining agreement.

AVAILABLE INFORMATION

Our corporate website is <http://investor.destinationxl.com>. Our investor relations site is also accessible from www.destinationxl.com, by clicking on the investor relations link. We make available, free of charge, through our website our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to such reports filed or furnished pursuant to Section 13(a) of the Securities Exchange Act of 1934, as amended, as soon as reasonably practicable after we have electronically filed such material with, or furnished such materials to, the Securities and Exchange Commission. The SEC maintains an internet site that contains reports, proxy and information statements, and other information for issuers that file electronically with the SEC at <http://www.sec.gov>.

Item 1A. Risk Factors

The following discussion identifies certain important factors that could affect our financial position, our actual results of operations and our actions and could cause our financial position, results of operations and our actions to differ materially from any forward-looking statements made by or on behalf of our Company. Other factors, which are not identified herein, could also have such an effect.

The following risk factors are all of the important factors of which we are aware that could cause actual results, performance or achievements to differ materially from those expressed in any of our forward-looking statements. We operate in a continually changing business environment and new risk factors emerge from time to time. Other unknown or unpredictable factors also could have material adverse effects on our future results, performance or achievements. We cannot assure you that projected results or events will be achieved or will occur.

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Risks Related to Our Company and Our Industry

We may not be successful in executing our DXL strategy and growing our market share.

We are currently implementing our strategic plan to open 250 DXL stores by the end of fiscal 2017 while simultaneously closing a significant number of our Casual Male XL retail stores and Rochester Clothing stores. However, for us to be successful in the future and maintain growth, we must be able to continue increasing our market share within the big & tall industry. Our growth and market share are dependent on our ability to successfully execute the roll-out of our DXL store concept, converting our existing Casual Male and Rochester customers and attracting new customers. Our inability to execute the following factors, among others, successfully could prevent us from growing our market share and DXL brand, which could have a material adverse effect on our results of operations, cash flows and financial position:

- negotiate favorable lease arrangements for new DXL stores;
- exit existing lease agreements on favorable terms;
- effectively open and close stores within established cost parameters;
- coordinate the timing of DXL store openings and Casual Male XL store closings;
- hire qualified store management and store associates;
- develop an effective marketing program to build brand and store concept awareness as well as increase store traffic;
- predict and respond to fashion trends, while offering our customers a broad selection of merchandise in an extended selection of sizes;
- grow our DXL e-commerce business;
- maintain our existing customer base as we transition them to the DXL store format;
- attract and retain new target customers to our DXL concept;
- continue to grow and then sustain dollars-per-transaction and share of wallet; and,
- operate the DXL store concept at appropriate operating margins.

Our marketing programs and success in maintaining and building our brand awareness, driving traffic and converting that traffic into an increased loyal customer base are critical to achieving successful market share growth within the big & tall industry.

Our success in increasing our market share in the big & tall apparel business is largely dependent on building and maintaining favorable brand recognition for our DXL concept and effectively marketing our merchandise to all of our target customers in several diverse market segments so that they will become loyal shoppers who spend a greater portion of their wallet on our product offerings. In order to grow our brand recognition and our market share, we depend on the successful development of our brand through several means including television and radio advertising, advertising events, direct mail marketing, e-commerce and customer prospecting. Our business is directly impacted by the success of these efforts and those of our vendors. Future advertising efforts by us, our vendors or our other licensors, may be costly and may not result in increased market share or revenues.

The re-occurrence of any disruption to the capital and credit markets could adversely affect our results of operations, cash flows and financial condition, or those of our customers and vendors.

The re-occurrence of any disruption to the capital and credit markets could adversely impact our results of operations, cash flows and financial condition, or those of our customers and vendors. Disruptions in the capital

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and credit markets as a result of uncertainty, changing or increased regulation, reduced alternatives or failures of significant financial institutions could adversely affect our access to liquidity. Such disruptions may also adversely impact the capital needs of our customers and vendors, which, in turn, could adversely affect our results of operations, cash flows and financial condition.

Our business is seasonal and is affected by general economic conditions.

Like most other retail businesses, our business is seasonal. Historically, a significant portion of our operating income has been generated during our fourth quarter (November-January). In addition, similar to other retail businesses, our operations may be negatively affected by local, regional or national economic conditions, such as levels of disposable consumer income, consumer debt, interest rates and consumer confidence.

Our business may be adversely affected by economic and foreign issues abroad.

Economic and civil unrest in areas of the world where we source merchandise for our global sourcing program, as well as shipping and docking issues, could adversely impact the availability and cost of such merchandise. Disruptions in the global transportation network, such as political instability, the financial instability of our suppliers, merchandise quality issues, trade restrictions, labor and port strikes, tariffs, currency exchange rates, transport capacity and costs, inflation and other factors relating to foreign trade are beyond our control. In the event of disruptions or delays in deliveries due to economic or political conditions in foreign countries, such disruptions or delays could adversely affect our results of operations unless and until alternative supply arrangements could be made. These and other issues affecting our suppliers could adversely affect our business and financial performance.

We are dependent on third parties for the manufacture of the merchandise we sell.

We do not own or operate any manufacturing facilities and are therefore entirely dependent on third parties for the manufacture of the merchandise we sell. Without adequate supplies of merchandise to sell to our customers in the merchandise styles and fashions demanded by our particular customer base, sales would decrease materially and our business would suffer. We are dependent on these third parties' ability to fulfill our merchandise orders and meet our delivery terms. In the event that manufacturers are unable or unwilling to ship products to us in a timely manner or continue to manufacture products for us, we would have to rely on other current manufacturing sources or identify and qualify new manufacturers. We might not be able to identify or qualify such manufacturers for existing or new products in a timely manner and such manufacturers might not allocate sufficient capacity to us in order to meet our requirements. Our inability to secure adequate and timely supplies of private label merchandise would negatively impact proper inventory levels, sales and gross margin rates, and ultimately our results of operations.

In addition, even if our current manufacturers continue to manufacture our products, they may not maintain adequate controls with respect to product specifications and quality and may not continue to produce products that are consistent with our standards. If we are forced to rely on products of inferior quality, then our brand recognition and customer satisfaction would likely suffer. These manufacturers may also increase the cost to us of the products we purchase from them.

A significant portion of our merchandise is imported directly from other countries, and U.S. domestic suppliers who source their goods from other countries supply most of our remaining merchandise. In the event that commercial transportation is curtailed or substantially delayed, we may not be able to maintain adequate inventory levels of important merchandise on a consistent basis, which would negatively impact our sales and potentially erode the confidence of our customer base, leading to further loss of sales and an adverse impact on our results of operations.

In extreme circumstances, it may be necessary to close less productive stores so as to consolidate important merchandise categories into our most productive stores, which would have a material adverse effect on our results of operations and cash flow.

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Fluctuations in the price, availability and quality of raw materials and finished goods could increase costs.

Fluctuations in the price, availability and quality of fabrics or other raw materials used in the manufacturing of our merchandise could have a material adverse effect on our gross margin or on our ability to meet our customers' demands. The prices for fabrics depend on demand and market prices for the raw materials used to produce them. To the extent that we cannot offset these cost increases with other cost reductions or efficiencies, such higher costs will need to be passed on to our customers. Such increased costs could lead to reduced customer demand, which could have a material adverse effect on our results of operations and cash flow.

Our success depends significantly on our key personnel and our ability to attract and retain additional personnel.

Our future success is dependent on the personal efforts, performance and abilities of our key management which includes our executive officers as well as several significant members of our senior management. For example, the loss of the services of David Levin, our President and Chief Executive Officer, who is an integral part of our daily operations and is the primary decision maker in all our important operating matters, could significantly impact our business until an adequate replacement or replacements can be identified and put in place. The loss of any of our senior management may result in a loss of organizational focus, poor operating execution, an inability to identify and execute strategic initiatives, an impairment in our ability to identify new store locations, and an inability to consummate possible acquisitions.

These adverse results could, among other things, reduce potential revenues, prevent us from diversifying our product lines and geographic concentrations, and expose us to downturns in our markets. The competition is intense for the type of highly skilled individuals with relevant industry experience that we require and we may not be able to attract and retain new employees of the caliber needed to achieve our objectives.

The resignation in January 2014 of Dennis R. Hemreich, who served as our Chief Operating Officer, Chief Financial Officer and Treasurer for the past 13 years, could result in potential delays or execution of our strategic initiatives. However, with the appointment of John Kyees, a director of the Company who previously served as Chief Financial Officer at Urban Outfitters until his retirement in 2010, as our interim Chief Financial Officer, we believe we will be able to ensure a level of consistency until we can find a permanent replacement.

The loss of, or disruption in, our centralized distribution center could negatively impact our business and operations.

All merchandise for our stores and e-commerce operations is received into our centralized distribution center in Canton, Massachusetts, where the inventory is then processed, sorted and shipped to our stores or directly to our customers. We depend in large part on the orderly operation of this receiving and distribution process, which depends, in turn, on adherence to shipping schedules and effective management of the distribution center. Although we believe that our receiving and distribution process is efficient and well-positioned to support our strategic plans, events beyond our control, such as disruptions in operations due to fire or other catastrophic events, employee matters or shipping problems, could result in delays in the delivery of merchandise to our stores or directly to our customers.

With all of our management information systems centralized in our corporate headquarters, any disruption or destruction of our system infrastructure would materially affect our business. This type of disaster is mitigated by our offsite storage and disaster recovery plans, but we would still incur business interruption which could impact our business for several weeks.

Although we maintain business interruption and property insurance, we cannot be sure that our insurance will be sufficient, or that insurance proceeds will be timely paid to us, in the event our distribution center is shut down for any reason or if we incur higher costs and longer lead times in connection with a disruption from our distribution center.

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Our business may be negatively impacted and we may be liable if third parties misappropriate proprietary information of our customers and breach our security systems.

We may be harmed by security risks we face in connection with our electronic processing and transmission of confidential customer information. During fiscal 2013, approximately 85% of our sales were settled through credit and debit card transactions. Any security breach could expose us to risks of loss, litigation and liability and could adversely affect our operations as well as cause our shoppers to stop shopping with us as a result of their lack of confidence in the security of their personally identifiable information, which could have a negative impact on our sales and profitability. A number of retailers have experienced actual security breaches where credit and debit card information may have been stolen, including a number of highly publicized incidents with well-known retailers in late 2013. If third parties are able to penetrate our network security or otherwise misappropriate the personal information or credit card information of our customers or if third parties gain unauthorized and improper access to such information, we could be subject to liability. This liability could include claims for unauthorized purchases with credit card information, impersonation or other similar fraud claims. They could also include claims for other misuses of personal information, including unauthorized marketing purposes. These claims could result in litigation. Liability for misappropriation of this information could be significant.

Further, if a third party were to use this proprietary customer information in order to compete with us, it could have a material adverse impact on our business and could result in litigation.

We have been Payment Card Industry (“PCI”) compliant since 2007, which we believe is important in ensuring that our security systems are protected, but there is always a risk that protected systems can be compromised.

We face greater challenges in managing several brands in multiple channels of distribution.

Several retailers have had problems executing a corporate strategy aimed at operating multiple brands in multiple channels. We conduct operations through our specialty stores, outlet stores, and internet channels of distribution. We are responsible for all aspects of brand management with respect to our private-label merchandise and our Destination XL, Casual Male and Rochester brands, including advertising and promotion, and the servicing and merchandising of private label merchandise. With respect to our branded merchandise, this function is mostly the responsibility of the specific manufacturer of the brand. If the managing of multiple brands within multiple channels is poorly executed, we will not achieve our expected level of profitability, and could ultimately be compelled to eliminate the multiple brand strategy so that the organization may focus on a single brand strategy.

Our business is highly competitive, and competitive factors may reduce our revenues and profit margins.

The United States men’s big & tall apparel market is highly competitive with many national and regional department stores, mass merchandisers, specialty apparel retailers and discount stores offering a broad range of apparel products similar to the products that we sell. Besides retail competitors, we consider any manufacturer of big & tall merchandise operating in outlet malls throughout the United States to be a competitor. It is also possible that another competitor, either a mass merchant or a men’s specialty store or specialty apparel catalog, could gain market share in men’s big & tall apparel due to more favorable pricing, locations, brand and fashion assortment and size availability. Many of our competitors and potential competitors may have substantially greater financial, manufacturing and marketing resources than we do. The presence in the marketplace of various fashion trends and the limited availability of shelf space also can affect competition. We may not be able to compete successfully with our competitors in the future and could lose brand recognition and market share. A significant loss of market share would adversely affect our revenues and results of operations.

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We may be unable to predict fashion trends and customer preferences successfully.

Customer tastes and fashion trends are volatile and tend to change rapidly. Our success depends in large part upon our ability to predict effectively and respond to changing fashion tastes and consumer demands and to translate market trends to appropriate saleable product offerings. If we are unable to predict or respond to changing styles or trends successfully and misjudge the market for products or any new product lines, our sales will be lower and we may be faced with a substantial amount of unsold inventory or missed opportunities. In response, we may be forced to rely on additional markdowns or promotional sales to dispose of excess, slow-moving inventory, which would decrease our revenues and margins. In addition, the failure to satisfy consumer demand, specifically in our DXL stores and website, could have serious longer-term consequences, such as an adverse impact on our brand value and the loss of market share to our competitors.

The loss of any of our key trademarks or licenses could adversely affect demand for our products.

We own and use a number of trademarks and operate under several trademark license agreements. We believe that certain of these trademarks have significant value and are instrumental in our ability to create and sustain demand for and to market our products. We cannot be certain that these trademarks and licensing agreements will remain in effect and enforceable or that any license agreements, upon expiration, can be renewed on acceptable terms or at all. In addition, any future disputes concerning these trademarks and licenses may cause us to incur significant litigation costs or force us to suspend use of the disputed trademarks.

Acts of terrorism or a catastrophic event could negatively impact our operating results and financial condition.

Unforeseen events, including war, terrorism and other international conflicts, public health issues, and natural disasters such as earthquakes, hurricanes or other adverse weather and climate conditions, whether occurring in the U.S. or abroad, could disrupt our operations, or the operations of our vendors and other suppliers, or result in political or economic instability.

The continued threat of terrorism and heightened security measures in response to an act of terrorism may disrupt commerce and undermine consumer confidence which could negatively impact our sales by causing consumer spending to decline. Furthermore, an act of terrorism or war, or the threat thereof, could negatively impact our business by interfering with our ability to obtain merchandise from vendors or substitute suppliers at similar costs in a timely manner.

Failure to comply with laws, rules and regulations could negatively affect our business operations and financial performance.

Our business is subject to federal, state, local and international laws, rules and regulations, such as state and local wage and hour laws, the U.S. Foreign Corrupt Practices Act, the False Claims Act, the Employee Retirement Income Security Act (“ERISA”), securities laws, import and export laws (including customs regulations), privacy and information security regulations, unclaimed property laws, the Affordable Care Act and many others. The effect of some of these laws and regulations may be to increase the cost of doing business and may have a material impact on the Company’s earnings. In addition, the complexity of the regulatory environment in which we operate and the related cost of compliance are both increasing due to legal and regulatory requirements and increased enforcement. In addition, as a result of operating in the U.K. and Canada, we must comply with those countries’ laws and regulations, which may differ substantially from, and may conflict with, corresponding U.S. laws and regulations. We may also be subject to investigations or audits by governmental authorities and regulatory agencies, which can occur in the ordinary course of business or which can result from increased scrutiny from a particular agency towards an industry, country or practice. If we fail to comply with laws, rules and regulations or the manner in which they are interpreted or applied, we may be subject to government enforcement action, class action litigation or other litigation, damage to our reputation, civil and criminal liability, damages, fines and penalties, and increased cost of regulatory compliance, any of which could adversely affect our results of operations and financial performance.

Risks Related to Our Corporate Structure and Stock

Our stock price has been and may continue to be extremely volatile due to many factors.

The market price of our common stock has fluctuated in the past and may increase or decrease rapidly in the future depending on news announcements and changes in general market conditions. Since January 1, 2003, the closing price of our common stock has ranged from a low of \$0.26 per share (March 3, 2009) to a high of \$14.95 per share (October 26, 2006). The following factors, among others, may cause significant fluctuations in our stock price:

- overall changes in the economy and general market volatility;
- news announcements regarding quarterly or annual results of operations;
- quarterly comparable sales;
- acquisitions;
- competitive developments;
- litigation affecting us; or
- market views as to the prospects of the retail industry generally.

Rights of our stockholders may be negatively affected if we issue any of the shares of preferred stock which our Board of Directors has authorized for issuance.

We have available for issuance 1,000,000 shares of preferred stock, par value \$0.01 per share. Our Board of Directors is authorized to issue any or all of this preferred stock, in one or more series, without any further action on the part of stockholders. The rights of our stockholders may be negatively affected if we issue a series of preferred stock in the future that has preference over our common stock with respect to the payment of dividends or distribution upon our liquidation, dissolution or winding up.

In addition, the issuance of preferred stock by our Board of Directors pursuant to our certificate of incorporation could have the effect of making it more difficult for a third party to acquire, or of discouraging a third party from acquiring, a majority of the outstanding voting stock of our Company.

State laws and our certificate of incorporation, as amended, may inhibit potential acquisition bids that could be beneficial to our stockholders.

We are subject to certain provisions of Delaware law, which could also delay or make more difficult a merger, tender offer or proxy contest involving us. In particular, Section 203 of the Delaware General Corporation Law prohibits a Delaware corporation from engaging in certain business combinations with any interested stockholder for a period of three years unless specific conditions are met. In addition, certain provisions of Delaware law could have the effect of delaying, deferring or preventing a change in control of us, including, without limitation, discouraging a proxy contest or making more difficult the acquisition of a substantial block of our common stock. The provisions could also limit the price that investors might be willing to pay in the future for shares of our common stock.

In addition, our certificate of incorporation, as amended, contains provisions that restrict any person or entity from attempting to transfer our stock, without prior permission from the Board of Directors, to the extent that such transfer would (i) create or result in an individual or entity becoming a five-percent shareholder of our stock, or (ii) increase the stock ownership percentage of any existing five-percent shareholder. These provisions provide that any transfer that violates such provisions shall be null and void and would require the purported transferee to, upon demand by us, transfer the shares that exceed the five percent limit to an agent designated by us for the purpose of conducting a sale of such excess shares. These provisions would make the acquisition of our Company more expensive to the acquirer and could significantly delay, discourage, or prevent third parties from acquiring our Company without the approval of our Board of Directors.

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Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Our corporate offices and retail distribution center are located at 555 Turnpike Street in Canton, Massachusetts. The property consists of a 755,992 gross square foot building located on approximately 27.3 acres. We owned the property until January 30, 2006, at which time we entered into a sale-leaseback transaction with Spirit Finance Corporation, a third-party real estate investment trust (“Spirit”), whereby we entered into a twenty-year lease agreement with a wholly-owned subsidiary of Spirit for an initial annual rent payment of \$4.6 million, with periodic increases every fifth anniversary. In fiscal 2006, we realized a gain of approximately \$29.3 million on the sale of this property, which was deferred and is being amortized over the initial 20 years of the related lease agreement. Accordingly, our annual current rent expense of \$5.1 million is offset by \$1.5 million related to the amortization of this deferred gain.

As of February 1, 2014, we operated 99 Destination XL stores, 198 Casual Male XL retail stores, 52 Casual Male XL outlet stores and 10 Rochester Clothing stores. All of these stores are leased by us directly from owners of several different types of centers, including life-style centers, shopping centers, free standing buildings, outlet centers and downtown locations. The store leases are generally five to ten years in length and contain renewal options extending their terms by between 5 and 10 years. Following this discussion is a listing by state of all store locations open at February 1, 2014.

Sites for store expansion are selected on the basis of several factors intended to maximize the exposure of each store to our target customers. These factors include the demographic profile of the area in which the site is located, the types of stores and other retailers in the area, the location of the store within the center and the attractiveness of the store layout. We also utilize financial models to project the profitability of each location using assumptions such as the center’s sales per square foot averages, estimated occupancy costs and return on investment requirements. We believe that our selection of locations enables our stores to attract customers from the general shopping traffic and to generate our own customers from surrounding areas.

See also “Management’s Discussion and Analysis of Financial Condition and Results of Operation—Liquidity and Capital Resources—Capital Expenditures.”

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Store count by State at February 1, 2014

United States

Alabama	3	*
Arizona	5	*
Arkansas	2	
California	41	*
Colorado	6	*
Connecticut	6	*
Delaware	3	
District of Columbia	1	
Florida	21	*
Georgia	8	*
Idaho	1	*
Illinois	19	*
Indiana	9	*
Iowa	4	
Kansas	3	*
Kentucky	4	*
Louisiana	4	
Maine	2	
Maryland	11	*
Massachusetts	10	*
Michigan	15	*
Minnesota	4	*
Mississippi	2	
Missouri	9	
Montana	1	*
Nebraska	2	*
Nevada	3	*
New Hampshire	2	
New Jersey	17	*
New Mexico	1	*
New York	26	*
North Carolina	7	*
North Dakota	1	
Ohio	13	*
Oklahoma	2	*
Oregon	4	*
Pennsylvania	23	*
Rhode Island	1	*
South Carolina	4	*
South Dakota	1	
Tennessee	5	*
Texas	31	*
Utah	2	*
Vermont	1	*
Virginia	7	*
Washington	4	*
West Virginia	1	
Wisconsin	6	*

International

London, England	1	
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* DXL store(s) open

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Item 3. *Legal Proceedings*

We are subject to various legal proceedings and claims that arise in the ordinary course of business. Management believes that the resolution of these matters will not have a material adverse impact on our future results of operations or financial position.

Item 4. *Mine Safety Disclosures*

Not applicable.

PART II.

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Our common stock is listed for trading on the NASDAQ Global Select Market under the symbol "DXLG".

The following table sets forth, for the periods indicated, the high and low per share sales prices for the common stock, as reported on Nasdaq.

<u>Fiscal Year Ended February 1, 2014</u>	<u>High</u>	<u>Low</u>
First Quarter	\$5.37	\$4.10
Second Quarter	7.06	4.84
Third Quarter	7.28	5.67
Fourth Quarter	7.30	4.99
<u>Fiscal Year Ended February 2, 2013</u>	<u>High</u>	<u>Low</u>
First Quarter	\$3.69	\$2.83
Second Quarter	4.08	2.76
Third Quarter	4.71	3.46
Fourth Quarter	4.75	3.19

As of March 7, 2014, based upon data provided by independent shareholder communication services and the transfer agent for our common stock, there were approximately 153 holders of record of our common stock. The number of holders does not include individuals or entities who beneficially own shares but whose shares are held of record by a broker or clearing agent, but does include each such broker or clearing agency as one record holder.

We have not paid and do not anticipate paying cash dividends on our common stock. In addition, financial covenants in our loan agreement may restrict dividend payments. For a description of these financial covenants see Note C to the Notes to the Consolidated Financial Statements.

Issuer Purchases of Equity Securities

None.

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Stock Performance Graph

The following Performance Graph compares our cumulative stockholder return with that of a broad market index (Standard & Poor's 500) and one published industry index (Dow Jones U.S. Apparel Retailers) for each of the most recent five years ended January 31. The cumulative stockholder return for shares of our common stock ("DXLG") and each of the indices is calculated assuming that \$100 was invested on January 31, 2009. We paid no cash dividends during the periods shown. The performance of the indices is shown on a total return (dividends reinvested) basis. The graph lines merely connect January 31 of each year and do not reflect fluctuations between those dates. In addition there is a chart of the annual percentage return of our common stock, the S&P 500 and the Dow Jones U.S. Apparel Retailers.



Annual Return Percentage

Company/Index	Years Ended				
	Jan 10	Jan 11	Jan 12	Jan 13	Jan 14
DXLG	636.84	47.86	(19.08)	37.31	16.96
S&P 500	30.03	18.85	3.13	13.81	18.99
DOW JONES U.S. APPAREL RETAILERS	86.83	22.34	17.51	23.42	12.12

Indexed Returns

Company/Index	Base Period					
	Jan 09	Jan 10	Jan 11	Jan 12	Jan 13	Jan 14
DXLG	100	736.84	1089.47	881.58	1210.53	1415.79
S&P 500	100	130.03	154.54	159.39	181.40	215.84
DOW JONES U.S. APPAREL RETAILERS	100	186.83	228.58	268.60	331.50	371.67

The performance graph above shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), or otherwise subject to the liability of that section. This graph will not be deemed incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

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Item 6. Selected Financial Data

The following tables set forth selected consolidated financial data of our Company as of and for each of the years in the five-year period ended February 1, 2014 and should be read in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our accompanying Consolidated Financial Statements and Notes thereto.

We derived the selected financial data presented below for the periods or dates indicated from our consolidated financial statements. Our consolidated financial statements as of and for the year ended February 1, 2014 were audited by KPMG LLP, an independent registered public accounting firm. Our consolidated financial statements as of and for the years ended February 2, 2013, January 28, 2012, January 29, 2011 and January 30, 2010 were audited by Ernst & Young LLP, an independent registered public accounting firm. Our consolidated financial statements as of and for the years ended February 1, 2014, February 2, 2013 and January 28, 2012 are included herein.

For a discussion of certain factors that materially affect the comparability of the selected consolidated financial data or cause the data reflected herein not to be indicative of our future results of operations or financial condition, see Item 1A “Risk Factors” and Item 7 “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

	Fiscal Years Ended ⁽¹⁾⁽²⁾				
	February 1, 2014 (Fiscal 2013)	February 2, 2013 (Fiscal 2012)	January 28, 2012 (Fiscal 2011)	January 29, 2011 (Fiscal 2010)	January 30, 2010 (Fiscal 2009)
(In millions, except per share and operating data)					
INCOME STATEMENT DATA:					
Sales	\$ 388.0	\$ 399.6	\$ 395.9	\$ 392.0	\$ 393.9
Gross profit, net of occupancy costs	178.4	185.8	183.2	179.8	174.2
Selling, general and administrative expenses	170.7	156.4	152.0	148.4	149.2
Depreciation and amortization	20.8 ⁽³⁾	15.5	12.5	13.2	15.5
Operating income (loss) before impairment	(13.1)	13.9	18.7	18.2	9.5
Provision for trademark impairment	—	—	23.1 ⁽⁵⁾	—	—
Operating income (loss)	(13.1)	13.9	(4.4)	18.2	9.5
Provision (benefit) for income taxes	45.7 ⁽⁴⁾	5.2	(50.1) ⁽⁴⁾	0.7 ⁽⁶⁾	1.5
Income (loss) from continuing operations	\$ (59.8)	\$ 8.1	\$ 44.8	\$ 17.4	\$ 7.6
Loss from discontinued operations	—	(1.9)	(2.1)	(2.0)	(1.5)
Net income (loss)	\$ (59.8)	\$ 6.1	\$ 42.7	\$ 15.4	\$ 6.1
Income (loss) from continuing operations per share—diluted	(\$ 1.23)	\$ 0.17	\$ 0.93	\$ 0.37	\$ 0.17
Net income (loss) per share—diluted	(\$ 1.23)	\$ 0.13	\$ 0.89	\$ 0.32	\$ 0.14
BALANCE SHEET DATA:					
Working capital	\$ 50.2	\$ 82.5	\$ 87.2	\$ 71.6	\$ 53.2
Inventories	105.6	104.2	104.2	92.9	90.0
Property and equipment, net	102.9	65.9	45.9	39.1	41.9
Total assets	237.4	245.9	233.7	182.6	181.0
Long term debt, net of current portion	12.1	—	—	—	2.7
Stockholders’ equity	105.0	161.2	154.4	111.3	93.2
Cash flow provided by operating activities	\$ 24.9	\$ 29.9	\$ 23.4	\$ 18.7	\$ 30.8
Less: capital expenditures	(54.1)	(32.4)	(18.0)	(9.0)	(4.6)
Free cash flow ⁽⁷⁾	\$ (29.2)	\$ (2.5)	\$ 5.4	\$ 9.7	\$ 26.2
OPERATING DATA:					
Comparable sales percentage	3.0%	1.5%	2.1%	1.5%	(10.8%)
Gross profit margins	46.0%	46.5%	46.3%	45.9%	44.2%
Operating margin	(3.4%)	3.5%	(1.1%)	4.6%	2.4%
Operating margin, before impairment	(3.4%)	3.5%	4.7%	4.6%	2.4%
Net sales per square foot	\$ 174	\$ 179	\$ 178	\$ 176	\$ 174
Number of stores open at fiscal year end	359	412	450	460	479

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- (1) Our fiscal year is a 52- or 53-week period ending on the Saturday closest to January 31. Except for fiscal 2012 which was a 53-week period, all fiscal years were 52 weeks.
- (2) During the second quarter of fiscal 2012, we discontinued our European web business. Accordingly, certain prior year amounts in the Income Statement Data have been reclassified to discontinued operations to conform to the current year presentation.
- (3) In the fourth quarter of fiscal 2013, we recorded an impairment charge of \$1.5 million for the write-down of property and equipment. The impairment charge related to stores where the carrying value exceeded fair value. See Note A to the Notes to the Consolidated Financial Statements.
- (4) In the fourth quarter of fiscal 2013, we recorded a non-cash charge of \$51.3 million to establish a full valuation allowance against our deferred tax assets. In the fourth quarter of fiscal 2011, we recognized an income tax benefit of \$42.5 million related to the reversal of substantially all of our deferred tax valuation allowance; see Note D to the Notes to the Consolidated Financial Statements.
- (5) During the fourth quarter of fiscal 2011, we recorded a partial non-cash impairment charge of our “Casual Male” trademark of \$23.1 million. This impairment was due to our strategic decision to expand our DXL store concept. As we open new DXL stores, we continue to close our existing Casual Male XL stores or potentially convert them to a DXL store, resulting in a reduced projected revenue stream to support the “Casual Male” tradename. At the end of fiscal 2011, the carrying value of the “Casual Male” trademark was \$6.1 million. The remaining balance at February 1, 2014 is \$2.5 million. The “Rochester” trademark, with a carrying value of \$1.5 million, was not impaired and remains an indefinite-lived asset.
- (6) During the third quarter of fiscal 2010, we recognized a tax benefit of \$0.8 million, or \$0.02 per diluted share, as a result of the reduction in our liability for uncertain tax positions, due to the expiration of certain statutes of limitation.
- (7) Free cash flow is considered a non-GAAP financial measure under SEC regulations. We present this measure as supplemental information to help investors better understand trends in our business results over time. We use free cash flow to evaluate the performance of our business. Free cash flow is not equivalent to any measure of performance required to be reported under GAAP, nor should this data be considered an indicator of our overall financial performance or liquidity. Moreover, the free cash flow definition we use may not be comparable to similarly titled measures used by other companies. We calculate free cash flows as cash flow from operating activities, less capital expenditures and discretionary store asset acquisitions. There were no discretionary store asset acquisitions for any fiscal year include in the above table.

[Table of Contents](#)**Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations****FORWARD LOOKING STATEMENTS**

As noted above, this Annual Report on Form 10-K, including, without limitation, this Item 7, contains "forward-looking statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995. Actual results or developments could differ materially from those projected in such statements as a result of numerous factors, including, without limitation those risks and uncertainties set forth in Item 1A, *Risk Factors* which you are encouraged to read. The following discussion and analysis of our financial condition and results of operations should be read in light of those risks and uncertainties and in conjunction with our accompanying Consolidated Financial Statements and Notes thereto.

EXECUTIVE OVERVIEW**2013 Financial Summary**

For fiscal 2013, we reported a net loss of \$59.8 million, or \$(1.23) per diluted share, as compared to net income of \$6.1 million, or \$0.13 per diluted share, in fiscal 2012. The comparability of our operating results for fiscal 2013 has been affected by an incremental non-cash charge of \$51.3 million to establish a valuation allowance against our deferred tax assets, an asset impairment charge of \$1.5 million and approximately \$2.3 million in executive severance costs, which were accrued at the end of fiscal 2013. On a non-GAAP basis, our adjusted net loss was \$6.2 million, or \$(0.13) per diluted share. See "Presentation of Non-GAAP Measures" below for a reconciliation of GAAP net loss to non-GAAP adjusted net loss. The following table shows GAAP net loss per diluted share for fiscal 2013 and Non-GAAP adjusted net loss per diluted share for fiscal 2013, with a comparison to GAAP net income for fiscal 2012.

	Fiscal 2013 (GAAP)	Fiscal 2013 (Non-GAAP) ⁽¹⁾	Fiscal 2012 (GAAP)
Diluted earnings per share:			
Income (loss) from continuing operations	\$ (1.23)	\$ (0.13)	\$ 0.17
Loss from discontinued operations	\$ —	\$ —	\$ (0.04)
Net income (loss)	\$ (1.23)	\$ (0.13)	\$ 0.13

- (1) Diluted EPS has been adjusted to exclude \$2.3 million of executive severance costs, an asset impairment charge of \$1.5 million and an incremental non-cash charge of \$51.3 million for the establishment of the valuation allowance. For comparative purposes, an assumed normal tax rate of 40.2% was used. See "Presentation of Non-GAAP Measures."

This decrease in earnings, before consideration of the valuation allowance, asset impairments and executive severance costs, is primarily attributable to lower than expected sales. While our results for fiscal 2013 include approximately \$23.2 million, or \$0.29 per diluted share, in transition costs and incremental marketing to support our DXL roll-out, we expected that an increase in sales volume, driven by our store growth, would offset the majority of these costs.

While we had a comparable sales increase of 3.0% for fiscal 2013, which was principally driven by an increase of 19.3% from our DXL stores and an increase in our e-commerce business of 4.2%, total sales were below expectations. During fiscal 2013, we opened 51 DXL stores bringing our total DXL store portfolio to 99 stores. We believe fiscal 2013 was critical in developing a better understanding of our DXL performance as we now have 48 DXL stores operating in most major metropolitan markets that have been open for at least one year. When we began our three year conversion of Casual Male XL stores to DXL stores at the end of fiscal 2012, we had only 16 DXL stores open for at least one year upon which we developed our performance expectations. In fiscal 2013, we identified some emerging trends that were different from the trends we had experienced with the opening of the initial 16 DXL stores. In summary:

- Our existing customer base has been slow to convert to our DXL stores. We believe this is partly due to the lack of name recognition with the DXL store. Our marketing program is helping to improve our brand recognition, but our original forecasts assumed a faster conversion pace than what we have experienced so far.

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- We launched our first brand awareness campaign in fiscal 2013 through television, radio, and digital mediums. Although our brand awareness increased from 13% pre-campaign to 25% post-campaign, the awareness has not had the immediate impact on traffic that we expected. However, we have implemented several marketing initiatives, specific to our existing customer base, which we believe will reverse this trend and, not only protect, but grow our customer base.
- We initially believed that the optimal size for DXL store was 10,000 – 12,000 square feet. In many markets, we now believe the optimal size to be 7,000 – 9,000 square feet. In certain smaller markets, we believe a DXL store can succeed with only 5,000 square feet and we will be opening a limited number of the smaller format DXL store in fiscal 2014.
- Early in our conversion to DXL, we identified erosion from our Casual Male XL stores that were in close proximity to our DXL stores. In response to that erosion, our strategy was to close the Casual Male XL stores as soon as possible. With a larger sample of DXL stores to observe, we now realize that many Casual Male XL stores are maintaining acceptable sales and profitability levels despite a near proximity to a DXL store.
- We incurred delays in opening our DXL stores. We had initially planned on opening 57-64 locations during fiscal 2013 but opened only 51 locations. We also closed 102 Casual Male XL and 2 Rochester Clothing stores primarily based on store lease terminations and which were not timed to coordinate precisely with a DXL store opening. Accordingly, because the associated DXL store may not have opened on schedule we had periods of lost sales in certain markets.
- Of the 51 DXL stores opened in fiscal 2013, 25 DXL stores were opened in the fourth quarter. Therefore, there was limited sales volume to offset the startup costs of a new store.
- We discontinued our catalog business, which resulted in a decrease in sales of approximately \$5.1 million in fiscal 2013.

While we did not meet our sales objectives for fiscal 2013, there were many positive results:

- Of the 99 DXL stores opened at February 1, 2014, 48 of them have been open for more than one year and had a comparable store sales increase of 12.3%.
- Our internet business, which was negatively impacted during the first half of the year by the discontinuation of the catalog business, increased 6.1% in the fourth quarter of fiscal 2013. We have intensified our digital marketing efforts which include emails, web searches, internet banners, and affiliate sites.
- The dollars per transactions in our DXL stores increased 19.0%, showing that our customers like the DXL format, with the broad selection and name brands that we offer.
- As a result of our marketing campaign, we increased our DXL brand awareness from 13% at the beginning of the fiscal year to 25% by fall 2013.
- Despite the highly promotional retail environment, we continued to improve upon our merchandise margins, which increased 60 basis points over fiscal 2012.

Based on the results through fiscal 2013, we remain very confident in our DXL strategy. Fiscal 2013 was a significant transitional year for us. The process of opening a significant number of new stores, while at the same time liquidating twice as many legacy stores, can be challenging. Despite some of our misses in fiscal 2013, we are confident that we can improve upon our roll-out strategy as we move into fiscal 2014. Our plan was to complete the transition by the end of fiscal 2015, with 215 to 230 DXL stores opened and substantially all of our Casual Male XL stores closed. We are taking a more measured approach going forward and for fiscal 2014 we plan to open only 40 DXL stores and close 38 Casual Male XL and 2 Rochester clothing stores and we currently do not plan on our transition being complete until fiscal 2017. At which time, we expect our transition will be complete with approximately 250 DXL stores by the end of fiscal 2017. See “*Fiscal 2014 Outlook*” below.

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From a liquidity perspective, during the second half of fiscal 2013, we financed approximately \$17.5 million of capital expenditures through equipment financing loans. At February 1, 2014, we had outstanding long-term debt, from these equipment financings, of \$16.7 million and borrowing under our credit facility of \$9.0 million. Our availability under our credit facility at February 1, 2014 was \$75.5 million. Our inventory levels, on a dollar basis, have increased slightly, but on a unit basis, our inventory has decreased 6.9% on increased square footage.

Fiscal 2014 Outlook

Fiscal 2014 will be another important year in our plan to transform our store base to DXL. A complete discussion of this business strategy and our long-term projections is discussed directly above as well as under “Item 1. Business – Business Strategy.”

For fiscal 2014, we are planning on a sales range of \$405.0 to \$410.0 million. We expect our gross margin rate to increase 20-90 basis points from fiscal 2013, which is based on merchandise margins improving by approximately 0 to 40 basis points and a favorable decrease in occupancy costs as a percentage of sales of 20-50 basis points. SG&A costs are planned to increase by approximately \$4.3 to \$6.0 million, primarily related to an increase in operating costs associated with a greater number of DXL stores versus Casual Male XL stores, including pre-opening costs and payroll (both store and support). As a percentage of sales, however, SG&A expenses are expected to decrease by approximately 75 to 90 basis points.

As mentioned above, we plan to open approximately 40 DXL stores and close 38 Casual Male XL retail stores and 2 Rochester Clothing stores. Even with the additional SG&A costs highlighted above, we expect our operating margin as a percent of sales for fiscal 2014 will improve slightly to (2.0)-(2.8)%. As a result, however, our earnings for fiscal 2014 will be a loss of approximately \$(0.21)-\$(0.27) per diluted share. We expect to continue providing a full valuation allowance against our deferred tax assets, therefore, we will not recognize any income tax benefit in fiscal 2014. For comparative purposes, assuming a normal tax benefit of approximately 40%, our loss for fiscal 2014, on a non-GAAP basis, would be approximately \$(0.12)-\$(0.16) per diluted share. This non-GAAP net loss was calculated by taking the 2014 forecasted net loss of \$(0.21)-\$(0.27) and multiplying each by 40% to calculate an estimated income tax benefit of \$0.09-\$0.11 per diluted share, resulting in an adjusted non-GAAP net loss of \$(0.12)-\$(0.16) per diluted share.

We expect to spend approximately \$45.7 million in capital expenditures in fiscal 2014, which will be partially offset by approximately \$9.3 million in tenant allowances, primarily related to opening our DXL stores. We expect to fund the remainder of our capital expenditures primarily from our operating cash flow and through equipment financing notes as well as our credit facility. At the end of fiscal 2014, we expect to have total debt of approximately \$50.0-\$55.0 million, consisting of \$20.0 million from equipment financing notes with the balance from our credit facility. From a liquidity perspective, we expect cash flow from operating activities of \$22.5 million (including the \$9.3 million of tenant allowances), resulting in free cash flow (as defined below under “Presentation of Non-GAAP Measures”) of approximately \$(23.2) million.

General Economic Conditions

Our performance is subject to macroeconomic conditions and their impact on levels of consumer spending. The challenging state of the economy continues to influence the level of consumer spending for discretionary items. This directly impacts our business, as it is highly dependent on consumer demand. Some of the factors negatively impacting discretionary consumer spending include general economic conditions, wages and high unemployment, increased taxation, high consumer debt, reductions in net worth based on severe market declines (such as in certain residential real estate markets which have not recovered), higher fuel, energy and other prices, increasing interest rates, severe weather conditions and low consumer confidence. In addition, any significant volatility in our financial markets, as has been experienced in the past, could also negatively impact the levels of future discretionary consumer spending. Generally, we experienced lower and inconsistent customer traffic and spending patterns during the better part of fiscal 2013. See “Item 1A, Risk Factors” for a complete discussion.

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Presentation of Non-GAAP Measures

Adjusted Net Loss Per Diluted Share -Non-GAAP

The presentation of non-GAAP “adjusted net loss” and “adjusted net loss per diluted share” are not measures determined by generally accepted accounting principles (“GAAP”) and should not be considered superior to or as a substitute for income from continuing operations or earnings per diluted share in accordance with GAAP. We believe that the inclusion of these non-GAAP measures is important to assist investors in comparing fiscal 2013 results to our previous guidance as well as to fiscal 2012 on a comparable basis.

The following table is a reconciliation of net loss on a GAAP-basis to adjusted net loss (non-GAAP) for fiscal 2013:

GAAP TO NON-GAAP RECONCILIATION

	Fiscal 2013	
	\$	Per diluted share
<i>(in millions, except per share data)</i>		
Net loss, GAAP basis	\$(59.8)	\$ (1.23)
Add back:		
Executive severance accrual of \$2.3 million, less income tax at 40.2% of \$0.9 million	1.4	0.03
Asset impairments of \$1.5 million, less tax at 40.2% of \$0.6 million	0.9	0.02
Charge to establish full valuation allowance	51.3	1.05
Adjusted net loss, non-GAAP basis	\$ (6.2)	\$ (0.13)
Weighted average number of common shares outstanding on a diluted basis		48.5

Free Cash Flow—Non-GAAP

The presentation of non-GAAP free cash flow is not a measure determined by GAAP and should not be considered superior to or as a substitute for net income (loss) or cash flows from operating activities or any other measure of performance derived in accordance with GAAP. In addition, all companies do not calculate non-GAAP financial measures in the same manner and, accordingly, “free cash flows” presented in this report may not be comparable to similar measures used by other companies. We believe that inclusion of this non-GAAP measure helps investors gain a better understanding of our performance, especially when comparing such results to previous periods.

We calculate free cash flows as cash flow provided by operating activities less capital expenditures and discretionary store asset acquisitions, if applicable:

<i>(in millions)</i>	Fiscal 2013	Fiscal 2012	Projected Cash Flow Fiscal 2014
Cash flow provided by operating activities:			
Cash flow provided by operating activities other than tenant allowances	\$ 15.0	\$ 27.5	\$ 13.2
Tenant allowances	9.9	2.4	9.3
Cash flow provided by operating activities	24.9	29.9	22.5
Less: capital expenditures	(54.1)	(32.4)	(45.7)
Free cash flow	\$ (29.2)	\$ (2.5)	\$ (23.2)

SEGMENT REPORTING

We report our operations as one reportable segment, Big & Tall Men’s Apparel, which consists of our two principal operating segments: retail and direct. We consider our operating segments to be similar in terms of economic characteristic, production processes and operations, and have therefore aggregated them into a single reporting segment.

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Our fiscal year is a 52- or 53-week period ending on the Saturday closest to January 31. Fiscal 2013 and fiscal 2011 were 52-week periods while fiscal 2012 was a 53-week period.

Total comparable sales for all periods include our retail stores that have been open for at least one full fiscal year together with our e-commerce and catalog sales. Our direct businesses are included as part of our calculation of total comparable sales because we are a multi-channel retailer offering our customers convenient alternatives for their shopping needs. Retail comparable sales reflect same-store sales and exclude our direct business. Stores that have been remodeled, expanded or re-located during the period are also included in our determination of comparable sales.

Through the end of fiscal 2013, most of our DXL stores were considered relocations and comparable to all the closed stores in each respective market area for the first twelve months. For fiscal 2013, 99 DXL stores were included in our comparable store base. The sales from 51 of those 99 DXL stores are comparable to prior year sales that included the sales from 73 closed Casual Male XL stores and 2 closed Rochester Clothing stores. On a comparable sales basis, our selling square footage increased 54.6% for fiscal 2013 as compared to fiscal 2012. For fiscal 2012, 46 DXL stores were included in our comparable store base. The sales from 40 of those 46 DXL stores were comparable to the prior year sales from 54 Casual Male XL stores and 2 Rochester Clothing stores. On a comparable sales basis, our selling square footage increased 57.5% for fiscal 2012 as compared to fiscal 2011. The method of calculating comparable sales varies across the retail industry and, as a result, our calculation of comparable sales is not necessarily comparable to similarly titled measures reported by other companies.

Originally these stores were included in the comparable sales base in order to provide insight as to how a DXL store was performing in the market when compared to the sales of the predecessor stores. However, at the end of fiscal 2013, we now have 48 DXL stores at that have been open for more than one year and we believe that this DXL comparable will have more meaning going forward. Therefore, beginning with the first quarter of fiscal 2014, we will return to our traditional calculation of comparable sales. A DXL store will only become a comparable store once the store has been open for at least one full fiscal year.

SALES

Sales for the 52 weeks in fiscal 2013 decreased 2.9% to \$388.0 million as compared to \$399.6 million for the 53 weeks in fiscal 2012. The decrease of \$11.6 million in total sales was due primarily to a decrease in sales for closed stores of \$16.2 million related to lease terminations or sales unassociated with a DXL store. In addition for comparison purposes to fiscal 2013, fiscal 2012 had an additional 53rd week of sales, which was approximately \$5.5 million. This decrease in sales was partially offset by an increase in comparable sales of 3.0%, or \$11.1 million, as compared to fiscal 2012. The following is a table that reconciles total sales for fiscal 2012 to total sales for fiscal 2013:

	Sales (in millions)
Total Sales – Fiscal 2012	\$399.6
Less:	
Sales for extra week of fiscal 2012 (53 weeks)	(5.5)
Sales from fiscal 2012 for closed stores ⁽¹⁾	(16.2)
	\$377.9
Increase in DXL comparable sales	15.3
Increase in internet sales	2.0
Decrease in Casual Male XL and Rochester comparable sales	(1.0)
Decrease in catalog sales	(5.1)
Other, net	(1.1)
Total Sales – Fiscal 2013	\$388.0

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- (1) Represents Casual Male XL and Rochester Clothing stores that closed during fiscal 2012 or fiscal 2013 and are not associated with a DXL store for comparable sales purposes. The majority of these stores were primarily smaller volume stores located in smaller markets and were outside of our DXL market areas.

The following is a summary of the breakdown of our comparable sales for fiscal 2013, showing the percentage increase or decrease from to fiscal 2012:

	Number of Stores	% Change
Total comparable sales		3.0%
Retail Business	359	4.7%
DXL stores ⁽¹⁾	99	19.3%
Casual Male XL and Rochester Clothing stores	260	(0.4%)
Direct Business		(4.4%)
E-commerce		4.2%
Catalog		(60.6%)

- (1) Of the 99 comparable DXL stores, 48 stores have been open more than one year and had a comparable sales increase of 12.3% for fiscal 2013.

As summarized in the table above, the comparable sales increase of 3.0% consisted of an increase in our retail business of 4.7%, or \$14.3 million, offset by a decrease in our direct business of 4.4%, or \$3.2 million. The increase in our retail business of \$14.3 million was driven by our 99 DXL stores which had a comparable store sales increase of 19.3%, or \$15.3 million, as compared to fiscal 2012. Our remaining retail stores had a comparable sales decrease of \$1.0 million, or (0.4%). At February 1, 2014, 48 of our DXL stores have been open for more than one year and those stores had a comparable sales increase of 12.3%.

The decrease in the direct business was primarily driven by a decrease in our catalog sales of \$5.1 million for fiscal 2013 as compared to last year. In fiscal 2012, we began decreasing our catalog circulations and impressions on existing catalogs, as part of our shift toward our more profitable e-commerce business. During the second quarter of fiscal 2013, we eliminated our catalogs completely replacing them with more cost-effective direct mail pieces. Catalog sales accounted for approximately 4.8% of our direct business in fiscal 2013 as compared to 11.6% in fiscal 2012. While catalog sales have decreased, the profit margin from our direct business continues to improve. The operating margin for fiscal 2013 increased 10.4%, from 26.0% to 28.7%. During the second half of fiscal 2013, sales from our e-commerce business improved 6.8% compared to the second half of fiscal 2012. In the long-term, we expect our e-commerce business to replace the current shortfall in sales from our legacy brand catalogs and one of our priorities for fiscal 2014 is to continue to develop marketing initiatives to drive our e-commerce business.

Sales for 53 weeks of fiscal 2012 increased 1.0% to \$399.6 million as compared to \$395.9 million for the 52 weeks of fiscal 2011. Sales for the 53rd week of fiscal 2012 were \$5.1 million. On a comparable 53-week basis, total comparable sales increased 1.5%, or \$5.7 million, as compared to fiscal 2011. This increase consisted of an increase in our retail business of 2.0%, or \$6.4 million, partially offset by a decrease in our direct business of 1.0%, or \$0.7 million. The 2.0% increase in our retail business was predominantly driven by our 46 DXL stores which had a comparable store sales increase of 15.6%, or \$5.6 million, over the prior year while our remaining stores had a comparable store sales increase of 0.3%, or \$0.8 million. During fiscal 2012, sales from approximately 78 Casual Male XL stores, which were in close proximity to a DXL store location, were lower by an average of 3.2% as compared to the remaining stores. With respect to our direct business, we saw significant improvement in fiscal 2012 from our e-commerce business as sales increased 11.2%. This growth was offset by a decrease from our catalog business of 31.1%. During fiscal 2012, we continued to decrease our catalog circulation and impressions on existing catalogs, both of which are down approximately 50% over fiscal 2011, to shift emphasis towards our digital marketing efforts and our more profitable e-commerce business. Our e-commerce business accounted for approximately 67% of our direct business in fiscal 2012.

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For fiscal 2014, we are forecasting sales to be \$405.0 million to \$410.0 million, with a comparable sales increase of approximately 5.6%. As we discussed above, beginning in fiscal 2014 our calculation of comparable sales will only include the DXL stores that have been open for more than one year.

GROSS MARGIN

Gross margin rate for fiscal 2013 was 46.0% as compared to 46.5% for fiscal 2012 and 46.3% for fiscal 2011. The decrease of 50 basis points for fiscal 2013 as compared to fiscal 2012 was comprised of an increase in occupancy costs of 110 basis points offset by a 60 basis point improvement in merchandise margin. The improvement in merchandise margins of 60 basis points was due to an increase in initial markup and a reduced markdown rate over the prior year. On a dollar basis, occupancy costs for fiscal 2013 increased 4.2% as compared to the prior year, due to the timing of DXL store openings and Casual Male XL store closings. This increase included \$4.3 million in DXL transition costs, specifically related to pre-opening rent and lease terminations.

The increase of 20 basis points for fiscal 2012 was comprised of a 60 basis point increase in merchandise margin offset by an increase in occupancy costs of 40 basis points. Occupancy costs for fiscal 2012 increased 3.6%, or approximately \$2.1 million, over the prior year due to the timing of our DXL store openings and the associated pre-opening occupancy costs incurred.

For fiscal 2014, we are expecting that our occupancy costs, on a dollar-basis, will increase approximately \$1.8 million as a result of adding approximately 40 DXL stores in fiscal 2014 and certain lease termination costs associated with closing 38 Casual Male XL and two Rochester Clothing stores. However, we expect occupancy costs as a percentage of sales will be between 20 to 50 basis points lower than fiscal 2013. We are expecting that our merchandise margins, which have improved over 170 basis points over the past 4 years, will remain relatively flat to a slight increase of 40 basis points. Accordingly, for fiscal 2014, we are expecting gross margin will increase 20 to 90 basis points over fiscal 2013.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

SG&A expenses as a percentage of sales for fiscal 2013, 2012 and 2011 were 44.0%, 39.1% and 38.4%, respectively.

On a dollar basis, SG&A expenses for fiscal 2013 increased \$14.3 million, or 9.1%, to \$170.7 million as compared to SG&A expenses of \$156.4 million in fiscal 2012. The increase in SG&A expenses of \$14.3 million is principally due to \$9.3 million of incremental marketing costs associated with our national marketing program, an accrual for executive severance-related costs of approximately \$2.3 million and increased stock compensation of \$1.1 million primarily related to our long-term incentive plan. These costs were partially offset by one less week of expenses of approximately \$2.7 million in fiscal 2013 as compared to fiscal 2012, which was a 53-week year. SG&A expenses for fiscal 2013 include approximately \$5.3 million of DXL transition costs for increased payroll-related costs, such as pre-opening payroll, training and store operations as compared to \$6.2 million in fiscal 2012.

SG&A expenses for fiscal 2012 increased \$4.4 million, or 2.9%, to \$156.4 million as compared to SG&A expenses of \$152.0 million in fiscal 2011. The increase in SG&A expenses of \$4.4 million includes the impact of the 53rd week which approximated \$2.7 million. Included in the increase of \$4.4 million were incremental costs of approximately \$6.2 million related to pre-opening payroll, training, store operations, infrastructure and increased marketing to support the DXL roll-out as well as \$1.4 million related to a corporate bonus. These increases were partially offset by reduced litigation costs of approximately \$1.9 million and a net savings in marketing of approximately \$1.0 million which was attributable to the delay of certain DXL store openings.

For fiscal 2014, we are expecting that our SG&A expenses will increase to \$175.0-\$176.7 million as we continue to grow the DXL format. The \$4.3-\$6.0 million increase is primarily related to incremental operating

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costs associated with our growing DXL concept, as well as costs to close approximately 38 Casual Male XL and two Rochester Clothing stores. Overall, we expect to limit our SG&A growth rates, except where necessary to support our growth activities or where there are unanticipated costs that are necessary to support our overall activities.

PROVISION FOR TRADEMARK IMPAIRMENT

In the fourth quarter of fiscal 2011, we recorded a non-cash impairment charge of \$23.1 million against our “Casual Male” trademark. With the roll-out of our DXL store concept, we plan to close most of our Casual Male XL retail stores. As a result, we could not support the existing carrying value of the “Casual Male” trademark with this declining Casual Male XL store base. As a result, the carrying value of the “Casual Male” trademark was greater than the fair value of the trademark as valued using a discounted future cash flow approach. At January 28, 2012, the “Casual Male” trademark became a definite-lived asset. At February 1, 2014, the “Casual Male” trademark has a carrying value of \$2.5 million, which will be amortized on an accelerated basis through fiscal 2018. For more information regarding this impairment, see “Critical Accounting Policies –Intangibles” and Note A to the Consolidated Financial Statements.

There were no significant impairments in fiscal 2013 and fiscal 2012.

DEPRECIATION AND AMORTIZATION

Depreciation and amortization expense was \$20.8 million for fiscal 2013, \$15.5 million for fiscal 2012 and \$12.5 million for fiscal 2011. The increase of \$5.3 million in depreciation and amortization expense for fiscal 2013 is primarily related to our DXL store openings during fiscal 2013 and an impairment charge of \$1.5 million for the write-down of property and equipment. The impairment charge related to stores where the carrying value exceeded fair value. The increase in fiscal 2012 as compared to fiscal 2011 was primarily due to the increase in amortization expense of approximately \$2.0 million related to the “Casual Male” trademark with the remainder attributed to DXL store openings.

INTEREST EXPENSE, NET

Net interest expense for fiscal 2013 was \$1.0 million as compared to \$0.6 million for fiscal 2012 and fiscal 2011. Interest expense for the past few years has remained relatively low due to minimal borrowings on our credit facility. However, with our store growth in fiscal 2013, our interest costs increased slightly due to funding a portion of that store growth with borrowings from our credit facility and equipment financings.

During the second quarter of fiscal 2013, we amended and extended our credit facility. As part of the amendment, our interest rate costs decreased approximately 50 basis points and our availability under the credit facility increased by approximately \$25 million. During fiscal 2013, we funded approximately \$17.5 million of our capital expenditures through equipment financing. See “Liquidity and Capital Resources” for more discussion regarding our current credit facility, equipment financings and future liquidity needs. Our average borrowings under our credit facility during fiscal 2013 were \$14.9 million as compared to less than \$2.0 million in fiscal 2012 and \$1.0 million in fiscal 2011.

For fiscal 2014, we expect our net interest costs to increase to approximately \$2.0 million as a result of expected borrowings under our credit facility and equipment financing notes.

INCOME TAXES

Pursuant to accounting rules, realization of our deferred tax assets, which relate principally to federal net operating loss carryforwards expiring from 2022 through 2033, is dependent on generating sufficient taxable income in the near term.

In the fourth quarter of fiscal 2011, we determined that it was more likely than not that we would be able to realize the benefits of substantially all of the deferred tax assets in the United States. In reaching this

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determination, we considered the positive evidence of three years of improved profitability, our expectations of future taxable income and expected growth. As a result, we reversed \$48.3 million in valuation allowance.

As of February 1, 2014, we are in a three-year cumulative loss. Based on our forecasts, which were revised in the fourth quarter of fiscal 2013, we also expect that we will generate losses in fiscal 2014 and the cumulative three-year loss will increase as of the end of fiscal 2014. After consideration of these factors, we have determined that it is more likely than not that we will not be able to realize the benefits of our deferred tax assets in the United States. Accordingly, at February 1, 2014, we recorded an incremental non-cash charge of \$51.3 million to establish a full valuation allowance against our deferred tax assets.

DISCONTINUED OPERATIONS

In the second quarter of fiscal 2012, we closed our European direct business. The operating results for the European direct business have been reclassified to discontinued operations for fiscal 2011.

NET INCOME (LOSS)

The net loss for fiscal 2013 was \$(59.8) million, or \$(1.23) per diluted share, as compared to net income for fiscal 2012 of \$6.1 million, or \$0.13 per diluted share, and net income of \$42.7 million, or \$0.89 per diluted share, in fiscal 2011.

(in millions)	Fiscal 2013	Fiscal 2012	Fiscal 2011
Operating income (loss) from continuing operations before provision for asset and trademark impairment and severance ⁽¹⁾	\$ (9.3)	\$ 13.9	\$ 18.6
Severance	(2.3)	—	—
Provision for asset impairment	(1.5) ⁽²⁾	—	—
Provision for trademark impairment	—	—	(23.1) ⁽⁴⁾
Operating income (loss) from continuing operations, on a GAAP basis	\$ (13.1)	\$ 13.9	\$ (4.5)
Other expense, net	—	—	(0.2)
Interest expense, net	(1.0)	(0.6)	(0.6)
Income (loss) from continuing operations, before taxes	(14.1)	13.3	(5.3)
Less: Provision (benefit) for income taxes	45.7 ⁽³⁾	5.2	(50.1) ⁽³⁾
Income (loss) from continuing operations	(59.8)	8.1	44.8
Loss from discontinued operations	—	(1.9)	(2.1)
Net income (loss)	\$ (59.8)	\$ 6.1	\$ 42.7

- (1) Operating income (loss) before provision for asset and trademark impairment and severance of \$(9.3) million and \$18.6 million for fiscal 2013 and fiscal 2011, respectively, are non-GAAP measures and are not meant to be considered superior to or as a substitute for operating income (loss), on a GAAP basis, of \$(13.1) million and \$(4.5) million, respectively. We believe that the above table is a meaningful presentation to measure our operating performance and reconcile our actual results with previously issued guidance.
- (2) During the fourth quarter of fiscal 2013, the Company recorded an impairment charge related to certain stores with carrying values that exceeded fair value.
- (3) During the fourth quarter of fiscal 2011, we reversed \$42.5 million of our valuation allowance against our deferred tax assets, resulting in an income tax benefit for fiscal 2011. However, due to the net loss incurred in fiscal 2013, which resulted in a three-year cumulative loss position, we recorded a charge of \$51.3 million to establish a full valuation allowance against our deferred tax assets. See Note D "Income Taxes" to the Consolidated Financial Statements for complete disclosure.
- (4) Results for fiscal 2011 include a non-cash impairment charge of \$23.1 million related to the write-down of our "Casual Male" trademark. As a result of our growth initiative to expand our DXL store concept, we are closing existing Casual Male XL retail stores in the same market. The carrying value of the "Casual Male" trademark could not be supported by this decrease in projected future cash flows and resulted in a partial write-down of the trademark value.

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SEASONALITY

A comparison of sales in each quarter of the past three fiscal years is presented below. The amounts shown are not necessarily indicative of actual trends, because such amounts also reflect the addition of new stores and the remodeling and closing of others during these periods. Consistent with the retail apparel industry, our business is seasonal. Generally, the majority of our operating income is generated in the fourth quarter as a result of the impact of the Christmas selling season. A comparison of quarterly sales, gross profit, and net income per share for the past two fiscal years is presented in Note K of the Notes to the Consolidated Financial Statements.

<u>(in millions, except percentages)</u>	<u>FISCAL 2013</u>		<u>FISCAL 2012</u>		<u>FISCAL 2011</u>	
First quarter	\$ 93.6	24.1%	\$ 95.5	23.9%	\$ 95.4	24.1%
Second quarter	97.6	25.2%	100.5	25.1%	100.4	25.4%
Third quarter	88.2	22.7%	88.7	22.2%	89.0	22.5%
Fourth quarter	<u>108.5</u>	<u>28.0%</u>	<u>114.9</u>	<u>28.8%</u>	<u>111.1</u>	<u>28.0%</u>
	\$387.9	100.0%	\$399.6	100.0%	\$395.9	100.0%

LIQUIDITY AND CAPITAL RESOURCES

Our primary sources of liquidity are cash generated from operations and availability under our credit facility, which was most recently amended in June 2013, with Bank of America, N.A (“Credit Facility”). Our current cash needs are primarily for working capital (essentially inventory requirements), capital expenditures and growth initiatives. As discussed below, our capital expenditures for fiscal 2014 are expected to be \$45.7 million, primarily related to the planned opening of approximately 40 new DXL stores and information technology projects. However, we expect to receive approximately \$9.3 million in tenant allowances to offset these capital expenditures. We expect to fund our store growth in fiscal 2014 primarily through earnings and borrowings from our Credit Facility as well as equipment financing loans. For fiscal 2014, while our total debt is projected to reach approximately \$60.0 to \$65.0 million during our key seasonal buying periods, we expect that our total debt at the end of fiscal 2014 will be approximately \$50.0-\$55.0 million.

During the second half of fiscal 2013, we financed approximately \$17.5 million of capital expenditures through equipment financing loans pursuant to a Master Loan and Security Agreement described below. We currently expect to finance up to an additional \$10.5 million of equipment acquisitions over the next twelve months pursuant to this agreement, resulting in aggregate equipment financing loans of up to \$28.0 million.

We currently believe that our existing cash generated by operations together with our equipment financings and availability under our credit facility will be sufficient within current forecasts for us to meet our foreseeable liquidity requirements. For fiscal 2013, free cash flow, which we define as cash flow from operating activities, less capital expenditures and discretionary store asset acquisitions, if any, decreased by \$26.7 million to \$(29.2) million from \$(2.5) million for fiscal 2012. This decrease in free cash flow was due to the increase in capital expenditures of \$21.7 million related to the new store openings and a decrease of \$5.0 million in cash flow from operations. See “Presentation of Non-GAAP Measure” above regarding non-GAAP free cash flow.

The following table sets forth financial data regarding our liquidity position at the end of the past three fiscal years:

<u>(in millions, except ratios)</u>	<u>FISCAL YEARS</u>		
	<u>2013</u>	<u>2012</u>	<u>2011</u>
Cash provided by operations	\$ 24.9	\$ 29.9	\$ 23.4
Working capital	\$ 50.2	\$ 82.5	\$ 87.2
Current ratio	1.7:1	2.6:1	2.9:1

CREDIT FACILITY

During the second quarter of fiscal 2013, we amended our Credit Facility with Bank of America, N.A. In addition to extending the term of Credit Facility from November 10, 2014 to June 26, 2018, the amendment also increased our total maximum committed borrowing to \$100 million (from \$75 million) and continues to include an accordion feature which could increase the committed borrowings by an additional \$50 million upon our request and the agreement of the lender(s) participating in the increase. Further, the Company's borrowing rates were decreased by 50 basis points for both prime-based and LIBOR-based borrowings. The Credit Facility includes a sublimit of \$20 million for commercial and standby letters of credit and a sublimit of up to \$15 million for Swingline Loans. Our Credit Facility is described in more detail in Note C to the Notes to the Consolidated Financial Statements.

Borrowings made pursuant to the Credit Facility bear interest at a rate equal to the base rate (determined as the highest of (a) Bank of America N.A.'s prime rate, (b) the Federal Funds rate plus 0.50% and (c) the annual LIBOR rate for the respective interest period) plus a varying percentage, based on our borrowing base, of 0.50%-0.75% for prime-based borrowings and 1.50%-1.75% for LIBOR-based borrowings.

We had outstanding borrowings of \$9.0 million under the Credit Facility at February 1, 2014. Outstanding standby letters of credit were \$2.2 million and outstanding documentary letters of credit were \$1.5 million. The average monthly borrowings outstanding under this facility during fiscal 2013 were approximately \$14.9 million, resulting in an average unused excess availability of approximately \$71.2 million. Unused excess availability at February 1, 2014 was \$75.5 million. Our obligations under the Credit Facility are secured by a lien on all of our assets.

Master Loan and Security Agreement

During the second half of fiscal 2013, we entered into seven Equipment Security Notes (the "Notes"), whereby we borrowed an aggregate of \$17.5 million. The Notes were issued pursuant to a Master Loan and Security Agreement with Banc of America Leasing & Capital, LLC, dated July 20, 2007 and most recently amended September 30, 2013. The Notes are secured by a security interest in all of our rights, title and interest in and to certain equipment. The Notes are for 48 months and accrue interest at fixed rates ranging from 3.07% to 3.29%. Principal and interest, in arrears, are payable monthly. We are subject to a prepayment penalty equal to 1% of the prepaid principal of the Notes until the first anniversary, 0.5% of the prepaid principal from the first anniversary until the second anniversary and no prepayment penalty thereafter. At February 1, 2014, the outstanding balance of Notes was \$16.7 million.

The proceeds from the Notes were used to fund partially the capital expenditures associated with our DXL store rollout.

INVENTORY

At February 1, 2014, total inventories increased 1.3% to \$105.6 million from \$104.2 million at February 2, 2013. While inventory levels on a dollar basis were up slightly when compared to the prior year, on a unit basis inventories decreased 6.9% from year ago levels. Although our store count decreased in fiscal 2013, our square footage increased slightly and, as a result, our average inventory per square foot was slightly lower than the prior year.

OFF-BALANCE SHEET ARRANGEMENTS

We have no off-balance sheet arrangements as defined by 303(a)(4) of Regulation S-K.

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CONTRACTUAL OBLIGATIONS

The following table summarizes our contractual obligations at February 1, 2014, and the effect such obligations are expected to have on our liquidity and cash flows in future periods:

Contractual Obligations (in millions)	Payments due by period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Operating Leases ⁽¹⁾	\$297.4	\$ 48.3	\$ 77.1	\$56.8	\$ 115.2
Long-Term Debt Obligations ⁽²⁾	17.6	5.0	8.9	3.7	—
Severance and severance-related costs	2.3	1.3	1.0	—	—
Non-merchandise Purchase Obligations ⁽³⁾	0.5	0.4	0.1	—	—
Merchandise Purchase Obligations ⁽⁴⁾	53.0	10.0	20.5	22.5	—
Total Commitments ⁽⁵⁾	<u>\$370.8</u>	<u>\$ 65.0</u>	<u>\$107.6</u>	<u>\$83.0</u>	<u>\$ 115.2</u>

- (1) Includes amounts due on our lease agreement for our corporate headquarters and distribution center and operating leases for all of our current store locations and certain equipment and auto leases.
- (2) Includes principal payments on our outstanding secured notes and the corresponding estimated interest costs.
- (3) Non-merchandise Purchase Obligations include an on-going consulting agreement with Jewelcor Management, Inc., pursuant to which we are obligated to pay \$0.4 million annually through April 29, 2014. See Note H—"Related Parties" to the Notes to the Consolidated Financial Statements for a full description of this agreement.
- (4) Merchandise Purchase Obligations include amounts for which the Company is contractually committed to meet certain minimum purchases. These commitments are contingent on the supplier meeting its obligations under the contract. Excluded from Merchandise Purchase Obligations in the table above are our outstanding obligations pursuant to open purchase orders. At February 1, 2014, we had approximately \$72.0 million in open purchase orders. We estimate that approximately 95% of these purchase orders may be considered non-cancelable.
- (5) At February 1, 2014, we had an unfunded Pension Obligation of \$3.1 million and SERP of \$0.6 million, which is not included in the table because of uncertainty over whether or when further contributions will be required.

CAPITAL EXPENDITURES

Below is a summary of store openings and closings from February 2, 2013 to February 1, 2014 and related square footage:

Number of Stores:	DXL	Casual Male XL Retail	Rochester Clothing	Casual Male XL Outlets	Total stores
At February 2, 2013	48	297	12	55	412
Replaced stores ⁽¹⁾	51	(72)	(2)	(1)	(24)
Closed retail stores ⁽²⁾	—	(27)	—	(2)	(29)
At February 1, 2014	99	198	10	52	359
Total square footage (in thousands)					
at February 1, 2014	915	713	88	167	1,883
at February 2, 2013	475	1,067	108	174	1,824

- (1) Represents the total number of DXL stores opened in existing markets with the corresponding total number of Casual Male XL stores and/or Rochester Clothing stores closed in such markets in connection with those DXL store openings.

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(2) Represents closed stores for which there were no corresponding openings of a DXL store in the same market.

Our capital expenditures for fiscal 2013 were \$54.1 million, as compared to \$32.4 million in fiscal 2012 and \$18.0 million in fiscal 2011. Approximately \$44.1 million related to the opening of 51 new DXL stores. In addition, we spent approximately \$9.0 million in management information projects, which included continued enhancements for our e-commerce site. The remainder was used for general capital projects in our distribution center and corporate offices.

For fiscal 2014, our capital expenditures are expected to be approximately \$45.7 million and we expect to receive approximately \$9.3 million in tenant allowances to offset these expenditures. The budget includes approximately \$35.4 million, excluding any allowance, related to the opening of 40 Destination XL stores and approximately \$8.7 million for continued information technology projects, including enhanced web-in inventory visibility, pick-up in-store purchases and access to Company-wide inventory for customer fulfillment, with the remainder for general overhead projects. In addition, we expect to close approximately 38 existing Casual Male XL stores and two Rochester Clothing stores, most of which are in connection with the opening of our new DXL stores.

CRITICAL ACCOUNTING POLICIES

Our financial statements are based on the application of significant accounting policies, many of which require our management to make significant estimates and assumptions (see Note A to the Notes to the Consolidated Financial Statements). We believe that the following items involve some of the more critical judgments in the application of accounting policies that currently affect our financial condition and results of operations.

Stock-Based Compensation

We measure compensation cost for all stock-based awards at fair value on date of grant and recognize compensation over the service period for awards expected to vest. The fair value of our stock options is determined using the Black-Scholes valuation model, which requires the input of highly subjective assumptions. These assumptions include estimating the length of time employees will retain their vested stock options before exercising them (the “expected term”), the estimated volatility of our common stock price over the expected term and the number of options that will ultimately not complete their vesting requirements (“forfeitures”). Changes in these subjective assumptions can materially affect the estimate of fair value of stock-based compensation and, consequently, the related amount recognized as an expense on the consolidated statements of operations. As required under the accounting rules, we review our valuation assumptions at each grant date and, as a result, we are likely to change our valuation assumptions used to value employee stock-based awards granted in future periods. The values derived from using the Black-Scholes model are recognized as expense over the service period, net of estimated forfeitures. Actual results, and future changes in estimates, may differ substantially from these current estimates. For performance-based awards, no compensation expense is recognized until the performance targets are deemed probable. At February 1, 2014, we have not recognized any expense on our outstanding performance-based awards because the performance targets are not deemed probable. For fiscal 2013, 2012 and 2011, we recognized total compensation expense of \$1.9 million, \$0.8 million and \$1.3 million, respectively.

Inventory

We value inventory at the lower of cost or market, using a weighted-average cost method. We review our inventory to identify slow-moving and broken assortments. We use markdowns to clear merchandise and will record inventory reserves if the estimated future selling price is less than cost. In addition, an inventory shrink estimate is made each period that reduces the value of inventory for lost or stolen merchandise. We perform physical inventories through the year and adjust the shrink reserves accordingly.

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Impairment of Long-Lived Assets

We review our long-lived assets for impairment when indicators of impairment are present and the undiscounted cash flow estimated to be generated by those assets is less than the assets' carrying amount. We evaluate our long-lived assets for impairment at a store level for all our retail locations. If actual market conditions are less favorable than management's projections, future write-offs may be necessary.

During the fourth quarter of fiscal 2013, we recorded an impairment charge of \$1.5 million to write-down property and equipment. The impairment related to stores with carrying values which exceeded fair value. There were no material impairment charges for long-lived assets in fiscal 2012 or fiscal 2011.

Intangibles

In accordance with ASC Topic 350, *Intangibles Goodwill and Other*, we evaluate our intangible assets with indefinite-lives at least annually for impairment by analyzing the estimated fair value.

In the fourth quarter of fiscal 2013, we performed our annual testing of our "Rochester" trademark for potential impairment. Utilizing an income approach with appropriate royalty rates applied, we concluded that the "Rochester" trademark, with a carrying value of \$1.5 million, was not impaired.

During the fourth quarter of fiscal 2011, we recorded a non-cash impairment charge of \$23.1 million against our "Casual Male" trademark. In connection with our expansion of our new DXL store concept and the expected closure of our Casual Male XL retail stores, the fair value of our "Casual Male" trademark, as determined using an income approach with applicable royalty rate applied, was not sufficient to support the then-carrying value. At January 28, 2012, the "Casual Male" trademark was reclassified to a definitive-lived asset. At February 1, 2014, the "Casual Male" trademark has a remaining carrying value of \$2.5 million, which is being amortized, on an accelerated basis, over its estimated remaining useful life of 5 years.

Deferred Taxes

In accordance with ASC Topic 740, *Income Taxes*, on a quarterly basis, we evaluate the realizability of our deferred tax assets and, if needed, establish a valuation allowance against those assets if it is determined that it is more likely than not that the deferred tax assets will not be realized.

As of February 1, 2014, we were in a cumulative three-year loss position. Based on this cumulative loss position and our anticipated losses in fiscal 2014, which will increase our cumulative loss, we determined that it was more likely than not that the deferred tax assets at February 1, 2014 would not be realized. Accordingly, we recorded an incremental charge of \$51.3 million to establish a full valuation allowance against our deferred tax assets.

In the fourth quarter of fiscal 2011, we recognized an income tax benefit of \$42.5 million due to the reversal of a substantial portion of the deferred tax asset valuation allowance. At that time, based on three years of positive earnings and our projections of future taxable income at the time, we determined that it was more likely than not that we would be able to realize the benefits of substantially all of our deferred tax assets. See "Income Taxes" above for more discussion.

RECENT ACCOUNTING PRONOUNCEMENTS

We have reviewed accounting pronouncements and interpretations thereof that have effective dates during the periods reported and in future periods. We believe that the following impending standards may have an impact on our future filings. The applicability of any standard will be evaluated by us and is still subject to our review.

In July 2013, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2013-11, *Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists* (a consensus of the FASB

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Emerging Issues Task Force). U.S. GAAP does not include explicit guidance on the financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. The amendments in this ASU state that an unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, except as follows. To the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. The amendments in this ASU are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. We currently present these tax items in accordance with this guidance; therefore no changes are necessary for adoption.

EFFECTS OF INFLATION

Although our operations are influenced by general economic trends, we do not believe that inflation has had a material effect on the results of our operations in the last three fiscal years.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

In the normal course of business, our financial position and results of operations are routinely subject to a variety of risks, including market risk associated with interest rate movements on borrowings and foreign currency fluctuations. We regularly assess these risks and have established policies and business practices to protect against the adverse effects of these and other potential exposures.

Interest Rates

We utilize cash from our Credit Facility to fund our working capital needs. Our Credit Facility is not used for trading or speculative purposes. In addition, we have available letters of credit as sources of financing for our working capital requirements. Borrowings under the Credit Facility, which expires June 26, 2018, bear interest at variable rates based on Bank of America's prime rate or LIBOR. At February 1, 2014, we had outstanding borrowings of approximately \$9.0 million. Based upon a sensitivity analysis as of February 1, 2014, assuming average outstanding borrowing during fiscal 2013 of \$14.9 million, a 50 basis point increase in interest rates would have increased interest expense by approximately \$0.1 million.

Foreign Currency

Our Sears Canada catalog operations conduct business in Canadian dollars and our Rochester Clothing store located in London, England conducts business in British pounds. If the value of the Canadian dollar or the British pound against the U.S. dollar weakens, the revenues and earnings of these operations will be reduced when they are translated or remeasured to U.S. dollars. Also, the value of these assets to U.S. dollars may decline. As of February 1, 2014, sales from our Sears Canada operations and our London Rochester Clothing store were immaterial to consolidated sales. As such, we believe that movement in foreign currency exchange rates will not have a material adverse affect on our financial position or results of operations.

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Item 8. Financial Statements and Supplementary Data

**DESTINATION XL GROUP, INC.
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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders
Destination XL Group, Inc.

We have audited the accompanying consolidated balance sheet of Destination XL Group, Inc. as of February 1, 2014, and the related consolidated statements of operations, comprehensive income (loss), changes in stockholders' equity, and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Destination XL Group, Inc. as of February 1, 2014, and the results of their operations and their cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Destination XL Group, Inc.'s internal control over financial reporting as of February 1, 2014, based on criteria established in *Internal Control—Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 17, 2014 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG LLP

Boston, Massachusetts
March 17, 2014

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of Destination XL Group, Inc.,

We have audited the accompanying consolidated balance sheet of Destination XL Group, Inc. as of February 2, 2013 and the related consolidated statements of operations and comprehensive income, stockholders' equity and cash flows for each of the two years in the period ended February 2, 2013. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Destination XL Group, Inc. at February 2, 2013, and the consolidated results of its operations and its cash flows for each of the two years in the period ended February 2, 2013, in conformity with U.S. generally accepted accounting principles.

/s/ Ernst & Young, LLP

Boston, Massachusetts
March 15, 2013

DESTINATION XL GROUP, INC.
CONSOLIDATED BALANCE SHEETS
February 1, 2014 and February 2, 2013

	February 1, 2014 (Fiscal 2013)	February 2, 2013 (Fiscal 2012)
(In thousands, except share data)		
ASSETS		
<i>Current assets:</i>		
Cash and cash equivalents	\$ 4,544	\$ 8,162
Accounts receivable	8,347	5,007
Inventories	105,556	104,211
Deferred income taxes	—	6,625
Prepaid expenses and other current assets	7,994	9,081
Total current assets	126,441	133,086
Property and equipment, net of accumulated depreciation and amortization	102,939	65,942
<i>Other assets:</i>		
Intangible assets	4,393	6,256
Deferred income taxes	—	38,688
Other assets	3,608	1,973
Total assets	<u>\$ 237,381</u>	<u>\$ 245,945</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
<i>Current liabilities:</i>		
Current portion of long-term debt	\$ 4,561	\$ —
Current portion of deferred gain on sale-leaseback	1,465	1,465
Accounts payable	32,945	25,464
Accrued expenses and other current liabilities	28,227	23,655
Borrowings under credit facility	9,029	—
Total current liabilities	76,227	50,584
<i>Long-term liabilities:</i>		
Long-term debt, net of current portion	12,145	—
Deferred rent and lease incentives	22,835	11,562
Deferred gain on sale-leaseback, net of current portion	16,120	17,585
Other long-term liabilities	5,083	5,002
Total long-term liabilities	56,183	34,149
Commitments and contingencies (Note E)		
<i>Stockholders' equity:</i>		
Preferred stock, \$0.01 par value, 1,000,000 shares authorized, none issued	—	—
Common stock, \$0.01 par value, 100,000,000 shares authorized, 61,473,083 and 59,447,008 shares issued at February 1, 2014 and February 2, 2013, respectively	615	595
Additional paid-in capital	296,501	293,977
Treasury stock at cost, 10,877,439 shares at February 1, 2014 and February 2, 2013	(87,977)	(87,977)
Accumulated deficit	(99,608)	(39,822)
Accumulated other comprehensive loss	(4,560)	(5,561)
Total stockholders' equity	104,971	161,212
Total liabilities and stockholders' equity	<u>\$ 237,381</u>	<u>\$ 245,945</u>

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

DESTINATION XL GROUP, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
For the fiscal years ended February 1, 2014, February 2, 2013 and January 28, 2012

	February 1, 2014 (Fiscal 2013)	February 2, 2013 (Fiscal 2012)	January 28, 2012 (Fiscal 2011)
	(In thousands, except per share data)		
Sales	\$387,983	\$399,640	\$395,867
Cost of goods sold including occupancy costs	209,569	213,881	212,691
Gross profit	178,414	185,759	183,176
Expenses:			
Selling, general and administrative	170,652	156,366	151,999
Provision for trademark impairment	—	—	23,110
Depreciation and amortization	20,841	15,469	12,533
Total expenses	191,493	171,835	187,642
Operating income (loss)	(13,079)	13,924	(4,466)
Other expense	—	—	(252)
Interest expense, net	(1,046)	(621)	(556)
Income (loss) from continuing operations before provision (benefit) for income taxes	(14,125)	13,303	(5,274)
Provision (benefit) for income taxes	45,661	5,244	(50,078)
Income (loss) from continuing operations	(59,786)	8,059	44,804
Loss from discontinued operations, net of taxes	—	(1,933)	(2,141)
Net income (loss)	\$ (59,786)	\$ 6,126	\$ 42,663
Net income (loss) per share—basic:			
Income (loss) from continuing operations	\$ (1.23)	\$ 0.17	\$ 0.94
Loss from discontinued operations	\$ 0.00	\$ (0.04)	\$ (0.05)
Net income (loss) per share—basic	\$ (1.23)	\$ 0.13	\$ 0.90
Net income (loss) per share—diluted:			
Income (loss) from continuing operations	\$ (1.23)	\$ 0.17	\$ 0.93
Loss from discontinued operations	\$ 0.00	\$ (0.04)	\$ (0.04)
Net income (loss) per share—diluted	\$ (1.23)	\$ 0.13	\$ 0.89
Weighted-average number of common shares outstanding:			
Basic	48,473	47,947	47,424
Diluted	48,473	48,385	48,044

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

DESTINATION XL GROUP, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
For the fiscal years ended February 1, 2014, February 2, 2013 and January 28, 2012

	February 1, 2014 (Fiscal 2013)	February 2, 2013 (Fiscal 2012)	January 28, 2012 (Fiscal 2011)
	(In thousands)		
Net income (loss)	\$ (59,786)	\$ 6,126	\$ 42,663
Other comprehensive income (loss) before taxes:			
Foreign currency translation	(280)	(5)	(47)
Pension plan	1,281	199	(2,732)
Other comprehensive income (loss) before taxes	1,001	194	(2,779)
Tax (provision) benefit related to items of other comprehensive income (loss)	—	(39)	1,099
Other comprehensive income (loss), net of tax	1,001	155	(1,680)
Comprehensive income (loss)	<u>\$ (58,785)</u>	<u>\$ 6,281</u>	<u>\$ 40,983</u>

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

DESTINATION XL GROUP, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
For the fiscal years ended February 1, 2014, February 2, 2013 and January 28, 2012
(In thousands)

	Common Stock			Treasury Stock			Accumulated Other Comprehensive Income (Loss)	Total
	Shares	Amounts	Additional Paid-in Capital	Shares	Amounts	Accumulated Deficit		
Balance at January 29, 2011	58,662	\$ 587	\$ 291,369	(10,877)	\$ (87,977)	\$ (88,611)	\$ (4,036)	\$111,332
Exercises under option program	169	2	591					593
Issuance of restricted stock, net of cancellations	500	5	(5)					—
Stock compensation expense			1,292					1,292
Excess tax benefits from stock-based awards			41					41
Board of Directors compensation	28	—	117					117
Accumulated other comprehensive income (loss):								
Unrecognized loss associated with Pension Plan, net of taxes of \$1.0 million							(1,652)	(1,652)
Foreign currency, net of taxes							(28)	(28)
Net income						42,663		42,663
Balance at January 28, 2012	<u>59,359</u>	<u>\$ 594</u>	<u>\$ 293,405</u>	<u>(10,877)</u>	<u>(87,977)</u>	<u>(45,948)</u>	<u>(5,716)</u>	<u>154,358</u>
Exercises under option program	116	1	(1)					—
Cancellations of restricted stock, net of issuances	(30)	—	—					—
Stock compensation expense			777					777
Excess tax benefits from stock-based awards			31					31
Stock compensation in excess of tax benefits			(359)					(359)
Board of Directors compensation	32	—	124					124
Accumulated other comprehensive income (loss):								
Unrecognized gain associated with Pension Plan, net of taxes of \$0.1 million							121	121
Foreign currency, net of taxes							34	34
Net income						6,126		6,126
Balance at February 2, 2013	<u>59,477</u>	<u>\$ 595</u>	<u>\$ 293,977</u>	<u>(10,877)</u>	<u>(87,977)</u>	<u>(39,822)</u>	<u>(5,561)</u>	<u>\$161,212</u>
Exercises under option program	106	1	394					395
Issuance of restricted stock, net of cancellations	1,846	18	(18)					—
Stock compensation expense			1,893					1,893
Board of Directors compensation	44	1	255					256
Accumulated other comprehensive income (loss):								
Unrecognized loss associated with Pension Plan							1,281	1,281
Foreign currency							(280)	(280)
Net loss						(59,786)		(59,786)
Balance at February 1, 2014	<u>61,473</u>	<u>\$ 615</u>	<u>\$ 296,501</u>	<u>(10,877)</u>	<u>(87,977)</u>	<u>(99,608)</u>	<u>(4,560)</u>	<u>\$104,971</u>

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

DESTINATION XL GROUP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the fiscal years ended February 1, 2014, February 2, 2013 and January 28, 2012

	February 1, 2014 (Fiscal 2013)	February 2, 2013 (Fiscal 2012)	January 28, 2012 (Fiscal 2011)
	(In thousands)		
Cash flows from operating activities:			
Net income (loss)	\$ (59,786)	\$ 6,126	\$ 42,663
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Amortization of deferred gain on sale leaseback	(1,465)	(1,466)	(1,465)
Provision for trademark impairment	—	—	23,110
Depreciation and amortization	20,841	15,469	12,533
Deferred taxes, net of valuation allowance	45,313	5,057	(51,908)
Excess tax benefits from stock-based awards	—	(31)	(41)
Stock compensation in excess of tax benefits	—	(359)	—
Stock compensation expense	1,893	777	1,292
Issuance of common stock to Board of Directors	256	124	117
Changes in operating assets and liabilities:			
Accounts receivable	(3,340)	(1,653)	(267)
Inventories	(1,345)	(44)	(11,278)
Prepaid expenses and other current assets	1,087	(437)	62
Other assets	(1,080)	52	84
Accounts payable	7,481	807	7,105
Income taxes	—	—	(242)
Deferred rent and lease incentives	11,273	2,818	504
Accrued expenses and other liabilities	3,770	2,655	1,116
Net cash provided by operating activities	24,898	29,895	23,385
Cash flows from investing activities:			
Additions to property and equipment	(54,125)	(32,390)	(18,038)
Proceeds from sale of businesses	—	273	258
Net cash used for investing activities	(54,125)	(32,117)	(17,780)
Cash flows from financing activities:			
Net borrowings under credit facility	9,029	—	—
Proceeds from the issuance of long-term debt	17,523	—	—
Costs associated with amendment to credit facility and issuance of long-term debt	(521)	—	—
Principal payments on long-term debt	(817)	—	—
Excess tax benefits from stock based awards	—	31	41
Proceeds from the exercise of stock options under option program	395	—	593
Net cash provided by financing activities	25,609	31	634
Net increase (decrease) in cash and cash equivalents	(3,618)	(2,191)	6,239
Cash and cash equivalents:			
Beginning of the year	8,162	10,353	4,114
End of the year	\$ 4,544	\$ 8,162	\$ 10,353

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

DESTINATION XL GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FEBRUARY 1, 2014

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

Destination XL Group, Inc. (formerly known as Casual Male Retail Group, Inc. and collectively referred to as the “Company”) is the largest specialty retailer of big & tall men’s apparel. The Company operates under the trade names of Destination XL® (DXL®), Casual Male XL®, Casual Male XL Outlets, Rochester Clothing, B&T Factory Direct™, ShoesXL® and LivingXL®. At February 1, 2014, the Company operated 99 DXL® stores, 250 Casual Male XL retail and outlet stores and 10 Rochester Clothing stores located throughout the United States, including one store in London, England. The Company also operates a direct business throughout the United States and Canada, which includes brand mailers and an aggregated e-commerce site to support its brands and product extensions.

Basis of Presentation

The consolidated financial statements include the accounts of the Company and its subsidiaries. All significant intercompany accounts, transactions and profits are eliminated.

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent liabilities as of the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from estimates.

Reclassifications

The Company has reclassified the long-term portion of its deferred rent and lease incentives from “Accrued Expenses and Other Current Liabilities” into “Deferred Rent and Lease Incentives” on the consolidated balance sheets.

Subsequent Events

All appropriate subsequent event disclosures, if any, have been made in these Notes to the Consolidated Financial Statements.

Segment Reporting

Through the end of fiscal 2011, the Company managed its business as one reportable segment comprised of three operating segments – Casual Male XL, Rochester Clothing and B&T Factory Direct. However, with the continued expansion of the Destination XL (“DXL”) store format and the merger of all of the Company’s websites into one consolidated site, www.destinationxl.com, which carries merchandise from all three of these business formats, the businesses are now managed using retail and direct, as opposed to the previous store formats.

The Company reports its operations as one reportable segment, Big & Tall Men’s Apparel, which consists of two principal operating segments: its retail business and its direct businesses. The Company considers its operating segments to be similar in terms of economic characteristics, production processes and operations, and have therefore aggregated them into a single reporting segment. The direct operating segment includes the operating results and assets for LivingXL and ShoesXL.

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Fiscal Year

The Company's fiscal year is a 52-week or 53-week period ending on the Saturday closest to January 31. Fiscal years 2013 and 2011, which were 52-week periods, ended on February 1, 2014 and January 28, 2012, respectively. Fiscal 2012 was a 53-week period that ended on February 2, 2013.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash in banks and short-term investments, which have a maturity of ninety days or less when acquired. Included in cash equivalents are credit card and debit card receivables from banks, which generally settle within two to four business days.

Accounts Receivable

Accounts receivable primarily includes amounts due for tenant allowances and from the Company's business partners. For fiscal 2013, fiscal 2012 and fiscal 2011, the Company has not incurred any losses on its accounts receivable.

Fair Value of Financial Instruments

ASC Topic 825, *Financial Instruments*, requires disclosure of the fair value of certain financial instruments. The carrying amounts of cash and cash equivalents, accounts receivable, accounts payable, accrued expenses and short-term borrowings approximate fair value because of the short maturity of these instruments.

ASC Topic 820, *Fair Value Measurements and Disclosures*, defines fair value, establishes a framework for measuring fair value and enhances disclosures about fair value measurements.

The valuation techniques utilized are based upon observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect internal market assumptions. These two types of inputs create the following fair value hierarchy:

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

Level 2 – Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the related asset or liabilities.

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of assets or liabilities.

The Company utilizes observable market inputs (quoted market prices) when measuring fair value whenever possible.

The fair value of long-term debt is classified within Level 2 of the valuation hierarchy. At February 1, 2014 the fair value approximates the carrying amount based upon terms available to the Company for borrowings with similar arrangements and remaining maturities. See Note C, *Debt Obligations*, for more discussion.

The fair value of indefinite-lived assets, which consists of the Company's "Rochester" trademark, is measured on a non-recurring basis in connection with the Company's annual impairment test. The fair value of the trademark is determined using a projected discounted cash flow analysis based on unobservable inputs and are classified within Level 3 of the valuation hierarchy. See *Intangibles* below.

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Retail stores that have indicators of impairment and fail the recoverability test are measured for impairment by comparing the fair value of the assets against their carrying value. Fair value of the assets is estimated using a projected discounted cash flow analysis and is classified within Level 3 of the valuation hierarchy. See *Impairment of Long-Lived Assets* below.

Inventories

All inventories are valued at the lower of cost or market, using a weighted-average cost method.

Property and Equipment

Property and equipment are stated at cost. Major additions and improvements are capitalized while repairs and maintenance are charged to expense as incurred. Upon retirement or other disposition, the cost and related depreciation of the assets are removed from the accounts and the resulting gain or loss, if any, is reflected in income. Depreciation is computed on the straight-line method over the assets' estimated useful lives as follows:

Furniture and fixtures	Five to ten years
Equipment	Five to ten years
Leasehold improvements	Lesser of useful lives or related lease term
Hardware and software	Three to seven years

Intangibles

ASC Topic 805, Business Combinations, requires that all business combinations be accounted for under the purchase method. The statement further requires separate recognition of intangible assets that meet one of two criteria set forth in the statement. Under ASC Topic 350, Intangibles Goodwill and Other, goodwill and intangible assets with indefinite lives are tested at least annually for impairment. At each reporting period, management analyzes current events and circumstances to determine whether the indefinite life classification for its "Rochester" trademark continues to be valid. If circumstances warrant a change to a finite life, the carrying value of the intangible asset would then be amortized prospectively over the estimated remaining useful life. The Company's "Casual Male" trademark is considered a finite life asset. Other intangible assets with defined lives are amortized over their useful lives.

At least annually, as of the Company's December month-end, the Company evaluates its "Rochester" trademark. The Company performs an impairment analysis and records an impairment charge for any intangible assets with a carrying value in excess of its fair value.

In the fourth quarter of fiscal 2013, the "Rochester" trademark was tested for potential impairment, utilizing an income approach with applicable royalty rates applied. The Company concluded that the "Rochester" trademark, with a carrying value of \$1.5 million at February 1, 2014, was not impaired. Although the Company expects that some of the Rochester locations will close as part of the DXL expansion, the Rochester Clothing stores that will remain open are currently expected to generate more than sufficient cash flows to support the carrying value of \$1.5 million for the "Rochester" trademark.

In fiscal 2011, the Company determined that its "Casual Male" trademark could no longer be considered an indefinite-lived asset. As the Company opens DXL stores, it is closing the majority of its Casual Male XL stores in those respective markets. By fiscal 2017, the Company expects to have only 75 to 100 Casual Male XL retail and outlets stores open. As a result, in the fourth quarter of fiscal 2011, the Company recorded a non-cash impairment charge of \$23.1 million against its "Casual Male" trademark. This charge was reflected in "Provision for Trademark Impairment" for the year ended January 28, 2012. The remaining carrying value of the trademark is being amortized on an accelerated basis against projected cash flows through fiscal 2018, its estimated remaining useful life.

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Below is a table showing the changes in the carrying value of the Company's intangible assets from February 2, 2013 to February 1, 2014:

(in thousands)	February 2, 2013	Additions	Impairment	Amortization	February 1, 2014
"Rochester" trademark	\$ 1,500	\$ —	\$ —	\$ —	\$ 1,500
"Casual Male" trademark ⁽¹⁾	4,110	—	—	(1,646)	2,464
Other intangibles ⁽²⁾	646	—	—	(217)	429
Total intangible assets	<u>\$ 6,256</u>	<u>—</u>	<u>\$ —</u>	<u>\$ (1,863)</u>	<u>\$ 4,393</u>

- (1) Beginning in fiscal 2012, the "Casual Male" trademark is being accounted for as a finite-lived asset. The gross carrying amount and accumulated amortization of the "Casual Male" trademark subject to amortization, was \$6.1 million and \$3.6 million, respectively, at February 1, 2014 and \$6.1 million and \$2.0 million, respectively, at February 2, 2013.
- (2) Approximately \$33,000 of the \$217,000 of amortization, which relates to the amortization of favorable lease commitments, was included in cost of goods sold (as part of occupancy costs) on the Consolidated Statement of Operations for fiscal 2013.

Other intangibles included customer lists and favorable lease commitments, with finite lives which ranged from 3 to 16 years based on each asset's estimated economic useful life. At February 1, 2014, customer lists, with a remaining life of 4.3 years, is the only other intangible remaining.

The gross carrying amount and accumulated amortization of these other intangibles, subject to amortization, were \$4.3 million and \$3.9 million, respectively, at February 1, 2014 and \$4.3 million and \$3.7 million, respectively, at February 2, 2013. Amortization expense for fiscal 2013, 2012 and 2011 was \$0.2 million, \$0.4 million and \$0.5 million, respectively.

Expected amortization expense for intangible assets, including our "Casual Male" trademark, for the next five fiscal years is as follows:

FISCAL YEAR	(in thousands)
2014	\$ 1,085
2015	\$ 639
2016	\$ 441
2017	\$ 407
2018	\$ 321

Pre-opening Costs

The Company expenses all pre-opening costs for its stores as incurred.

Advertising Costs

The Company expenses in-store advertising costs as incurred. Television advertising costs are expensed in the period in which the advertising is first aired. Direct response advertising costs, which consist of catalog production and postage costs, are deferred and amortized over the period of expected direct marketing revenues, which is less than one year. There were no deferred direct response costs at February 1, 2014. Direct response costs which were deferred at February 2, 2013 were \$0.5 million. Advertising expense, which is included in selling, general and administrative expenses, was \$27.8 million, \$18.5 million and \$19.6 million for fiscal 2013, 2012 and 2011, respectively.

Revenue Recognition

Revenue from the Company's retail store operation is recorded upon purchase of merchandise by customers, net of an allowance for sales returns. Revenue from the Company's catalog and e-commerce operations is recognized at the time a customer order is delivered, net of an allowance for sales returns.

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Accumulated Other Comprehensive Income (Loss)—("AOCI")

Other comprehensive income (loss) includes amounts related to foreign currency and pension plans and is reported in the Consolidated Statements of Comprehensive Income. Other comprehensive income and reclassifications from AOCI for fiscal 2013, fiscal 2012 and fiscal 2011 are as follows:

<i>(in thousands)</i>	Fiscal 2013			Fiscal 2012			Fiscal 2011		
	Pension Plans	Foreign Currency	Total	Pension Plans	Foreign Currency	Total	Pension Plans	Foreign Currency	Total
Balance at beginning of the fiscal year	\$ (5,828)	\$ 267	\$(5,561)	\$(5,949)	\$ 233	\$(5,716)	\$(4,297)	\$ 261	\$(4,036)
Other comprehensive income (loss) before reclassifications, net of taxes	887	(280)	607	(191)	34	(157)	(1,850)	(28)	(1,878)
Amounts reclassified from accumulated other comprehensive income (loss), net of taxes ⁽¹⁾	394	—	394	312	—	312	198	—	198
Other comprehensive income (loss) for the period	1,281	(280)	1,001	121	34	155	(1,652)	(28)	(1,680)
Balance at end of the fiscal year	\$ (4,547)	\$ (13)	\$(4,560)	\$(5,828)	\$ 267	\$(5,561)	\$(5,949)	\$ 233	\$(5,716)

- (1) Includes the amortization of the unrecognized (gain)/loss on pension plans which was charged to Selling, General and Administrative expense on the Consolidated Statements of Operations for all periods presented. The amortization of the unrecognized loss, before tax, was \$394,000, \$516,000 and \$328,000 for fiscal 2013, fiscal 2012 and fiscal 2011, respectively. The corresponding tax benefit was \$204,000 and \$130,000 for fiscal 2012 and fiscal 2011, respectively. There was no corresponding tax benefit for fiscal 2013.

Foreign Currency Translation

At February 1, 2014, the Company operates a direct business in Canada and has one Rochester Clothing store located in London, England. Assets and liabilities of these operations are translated into U.S. dollars at the exchange rates in effect at each balance sheet date. Stockholders' equity is translated at applicable historical exchange rates. Income, expense and cash flow items are translated at average exchange rates during the period. Resulting translation adjustments are reported as a separate component of stockholders' equity.

Shipping and Handling Costs

Shipping and handling costs are included in cost of sales for all periods presented.

Income Taxes

Deferred income taxes are provided to recognize the effect of temporary differences between tax and financial statement reporting. Such taxes are provided for using enacted tax rates expected to be in place when such temporary differences are realized. A valuation allowance is recorded to reduce deferred tax assets if it is determined that it is more likely than not that the full deferred tax asset would not be realized. If it is subsequently determined that a deferred tax asset will more likely than not be realized, a credit to earnings is recorded to reduce the allowance.

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ASC Topic 740, *Income Taxes* (“ASC 740”) clarifies a company’s accounting for uncertain income tax positions that are recognized in its financial statements and also provides guidance on a company’s de-recognition of uncertain positions, financial statement classification, accounting for interest and penalties, accounting for interim periods, and disclosure requirements. In accordance with ASC 740, the Company will recognize the benefit from a tax position only if it is more likely than not that the position would be sustained upon audit based solely on the technical merits of the tax position. The Company’s policy is to recognize accrued interest and penalties related to unrecognized tax benefits in its income tax provision. The Company has not accrued or paid interest or penalties which were material to its results of operations for fiscal 2013, fiscal 2012 and fiscal 2011.

The Company is subject to U.S. federal income tax as well as income tax of multiple state and foreign jurisdictions. The Company has concluded all U.S. federal income tax matters for years through fiscal 1998, with remaining fiscal years subject to income tax examination by federal tax authorities.

Net Income (Loss) Per Share

Basic earnings per share are computed by dividing net income by the weighted average number of shares of common stock outstanding during the respective period. Diluted earnings per share is determined by giving effect to unvested shares of restricted stock and the exercise of stock options using the treasury stock method. The following table provides a reconciliation of the number of shares outstanding for basic and diluted earnings per share:

(in thousands)	FISCAL YEARS ENDED		
	February 1, 2014	February 2, 2013	January 28, 2012
<i>Net Income (Loss):</i>			
Net income (loss) – Basic and Diluted	\$ (59,786)	\$ 6,126	\$ 42,663
<i>Weighted Average Shares Outstanding:</i>			
Basic weighted-average common shares outstanding	48,473	47,947	47,424
Common stock equivalents - stock options and restricted stock. Common stock equivalents of 443 shares for February 1, 2014 were excluded due to the net loss	—	438	620
Diluted weighted-average shares outstanding	48,473	48,385	48,044

The following potential common stock equivalents were excluded from the computation of diluted earnings per share in each year because the exercise price of such options was greater than the average market price per share of common stock for the respective periods or the impact of ASC Topic 718, *Compensation – Stock Compensation*, primarily related to unearned compensation.

(in thousands, except exercise prices)	FISCAL YEARS ENDED		
	February 1, 2014	February 2, 2013	January 28, 2012
Stock options (time-vested)	2,088	1,634	2,755
Ranges of exercise prices of such options	\$ 4.96 – \$10.26	\$ 3.76 – \$10.26	\$ 3.23 – \$10.26

Excluded from the Company’s computation of basic and diluted earnings per share for fiscal 2013, were 944,236 shares of unvested performance-based restricted stock and 1,156,894 performance-based stock options. These performance-based awards will be included in the computation of basic and diluted earnings per share if, and when, the respective performance targets are achieved. In addition, 944,236 shares of unvested time-based restricted stock are excluded from the computation of basic earnings per share until such shares vest. See Note F, Long-Term Performance Share Bonus Plan, for a discussion of the Company’s 2013-2016 LTIP and the respective performance targets.

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Although the shares of performance-based and time-based restricted stock issued in connection with the 2013-2016 LTIP are not considered outstanding or common stock equivalents for earnings per share purposes until certain vesting and performance thresholds are achieved, all 1,888,472 shares of restricted stock are considered issued and outstanding. Each share of restricted stock has all of the rights of a holder of the Company's common stock, including, but not limited to, the right to vote and the right to receive dividends, which rights are forfeited if the restricted stock is forfeited.

Stock-based Compensation

ASC Topic 718, *Compensation – Stock Compensation*, requires measurement of compensation cost for all stock awards at fair value on date of grant and recognition of compensation over the service period for awards expected to vest. The fair value of stock options is determined using the Black-Scholes valuation model and requires the input of subjective assumptions. These assumptions include estimating the length of time employees will retain their vested stock options before exercising them (the "expected term"), the estimated volatility of the Company's common stock price over the expected term and the number of options that will ultimately not complete their vesting requirements ("forfeitures"). As required under the accounting rules, the Company reviews its valuation assumptions at each grant date and, as a result, is likely to change its valuation assumptions used to value employee stock-based awards granted in future periods. The values derived from using the Black-Scholes model are recognized as expense over the vesting period, net of estimated forfeitures. The estimation of stock awards that will ultimately vest requires significant judgment. Actual results, and future changes in estimates, may differ from the Company's current estimates.

The Company recognized total compensation expense of \$1.9 million, with no tax effect, in fiscal 2013. For fiscal 2012 and fiscal 2011, the Company recognized total compensation expense of \$0.8 million, or \$0.5 million after tax, and \$1.3 million, or \$1.2 million after tax, for fiscal 2013, fiscal 2012 and fiscal 2011, respectively.

The total compensation cost related to time-vested stock options and time-based restricted stock awards not yet recognized as of February 1, 2014 is approximately \$5.0 million which will be expensed over a weighted average remaining life of approximately 27 months. At February 1, 2014, the Company had \$7.2 million of unrecognized compensation expense related to its performance-based stock options and restricted stock. As discussed below in Note F, "Long-Term Performance Share Bonus Plan", the Company would begin recognizing compensation when achievement of the performance targets becomes probable.

The total fair value of options vested was \$0.1 million, \$0.1 million and \$1.1 million for fiscal 2013, 2012 and 2011, respectively.

The cumulative compensation cost of stock based awards is treated as a temporary difference for stock-based awards that are deductible for tax purposes. If a deduction reported on a tax return exceeds the cumulative compensation cost for those awards, any resulting realized tax benefit that exceeds the previously recognized deferred tax asset for those awards (the excess tax benefit) is recognized as additional paid-in capital. If the amount deductible is less than the cumulative compensation cost recognized for financial reporting purposes, the write-off of a deferred tax asset related to that deficiency, net of the related valuation allowance, if any, is first offset to the extent of any remaining additional paid-in capital from excess tax benefits from previous awards with the remainder recognized through income tax expense.

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Valuation Assumptions for Stock Options

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions used for grants in fiscal 2013, 2012 and 2011:

	FISCAL YEARS ENDED		
	February 1, 2014	February 2, 2013	January 28, 2012
Expected volatility	52.0%	55.0%	55.0%
Risk-free interest rate	0.34%-0.79%	0.31%-0.67%	0.32%-1.89%
Expected life	3.0-4.1	3.0-4.5	2.5-4.5
Dividend rate	—	—	—
Weighted average fair value of options granted	\$2.07	\$1.46	\$1.53

Expected volatilities are based on historical volatilities of the Company's common stock; the expected life represents the weighted average period of time that options granted are expected to be outstanding giving consideration to vesting schedules and historical exercise patterns; and the risk-free rate is based on the U.S. Treasury yield curve in effect at the time of grant for periods corresponding with the expected life of the option.

Impairment of Long-Lived Assets

The Company reviews its long-lived assets for events or changes in circumstances that might indicate the carrying amount of the assets may not be recoverable. The Company assesses the recoverability of the assets by determining whether the carrying value of such assets over their respective remaining lives can be recovered through projected undiscounted future cash flows. The amount of impairment, if any, is measured based on projected discounted future cash flows using a discount rate reflecting the Company's average cost of funds.

In the fourth quarter of fiscal 2013, the Company recorded an impairment charge of \$1.5 million for the write-down of property and equipment. The impairment charge related to stores where the carrying value exceeded fair value. The fair value of these assets, based on Level 3 inputs, was determined using the estimated discounted cash flows. The impairment charge is included in Depreciation and Amortization on the Consolidated Statement of Operations for fiscal 2013. There were no material impairment charges in fiscal 2012 or fiscal 2011.

Recent Accounting Pronouncements

The Company has reviewed accounting pronouncements and interpretations thereof that have effective dates during the periods reported and in future periods. The Company believes that the following impending standards may have an impact on its future filings. The applicability of any standard will be evaluated by the Company and is still subject to review by the Company.

In July 2013, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2013-11, Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists (a consensus of the FASB Emerging Issues Task Force). U.S. GAAP does not include explicit guidance on the financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. The amendments in this ASU state that an unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, except as follows. To the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. The amendments in this ASU are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. The Company currently presents these tax items in accordance with this guidance, therefore, no changes are necessary for adoption.

[Table of Contents](#)**B. PROPERTY AND EQUIPMENT**

Property and equipment consisted of the following at the dates indicated:

<u>(in thousands)</u>	<u>February 1,</u> <u>2014</u>	<u>February 2,</u> <u>2013</u>
Furniture and fixtures	\$ 55,097	\$ 45,048
Equipment	15,470	14,336
Leasehold improvements	64,638	38,827
Hardware and software	55,708	48,888
Construction in progress	11,456	7,268
	202,369	154,367
Less accumulated depreciation	99,430	88,425
Total property and equipment	<u>\$102,939</u>	<u>\$ 65,942</u>

Depreciation expense related to continuing operations for fiscal 2013, 2012 and 2011 was \$19.0 million, \$13.1 million and \$12.1 million, respectively. Approximately \$1.5 million of depreciation expense in fiscal 2013 related to the impairment of store assets.

C. DEBT OBLIGATIONS***Credit Agreement with Bank of America, N.A.***

On June 26, 2013, the Company amended its credit facility with Bank of America, N.A by executing the First Amendment to the Sixth Amended and Restated Loan and Security Agreement (as amended, the "Credit Facility").

The Credit Facility provides for a maximum committed borrowing of \$100 million, which, pursuant to an accordion feature, may be increased to \$150 million upon the request of the Company and the agreement of the lender(s) participating in the increase. The Credit Facility includes a sublimit of \$20 million for commercial and standby letter of credits or the sublimit of up to \$15 million for Swingline Loans. The Company's ability to borrow under the Credit Facility is determined using an availability formula based on eligible assets. The maturity date of the Credit Facility is June 26, 2018. The Company's obligations under the Credit Facility are secured by a lien on all of its assets.

Borrowings made pursuant to the Credit Facility will bear interest at a rate equal to the base rate (determined as the highest of (a) Bank of America N.A.'s prime rate, (b) the Federal Funds rate plus 0.50% or (c) the annual LIBOR rate for the respective interest period) plus a varying percentage, based on the Company's borrowing base, of 0.50%-0.75% for prime-based borrowings and 1.50%-1.75% for LIBOR-based borrowings. The Company is also subject to an unused line fee of 0.25%. At February 1, 2014, the Company's prime-based interest rate was 3.75%.

At February 1, 2014, the Company had outstanding borrowings under the Credit Facility of \$9.0 million. Outstanding standby letters of credit were \$2.2 million and documentary letters of credit were \$1.5 million. Unused excess availability at February 1, 2014 was \$75.5 million. Average monthly borrowings outstanding under this facility during fiscal 2013 were \$14.9 million, resulting in an average unused excess availability of approximately \$71.2 million. The Company's ability to borrow under the Credit Facility is determined using an availability formula based on eligible assets, with increased advance rates based on seasonality.

The fair value of the amount outstanding under the Credit Facility at February 1, 2014 approximated the carrying value.

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Long-Term Debt

Components of long-term debt are as follows:

<u>(in thousands)</u>	<u>February 1, 2014</u>	<u>February 2, 2013</u>
Total long-term debt	\$ 16,706	\$ —
Less: current portion of long-term debt	(4,561)	—
Long-term debt, net of current portion	\$ 12,145	\$ —

On September 30, 2013, the Company amended its Master Loan and Security Agreement with Banc of America Leasing & Capital, LLC, dated July 20, 2007 (as amended, the “Master Agreement”). Pursuant to the Master Agreement, the Company entered into seven Equipment Security Notes (in aggregate, the “Notes”) for equipment financing, whereby the Company borrowed an aggregate of \$17.5 million between September and December 2013. The Notes are for 48 months and accrue interest at fixed rates ranging from 3.07% to 3.29%. Principal and interest are paid monthly, in arrears.

The Notes are secured by a security interest in all of the Company’s rights, title and interest in and to certain equipment. The Company is subject to a prepayment penalty equal to 1% of the prepaid principal of the Notes until the first anniversary, 0.5% of the prepaid principal from the first anniversary until the second anniversary and no prepayment penalty thereafter. The Master Agreement includes default provisions that are customary for financings of this type and are similar and no more restrictive than the Company’s existing credit facility with Bank of America, N.A.

Long-term debt maturities

Annual maturities of long-term debt for the next five fiscal years are as follows:

	<u>(in thousands)</u>
Fiscal 2014	\$ 4,561
Fiscal 2015	4,313
Fiscal 2016	4,170
Fiscal 2017	3,662
Fiscal 2018	—

The Company paid interest and fees totaling \$1.4 million, \$0.5 million and \$0.6 million for fiscal 2013, 2012 and fiscal 2011, respectively.

D. INCOME TAXES

The Company accounts for income taxes in accordance with ASC Topic 740, *Income Taxes*. Under ASC Topic 740, deferred tax assets and liabilities are recognized based on temporary differences between the financial statement and tax basis of assets and liabilities using enacted tax rates in effect in the years in which the differences are expected to reverse. The accounting regulation requires current recognition of net deferred tax assets to the extent it is more likely than not such net assets will be realized. To the extent that the Company believes its net deferred tax assets will not be realized, a valuation allowance must be recorded against those assets.

The Company’s operating results in the fourth quarter of fiscal 2013 were worse than anticipated. The Company also announced a slow down to its DXL rollout strategy resulting in an extension of the plan through fiscal 2017. As a result of the operating loss, the Company entered into a three-year cumulative loss position during the fourth quarter of fiscal 2013. In addition, based on its forecasts that were revised in the fourth quarter

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of fiscal 2013, the Company also expects to generate losses in fiscal 2014 and the cumulative three-year loss to increase as of the end of fiscal 2014. After consideration of these factors, the Company has determined that it is more likely than not that it will not be able to realize the benefits of its deferred tax assets in the United States. Accordingly, at February 1, 2014, the Company recorded an incremental charge of \$51.3 million to establish a full allowance against its deferred tax assets. The total charge to the valuation allowance of \$52.3 million for fiscal 2013 consisted of an increase of \$1.0 million in valuation allowance related to its foreign operations and a charge of \$51.3 million to establish a full allowance against its remaining deferred tax assets. Realization of the Company's deferred tax assets, which relate principally to federal net operating loss carryforwards, which expire from 2022 through 2033, is dependent on generating sufficient taxable income over this period.

During the fourth quarter of fiscal 2011, the Company determined that it was more likely than not that it would be able to realize the benefits of substantially all of its deferred tax assets in the United States. In reaching this determination, the Company had considered the positive evidence of three years of improved profitability, its expectations regarding the generation of future taxable income, and its market position and expected growth. As a result, the Company reversed \$48.3 million in valuation allowance against its deferred tax assets in the United States offset by an increase of \$0.5 million in valuation allowance against its foreign deferred tax assets, resulting in a net change in the valuation allowance of \$47.8 million.

As of February 1, 2014, the Company had net operating loss carryforwards of \$109.0 million for federal income tax purposes and \$60.7 million for state income tax purposes that are available to offset future taxable income through fiscal year 2032. Additionally, the Company has alternative minimum tax credit carryforwards of \$2.3 million, which are available to further reduce income taxes over an indefinite period. Additionally, the Company has \$0.1 million and \$1.4 million of net operating loss for tax purposes related to the Company's operations in the Netherlands and Canada, respectively, though both are expected to expire largely unutilized.

The utilization of net operating loss carryforwards and the realization of tax benefits in future years depends predominantly upon having taxable income. Under the provisions of the Internal Revenue Code, certain substantial changes in the Company's ownership may result in a limitation on the amount of net operating loss carryforwards and tax credit carryforwards which may be used in future years.

Included in the net operating loss carryforwards for both federal and state income tax is approximately \$13.1 million relating to stock compensation deductions, the tax benefit from which, if realized, will be credited to additional paid-in capital.

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The components of the net deferred tax assets as of February 1, 2014 and February 2, 2013 are as follows (in thousands):

	February 1, 2014	February 2, 2013
Deferred tax assets -current:		
Inventory reserves	\$ 2,911	\$ 3,352
Accrued expenses and other	3,378	2,807
Gain on sale-leaseback	579	579
Gain on sale of LPI	—	—
Valuation allowance ⁽¹⁾	<u>(6,868)</u>	<u>(113)</u>
Net deferred tax assets-current	—	6,625
Net deferred tax assets – noncurrent:		
Gain on sale-leaseback	6,368	6,946
Lease accruals	4,544	3,637
Net operating loss carryforward	38,082	25,110
Capital loss carryforward	3,162	—
Foreign tax credit carryforward	852	793
Federal wage tax credit carryforward	270	200
State tax credits	75	73
Unrecognized loss on foreign exchange	117	160
Unrecognized loss on pension and pension expense	2,585	3,157
Alternative minimum tax credit carryforward	2,292	2,292
Excess of tax over book depreciation/amortization	(17,518)	(9,647)
Goodwill and intangibles	<u>7,656</u>	<u>9,417</u>
Subtotal	48,485	42,138
Valuation allowance ⁽¹⁾	<u>(48,485)</u>	<u>(3,450)</u>
Net deferred tax assets – noncurrent	\$ —	\$ 38,688
Total deferred tax assets ⁽¹⁾	<u>\$ —</u>	<u>\$ 45,313</u>

(1) For fiscal 2013, the Company had total deferred tax assets of \$72.9 million, total deferred tax liabilities of \$17.5 million and a valuation allowance of \$55.4 million.

The provision for income taxes from continuing operations consists of the following:

(in thousands)	FISCAL YEARS ENDED		
	February 1, 2014	February 2, 2013	January 28, 2012
Current:			
Federal and state	\$ 77	\$ 96	\$ 659
Foreign	<u>66</u>	<u>64</u>	<u>73</u>
	143	160	732
Deferred:			
Federal and state	45,518	5,084	(50,810)
Foreign	<u>—</u>	<u>—</u>	<u>—</u>
	45,518	5,084	(50,810)
Total provision ⁽²⁾	<u>\$ 45,661</u>	<u>\$ 5,244</u>	<u>\$ (50,078)</u>

(2) There was no benefit or provision recognized on the loss from discontinued operations for fiscal 2012 or fiscal 2011.

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The following is a reconciliation between the statutory and effective income tax rates in dollars for the provision for income tax from continuing operations:

(in thousands)	FISCAL YEARS ENDED		
	February 1, 2014	February 2, 2013	January 28, 2012
Federal income tax at the statutory rate	\$ (4,944)	\$ 4,656	\$ (1,846)
State income and other taxes, net of federal tax benefit	(810)	631	(124)
Permanent items	171	209	52
Change in uncertain tax positions	—	—	—
Charge/(income) for valuation allowance	52,339	(19)	(48,318)
Other, net	(1,095)	(233)	158
Provision for income tax from continuing operations	<u>\$ 45,661</u>	<u>\$ 5,244</u>	<u>\$ (50,078)</u>

As discussed in Note A, the Company's financial statements reflect the expected future tax consequences of uncertain tax positions that the Company has taken or expects to take on a tax return, based solely on the technical merits of the tax position. The liability for unrecognized tax benefits at February 1, 2014 was \$3.2 million. This amount is directly associated with a current year tax position related to exiting the European Direct business. The amount of unrecognized tax benefit has been presented as a reduction in the reported amounts of our federal and state NOL carryforwards. It is our policy to record interest and penalties on unrecognized tax benefits as income taxes; however, no penalties or interest have been accrued on this liability because the carryforwards have not yet been utilized. The reversal of this liability would result in a tax benefit being recognized in the period in which we determine the liability is no longer necessary. At February 2, 2013, the Company had no material unrecognized tax benefits based on the provisions of ASC 740.

The Company made tax payments of \$0.2 million, \$0.5 million and \$1.2 million for fiscal years 2013, 2012 and 2011, respectively.

E. COMMITMENTS AND CONTINGENCIES

At February 1, 2014, the Company was obligated under operating leases covering store and office space, automobiles and certain equipment for future minimum rentals as follows:

FISCAL YEAR	TOTAL (in millions)
2014	\$ 48.3
2015	40.7
2016	36.4
2017	30.2
2018	26.6
Thereafter	115.2
	<u>\$ 297.4</u>

In addition to future minimum rental payments, many of the store leases include provisions for common area maintenance, mall charges, escalation clauses and additional rents based on a percentage of store sales above designated levels. The store leases are generally 5 to 10 years in length and contain renewal options extending their terms by 5 to 10 years.

Amounts charged to operations for all occupancy costs, automobile and leased equipment expense were \$57.8 million, \$54.9 million and \$53.0 million for fiscal 2013, fiscal 2012 and fiscal 2011, respectively.

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In fiscal 2006, as part of a sale-leaseback transaction with a subsidiary of Spirit Finance Corp. (“Spirit”), the Company entered into a twenty-year lease agreement for its corporate headquarters and distribution center whereby the Company agreed to lease the property it sold to Spirit back for an annual rent of \$4.6 million. The Company realized a gain of approximately \$29.3 million on the sale of this property, which has been deferred and is being amortized over the initial 20 years of the related lease agreement. At the end of the initial term, the Company will have the opportunity to extend the Lease Agreement for six additional successive periods of five years. In addition, on February 1, 2011, the fifth anniversary of the Lease Agreement and for every fifth anniversary thereafter, the base rent will be subject to a rent increase not to exceed the lesser of 7% or a percentage based on changes in the Consumer Price Index. The Company’s current annual rent of \$5.1 million will be offset each lease year by \$1.5 million related to the amortization of this deferred gain. This lease commitment, excluding the impact of the gain, is included in the above table of expected future minimum rentals obligations.

During the fourth quarter of fiscal 2013, the Company incurred a charge of approximately \$2.3 million for the accrual of severance payments and related legal costs for the former chief financial officer, reduced by the effect of forfeitures of previously expensed unvested restricted stock award costs.

F. LONG-TERM PERFORMANCE SHARE BONUS PLAN

During the second quarter of fiscal 2013, the 2013-2016 Destination XL Group, Inc. Long-Term Incentive Plan (the “2013-2016 LTIP”) was approved and put into place. Pursuant to the terms of the 2013-2016 LTIP, on the date of grant, each participant was granted an unearned and unvested award equal in value to four times his/her annual salary multiplied by the applicable long-term incentive program percentage, which is 100% for the Company’s executive officers, 70% for its senior executives and 50% for other participants in the 2013-2016 LTIP, which we refer to as the “Projected Benefit Amount.” Each participant received 50% of the Projected Benefit Amount in shares of restricted stock, 25% in stock options and the remaining 25% in cash. All awards granted under the 2013-2016 LTIP were granted from the Company’s 2006 Incentive Compensation Plan, see Note G, “*Stock Options and Restricted Stock.*”

Of the total Projected Benefit Amount, 50% is subject to time-based vesting and 50% is subject to performance-based vesting. The time-vested portion of the award (half of the shares of restricted stock, options and cash) vests in three installments with 20% of the time-vested portion vesting at the end of fiscal 2014, 40% at the end of fiscal 2015 and the remaining 40% vesting at the end of fiscal 2016.

For the performance-based portion of the award to vest, the Company must achieve, during any rolling four fiscal quarter period that ends on or before the end of fiscal 2015, revenue of at least \$550 million and an operating margin of not less than 8.0%. In the event that the Company achieves its target of \$550 million in revenue with an operating margin of not less than 8.0% during any rolling fiscal four quarters prior to fiscal 2016, then the total Projected Benefit Amount becomes fully vested.

If the targets for vesting of the performance-based portion of the award are not met by the end of fiscal 2015, then the performance-based target can still be met in fiscal 2016. In fiscal 2016, the Company must achieve revenue of at least \$600 million and an operating margin of not less than 8.0% for participants to receive 100% vesting of the performance-based portion of the Projected Benefit Amount. If the Company does not meet the performance target at the end of fiscal 2015, but the Company is able to achieve revenue equal to or greater than \$510 million at the end of fiscal 2016 and the operating margin is not less than 8.0%, then the participants will receive a pro-rata portion of the performance-based award based on minimum sales of \$510 million (50% payout) and \$600 million (100% payout).

Assuming the Company achieves the performance target and 100% of the Projected Benefit Amount vests, excluding estimated forfeitures, the total potential value of all awards over this four-year period would be approximately \$19.2 million. Approximately half of the compensation expense relates to the time-vested awards, which is being expensed over forty-four months, based on the respective vesting dates. As the performance

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targets were not deemed probable at February 1, 2014, no expense for the performance-based awards has been recognized for fiscal 2013. The Company expensed \$1.8 million in fiscal 2013 related to the time-vested awards. The \$1.8 million is included in the Company's total stock compensation expense for fiscal 2013 of \$1.9 million.

G. STOCK OPTIONS AND RESTRICTED STOCK

The Company has one active stock-based compensation plan: the 2006 Incentive Compensation Plan (as amended and restated effective as of August 1, 2013, the "2006 Plan"). Under the terms of the 2006 Plan, up to 7,250,000 shares of common stock are available for the granting of awards; provided, however, that the maximum number of those shares that may be subject to the granting of awards other than stock options and stock appreciation rights cannot exceed 4,250,000 shares. The terms of the 2006 Plan provide for grants of stock options, SARs, restricted stock, deferred stock, other stock-related awards and performance awards that may be settled in cash, stock or other property.

The 2006 Plan is administered by the Compensation Committee, all of the members of which are non-employee directors who qualify as independent under the listing standards of the Nasdaq Global Select Market. The Compensation Committee is authorized to make all determinations with respect to amounts and conditions covering awards. Options are not granted at a price less than fair value on the date of the grant. Options granted to employees and executives typically vest over three years and options granted to non-employee directors vest over two years. Generally, options expire ten years from the date of grant.

2006 Plan—Stock Option and Restricted Share Award Activity

Stock Option Activity

The following table summarizes stock option activity under the 2006 Plan for fiscal 2013:

<u>Stock Options</u>	<u>Number of Shares</u>	<u>Weighted-average Exercise price per Option</u>	<u>Weighted-average Remaining Contractual Term</u>	<u>Aggregate Intrinsic Value</u>
Outstanding options at beginning of year	376,374	\$ 4.31		
Options granted	2,781,938	5.05		
Options canceled	(426,743)	5.05		
Options exercised	(10,000)	3.98		
Outstanding options at end of year	2,721,569	\$ 4.95	8.9 years	\$1,264,148
Vested and expected to vest at end of year	1,439,330	\$ 4.89	8.5 years	\$ 814,934
Options exercisable at end of year	317,588	\$ 4.57	5.5 years	\$ 348,606

The intrinsic value of options exercised was \$23,700 in fiscal 2013. There were no options exercised in fiscal 2012.

Restricted Share Activity

The following table summarizes activity for non-vested shares ("restricted shares") under the 2006 Plan for fiscal 2013:

<u>Restricted Shares</u>	<u>Number of Shares</u>	<u>Weighted-average Grant-Date Fair Value ⁽¹⁾</u>
Restricted shares outstanding at beginning of year	483,403	\$ 3.90
Restricted shares granted	2,229,364	5.08
Restricted shares vested	(311,755)	3.74
Restricted shares canceled	(383,072)	5.05
Restricted shares outstanding at end of year	2,017,940	\$ 5.01

(1) The fair value of a restricted share is equal to the Company's closing stock price on the date of grant.

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Approximately \$8.1 million of the total unrecognized stock compensation cost of \$12.2 million is related to restricted shares unvested at February 1, 2014. Approximately \$4.8 million of the \$8.1 million of unrecognized stock compensation is tied to performance-based awards, which were not deemed probable at February 1, 2014. The remaining \$3.3 million of unrecognized stock compensation is tied to time-based awards and is expected to be recognized over a weighted-average period of 27.0 months.

Share Availability Under the 2006 Plan

At February 1, 2014, the Company has 1,206,540 shares available for future grant under the 2006 Plan. Of this amount, 963,109 shares remain available for awards other than options and stock appreciation rights.

1992 Plan—Stock Option Activity-

Grants still remain outstanding under the Company's previous 1992 Stock Incentive Plan (as amended, the "1992 Plan"). As a result of the adoption of the 2006 Plan, however, no further grants can be made under the 1992 Plan. The following table summarizes stock option activity under the 1992 Plan for fiscal 2013:

<u>Stock Options</u>	<u>Number of Shares</u>	<u>Weighted-average Exercise price per Option</u>	<u>Weighted-average Remaining Contractual Term</u>	<u>Aggregate Intrinsic Value (2)</u>
Outstanding at beginning of year	1,329,815	\$ 6.35		
Options granted	—	—		
Options canceled	(18,000)	8.73		
Options exercised (1)	(400,040)	5.16		
Outstanding at end of year	911,775	\$ 6.82	0.6 years	—
Vested and expected to vest at end of year	911,775	\$ 6.82	0.6 years	—
Options exercisable at end of year	911,775	\$ 6.82	0.6 years	—

- (1) Includes options that were exercised through net share settlement. As a result, only 96,245 shares were issued with no corresponding option cost.
(2) The majority of outstanding options were out-of-the-money at February 1, 2014; therefore, the intrinsic value was immaterial.

The total intrinsic value of options exercised was \$182,900 for fiscal 2013 and \$99,400 for fiscal 2012.

Non-Employee Director Compensation Plan

In January 2010, the Company established a Non-Employee Director Stock Purchase Plan to provide a convenient method for its non-employee directors to acquire shares of the Company's common stock at fair market value by voluntarily electing to receive shares of common stock in lieu of cash for service as a director. The substance of this plan is now encompassed within the Company's Amended and Restated Non-Employee Director Compensation Plan.

The following shares of common stock, with the respective fair value, were issued to its non-employee directors as compensation for fiscal 2013, fiscal 2012 and fiscal 2011:

	<u>Number of shares of common stock issued</u>	<u>Fair value of common stock issued</u>
Fiscal 2013	43,541	\$ 255,884
Fiscal 2012	31,707	\$ 123,976
Fiscal 2011	28,030	\$ 117,221

H. RELATED PARTIES

Seymour Holtzman and Jewelcor Management, Inc.

Seymour Holtzman, the Chairman of the Board of Directors of the Company, is compensated by the Company both directly (as an employee of the Company) and indirectly (as the president and chief executive officer and the indirect majority shareholder of Jewelcor Management Inc. ("JMI")).

Since October 1999, the Company has had an ongoing consulting agreement with JMI to provide the Company with services as may be agreed upon between JMI and the Company. Mr. Holtzman, who has been the Company's Chairman of the Board since April 11, 2000, is the beneficial holder of approximately 9.8% of the outstanding common stock of the Company at February 1, 2014.

Pursuant to the consulting agreement, which was most recently amended in April 2011, and by virtue of his employment, Mr. Holtzman, both directly and indirectly through JMI, receives in the aggregate annual consulting and employment compensation of \$575,000, payable in cash. The term of the consulting agreement was to expire on April 29, 2013, however, commencing on April 29, 2012, the consulting agreement automatically extends for an additional one-year term on each anniversary date of the effective date unless either party shall give the other party ninety days written notice prior to such anniversary date that it will not extend the term. Therefore, the current term of the consulting agreement is April 29, 2015. Subsequent to the end of fiscal 2013, the Compensation Committee accepted Mr. Holtzman's voluntary reduction in his consulting and employment compensation to \$396,750, effective February 1, 2014.

On January 30, 2014, John Kyees, a director of the Company since 2010, accepted the role of interim Chief Financial Officer. Subsequent to the end of fiscal 2013, the Company entered into an employment agreement with Mr. Kyees, effective February 2, 2014, whereby Mr. Kyees will receive compensation at a rate of \$3,000 per day plus benefits and reimbursement for all business and travel expenses.

I. EMPLOYEE BENEFIT PLANS

The Company accounts for its employee benefit plans in accordance with ASC Topic 715 *Compensation – Retirement Benefits*. ASC Topic 715 requires an employer to: (a) recognize in its statement of financial position an asset for a plan's over-funded status or a liability for a plan's under-funded status; (b) measure a plan's assets and its obligations that determine its funded status as of the end of the employer's fiscal year (with limited exceptions); and (c) recognize changes in the funded status of a defined benefit postretirement plan in the year in which the changes occur.

These amounts will be subsequently recognized as net periodic pension cost pursuant to the Company's historical accounting policy for amortizing such amounts. Further, actuarial gains and losses that arise in subsequent periods and are not recognized as net periodic pension cost in the same periods will be recognized as a component of accumulated other comprehensive items. The amortization of the unrecognized loss included in accumulated other comprehensive income (loss) and expected to be recognized in net periodic pension cost in fiscal 2014 is \$554,600.

Noncontributory Pension Plan

In connection with the Casual Male acquisition, the Company assumed the assets and liabilities of the Casual Male Noncontributory Pension Plan "Casual Male Corp. Retirement Plan", which was previously known as the J. Baker, Inc. Qualified Plan (the "Pension Plan"). Casual Male Corp. froze all future benefits under this plan on May 1, 1997.

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The following table sets forth the Pension Plan's funded status at February 1, 2014 and February 2, 2013:

<u>(in thousands)</u>	<u>February 1, 2014</u>	<u>February 2, 2013</u>
<u>Change in benefit obligation:</u>		
Balance at beginning of period	\$ 16,154	\$ 14,882
Benefits and expenses paid	(587)	(525)
Interest costs	651	661
Settlements	(17)	(19)
Actuarial (gain) loss	(516)	1,155
Balance at end of year	<u>\$ 15,685</u>	<u>\$ 16,154</u>
<u>Change in fair value of plan assets</u>		
Balance at beginning of period	\$ 11,813	\$ 10,105
Actual return on plan assets	995	1,529
Employer contributions	421	723
Settlements	(17)	(19)
Benefits and expenses paid	(587)	(525)
Balance at end of period	<u>\$ 12,625</u>	<u>\$ 11,813</u>
<u>Reconciliation of Funded Status</u>		
Projected benefit obligation	\$ 15,685	\$ 16,154
Fair value of plan assets	<u>12,625</u>	<u>11,813</u>
Unfunded Status	\$ (3,060)	\$ (4,341)
<u>Balance Sheet Classification</u>		
Other long-term liabilities	\$ 3,060	\$ 4,341

Total plan expense and other amounts recognized in accumulated other comprehensive loss for the years ended February 1, 2014, February 2, 2013 and January 28, 2012 include the following components:

<u>(in thousands)</u>	<u>February 1, 2014</u>	<u>February 2, 2013</u>	<u>January 28, 2012</u>
Interest cost on projected benefit obligation	\$ 651	\$ 661	\$ 705
Expected return on plan assets	(937)	(814)	(799)
Amortization of unrecognized loss	680	669	422
Net pension cost	<u>\$ 394</u>	<u>\$ 516</u>	<u>\$ 328</u>
<u>Other changes recognized in other comprehensive loss, before taxes</u>			
<i>(in thousands):</i>			
Unrecognized losses at the beginning of the year	\$ 7,868	\$ 8,097	\$ 5,453
Net periodic pension cost	(394)	(516)	(328)
Employer contribution	421	723	686
Change in plan assets and benefit obligations	<u>(1,281)</u>	<u>(436)</u>	<u>2,286</u>
Unrecognized losses at the end of year	<u>\$ 6,614</u>	<u>\$ 7,868</u>	<u>\$ 8,097</u>

For fiscal 2014, the Company is expecting to make a contribution of \$0.6 million to the plan.

Assumptions used to determine the benefit obligations as of February 1, 2014 and February 2, 2013 include a discount rate of 4.43% for fiscal 2013 and 4.11% for fiscal 2012. Assumptions used to determine the net periodic benefit cost for the years ended February 1, 2014, February 2, 2013 and January 28, 2012 included a discount rate of 4.43% for fiscal 2013, 4.11% for fiscal 2012 and 4.50% for fiscal 2011.

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The expected long-term rate of return for plan assets was assumed to be 8.00% for both fiscal 2013 and fiscal 2012. The expected long-term rate of return assumption was developed considering historical and future expectations for returns for each asset class.

Estimated Future Benefit Payments

The estimated future benefits for the next ten fiscal years are as follows:

<u>FISCAL YEAR</u>	<u>(in thousands)</u>
2014	\$ 671
2015	691
2016	723
2017	801
2018	843
2019 - 2023	4,959

Plan Assets

The fair values of the Company's noncontributory defined benefit retirement plan assets at the end of fiscal 2013 and fiscal 2012, by asset category, are as follows:

<u>(in thousands)</u>	<u>Fair Value Measurement</u>							
	<u>At February 1, 2014</u>				<u>At February 2, 2013</u>			
	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>	<u>Total</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>	<u>Total</u>
<u>Asset category:</u>								
Common Stock	\$ 6,838	—	—	\$ 6,838	\$ 6,717	—	—	\$ 6,717
Mutual Funds:								
U.S. Equity	504	—	—	504	482	—	—	482
International Equity	1,695	—	—	1,695	1,134	—	—	1,134
Bond	3,146	—	—	3,146	3,091	—	—	3,091
Cash	442	—	—	442	389	—	—	389
Total	\$ 12,625	—	—	\$12,625	\$ 11,813	—	—	\$11,813

The Company's target asset allocation for fiscal 2014 and its asset allocation at February 1, 2014 and February 2, 2013 were as follows, by asset category:

<u>Asset category:</u>	<u>Target allocation</u>	<u>Percentage of plan assets at</u>	
	<u>Fiscal 2014</u>	<u>February 1, 2014</u>	<u>February 2, 2013</u>
Equity securities	73.0%	71.5%	70.5%
Debt securities	24.0%	24.9%	26.2%
Cash	3.0%	3.6%	3.3%
Total	100.0%	100.0%	100.0%

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The target policy is set to maximize returns with consideration to the long-term nature of the obligations and maintaining a lower level of overall volatility through the allocation of fixed income. The asset allocation is reviewed throughout the year for adherence to the target policy and is rebalanced periodically towards the target weights.

Supplemental Executive Retirement Plan

In connection with the Casual Male acquisition, the Company also assumed the liability of the Casual Male Supplemental Retirement Plan (the “SERP”).

The following table sets forth the SERP’s funded status at February 1, 2014 and February 2, 2013:

<u>(in thousands)</u>	<u>February 1, 2014</u>	<u>February 2, 2013</u>
<u>Change in benefit obligation:</u>		
Balance at beginning of period	\$ 656	\$ 629
Benefits and expenses paid	(30)	(30)
Actuarial loss (gain)	(23)	30
Interest costs	26	27
Balance at end of year	<u>\$ 629</u>	<u>\$ 656</u>
<u>Change in fair value of plan assets</u>		
Balance at beginning of period	\$ —	\$ —
Employer contributions	30	30
Benefits and expenses paid	(30)	(30)
Balance at end of year	<u>—</u>	<u>—</u>
Projected benefit obligation	<u>\$ 629</u>	<u>\$ 656</u>
<u>Reconciliation of Funded Status</u>		
Projected benefit obligation	\$ 629	\$ 656
Fair value of plan assets	<u>—</u>	<u>—</u>
Underfunded Status	<u>\$ (629)</u>	<u>\$ (656)</u>
Balance Sheet Classification		
Other long-term liabilities	\$ 629	\$ 644

Other changes recognized in other comprehensive loss, before taxes (in thousands):

	<u>February 1, 2014</u>	<u>February 2, 2013</u>	<u>January 28, 2012</u>
Unrecognized losses at the beginning of the year	\$ 171	\$ 144	\$ 56
Net periodic pension cost	(30)	(30)	(30)
Employer contribution	30	30	30
Change in benefit obligations	(29)	27	88
Unrecognized losses at the end of year	<u>\$ 142</u>	<u>\$ 171</u>	<u>\$ 144</u>

Assumptions used to determine the benefit obligations as of February 1, 2014 and February 2, 2013 included a discount rate of 4.43% for fiscal 2013 and 4.11% for fiscal 2012. Assumptions used to determine the net periodic benefit cost for the years ended February 1, 2014, February 2, 2013 and January 28, 2012 included a discount rate of 4.43% for fiscal 2013, 4.11% for fiscal 2012 and 4.50% for fiscal 2011.

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Defined Contribution Plan

The Company has two defined contribution plans, the Casual Male 401(k) Salaried Plan and the Casual Male 401(k) Hourly Plan (the “401(k) Plans”). The 401(k) Plans cover all eligible employees who are at least 21 years of age and have completed the required months of service, which is six months or twelve months depending on the plan and in the Hourly plan, an eligible employee must also have worked 1,000 hours. Effective January 1, 2008, the Company adopted the Safe Harbor matching and vesting provisions permitted under the Pension Protection Act of 2006 for its 401(k) Plans. Accordingly, beginning in fiscal 2008, the Company matched 100% of the first 1% of deferred compensation and 50% of the next 5% (with a maximum contribution of 3.5% of eligible compensation).

The Company recognized \$1.5 million, \$1.4 million and \$1.3 million of expense under these plans in fiscal 2013, fiscal 2012 and fiscal 2011, respectively.

J. DISCONTINUED OPERATIONS

During the second quarter of fiscal 2012, the Company exited its European Direct business and provided formal termination notice to its vendor, who had provided all web store design, order processing, fulfillment and customer call center services for the Company’s European web stores. Included in the loss from discontinued operations for fiscal 2012 is an early termination and settlement fee of \$1.1 million that was paid to the Company’s vendor for early termination.

The results of the European Direct business have been reclassified to reflect the operating results as discontinued operations for all periods presented. The following table summarizes the results from discontinued operations from the Company’s European Direct business for the fiscal years presented.

<u>(in thousands)</u>	<u>Fiscal 2012</u>	<u>Fiscal 2011</u>
Sales	\$ 813	\$ 1,788
Gross margin	(84)	651
Selling, general and administrative expenses	(1,841)	(2,774)
Depreciation and amortization	(8)	(18)
Benefit from income taxes	—	—
Loss from discontinued operations	<u>\$ (1,933)</u>	<u>\$ (2,141)</u>

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K. SELECTED QUARTERLY DATA (UNAUDITED)

	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER	FULL YEAR
(In Thousands, Except Per Share Data)					
FISCAL YEAR 2013 ⁽¹⁾					
Sales	\$ 93,594	\$ 97,648	\$ 88,202	\$108,539	\$387,983
Gross profit	44,483	45,493	39,278	49,160	178,414
Operating income (loss)	1,981	(2,341)	(6,688)	(6,031)	(13,079)
Income (loss) before taxes	1,803	(2,582)	(6,968)	(6,378)	(14,125)
Income tax provision (benefit) ⁽²⁾	792	(995)	(2,905)	48,769	45,661
Net income (loss)	1,011	(1,587)	(4,063)	(55,147)	(59,786)
Earnings per share – basic and diluted	\$ 0.02	\$ (0.03)	\$ (0.08)	\$ (1.14)	\$ (1.23)
FISCAL YEAR 2012 ⁽¹⁾					
Sales	\$ 95,539	\$100,504	\$ 88,739	\$114,858	\$399,640
Gross profit	45,603	46,637	39,007	54,512	185,759
Operating income (loss)	4,154	5,267	(2,526)	7,029	13,924
Income (loss) before taxes	3,989	5,145	(2,677)	6,846	13,303
Income tax provision (benefit)	1,539	2,151	(1,073)	2,627	5,244
Income (loss) from continuing operations	2,450	2,994	(1,604)	4,219	8,059
Loss from discontinued operations	(181)	(1,756)	4	—	(1,933)
Net income (loss)	\$ 2,269	\$ 1,238	\$ (1,600)	\$ 4,219	\$ 6,126
Earnings per share – basic and diluted	\$ 0.05	\$ 0.03	(\$ 0.03)	\$ 0.09	\$ 0.13

- (1) Fiscal 2013 was a 52-week year as compared to Fiscal 2012 which was a 53-week year. As discussed in Note J, during the second quarter of fiscal 2012, the Company exited its European Direct business. Accordingly, the operating results for the first quarter of fiscal 2012 were restated for discontinued operations.
- (2) During the fourth quarter of fiscal 2013, the Company recorded a non-cash charge of \$51.3 million to establish a valuation allowance against its deferred tax assets. See Note D- Income Taxes for disclosure regarding the realizability of the deferred tax assets at February 1, 2014.

The Company's fiscal quarters are based on a retail cycle of 13 weeks. Historically, and consistent with the retail industry, the Company has experienced seasonal fluctuations as it relates to its operating income and net income. Traditionally, a significant portion of the Company's operating income and net income is generated in the fourth quarter, as a result of the "Holiday" season.

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Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Management's Conclusions Regarding the Effectiveness of Disclosure Controls and Procedures

As required by Rule 13a-15 under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), our management, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of February 1, 2014. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of February 1, 2014, our disclosure controls and procedures were effective.

Management's Annual Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) under the Exchange Act. Our internal control over financial reporting is a process designed under the supervision of our Chief Executive Officer and Chief Financial Officer to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Our internal control over financial reporting includes those policies and procedures that:

- (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets;
- (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and
- (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of assets that could have a material effect on the financial statements.

There are inherent limitations in the effectiveness of any internal control, including the possibility of human error and the circumvention or overriding of controls. Accordingly, even effective internal controls can provide only reasonable assurances with respect to financial statement preparation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the design and effectiveness of our internal control over financial reporting as of February 1, 2014. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control- Integrated Framework (1992).

Based on management's assessment and the above mentioned criteria, management determined that we maintained effective internal control over financial reporting as of February 1, 2014.

KPMG, LLP, our independent registered public accounting firm, has issued an audit report on our internal control over financial reporting as of February 1, 2014, which appears below.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders
of Destination XL Group, Inc.

We have audited Destination XL Group, Inc.'s internal control over financial reporting as of February 1, 2014, based on criteria established in *Internal Control—Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Destination XL Group, Inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying *Management's Annual Report on Internal Control Over Financial Reporting*. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Destination XL Group, Inc. maintained, in all material respects, effective internal control over financial reporting as of February 1, 2014, based on the criteria established in *Internal Control—Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Destination XL Group, Inc. as of February 1, 2014, and the related consolidated statements of operations, comprehensive income (loss), changes in stockholders' equity, and cash flows for the year then ended of Destination XL Group, Inc. and our report dated March 17, 2014 expressed an unqualified opinion thereon.

/s/ KPMG LLP

Boston, Massachusetts
March 17, 2014

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Changes in Internal Control Over Financial Reporting

No change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the fiscal quarter ended February 1, 2014 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information.

None.

PART III.

Pursuant to Paragraph G(3) of the General Instructions to Form 10-K, the information required by Part III (Items 10, 11, 12, 13 and 14) is being incorporated by reference herein from our definitive proxy statement (or an amendment to this Annual Report on Form 10-K) to be filed with the Securities and Exchange Commission within 120 days of the end of the fiscal year ended February 1, 2014 in connection with our 2014 Annual Meeting of Stockholders.

Item 10. *Directors, Executive Officers and Corporate Governance*

Information with respect to this item is incorporated by reference from our definitive proxy statement (or amendment to this Annual Report on Form 10-K) to be filed with the SEC within 120 days of the end of the fiscal year ended February 1, 2014.

Item 11. *Executive Compensation*

Information with respect to this item is incorporated by reference from our definitive proxy statement (or amendment to this Annual Report on Form 10-K) to be filed with the SEC within 120 days of the end of the fiscal year ended February 1, 2014.

Item 12. *Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters*

Information with respect to this item is incorporated by reference from our definitive proxy statement (or amendment to this Annual Report on Form 10-K) to be filed with the SEC within 120 days of the end of the fiscal year ended February 1, 2014.

Item 13. *Certain Relationships and Related Transactions, and Director Independence*

Information with respect to this item is incorporated by reference from our definitive proxy statement (or amendment to this Annual Report on Form 10-K) to be filed with the SEC within 120 days of the end of the fiscal year ended February 1, 2014.

Item 14. *Principal Accounting Fees and Services*

Information with respect to this item is incorporated by reference from our definitive proxy statement (or amendment to this Annual Report on Form 10-K) to be filed with the SEC within 120 days of the end of the fiscal year ended February 1, 2014.

PART IV.

Item 15. Exhibits, Financial Statement Schedules

15(a)(1) Financial Statements

The list of consolidated financial statements and notes required by this Item 15(a)(1) is set forth in the “Index to Consolidated Financial Statements” on page 45 of this Annual Report.

15(a)(2) Financial Statement Schedules

All schedules have been omitted because the required information is not applicable or is not present in amounts sufficient to require submission of the schedules, or because the information required is included in the financial statements or notes thereto.

15(a)(3) Exhibits

The list of exhibits required by this Item 15(a)(3) is set forth in the “Index to Exhibits” beginning on page 80 of this Annual Report.

Index to Exhibits

<u>Exhibits</u>		
3.1	Restated Certificate of Incorporation of the Company, as amended (included as Exhibit 3.1 to Amendment No. 3 of the Company's Registration Statement on Form S-1 (No. 33-13402), and incorporated herein by reference).	*
3.2	Certificate of Amendment to Restated Certificate of Incorporation, as amended, dated June 22, 1993 (included as Exhibit 3.2 to the Company's Quarterly Report on Form 10-Q filed on June 18, 1996, and incorporated herein by reference).	*
3.3	Certificate of Amendment to Restated Certificate of Incorporation, as amended, dated August 8, 2002 (included as Exhibit 3.3 to the Company's Quarterly Report on Form 10-Q filed on September 17, 2002, and incorporated herein by reference).	*
3.4	Certificate of Amendment to Restated Certificate of Incorporation, as amended, dated August 27, 2009 (included as Exhibit 3.1 to the Company's Current Report on Form 8-K filed on August 28, 2009, and incorporated herein by reference).	*
3.5	Certificate of Amendment to Restated Certificate of Incorporation, as amended, dated August 27, 2009 (included as Exhibit 3.2 to the Company's Current Report on Form 8-K filed on August 28, 2009, and incorporated herein by reference).	*
3.6	Certificate of Ownership and Merger, dated February 22, 2013 (included as Exhibit 3.1 to the Company's Current Report on Form 8-K filed on February 25, 2013, and incorporated herein by reference).	*
3.7	Certificate of Designations, Preferences and Rights of a Series of Preferred Stock of the Company establishing Series A Junior Participating Cumulative Preferred Stock dated May 1, 1995 (included as Exhibit 3.2 to the Company's Annual Report on Form 10-K filed on May 3, 1996, and incorporated herein by reference).	*
3.8	Certificate of Designations, Preferences and Relative, Participating, Optional and Other Special Rights and Qualifications, Limitations and Restrictions of Series B Convertible Preferred Stock dated May 14, 2002 (included as Exhibit 3.1 to the Company's Current Report on Form 8-K filed on May 23, 2002, and incorporated herein by reference).	*
3.9	Form of Certificate of Designation, Preferences and Rights of Series A Junior Participating Preferred Stock, as filed with the Secretary of the State of Delaware on December 9, 2008 (included as Exhibit 3.1 to the Company's Current Report on Form 8-K filed on December 9, 2008, and incorporated herein by reference).	*
3.10	By-Laws of the Company, as amended and restated (included as Exhibit 3.2 to the Company's Current Report on Form 8-K filed on February 25, 2013, and incorporated herein by reference).	*
10.1	1992 Stock Incentive Plan, as amended (included as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed on December 9, 2003, and incorporated herein by reference).	*
10.2	Amendment to the Company's 1992 Stock Incentive Plan, as amended, effective as of April 15, 2011 (included as Exhibit 10.6 to the Company's Quarterly Report on Form 10-Q filed on May 20, 2011, and incorporated herein by reference).	*
10.3	Company's 2006 Incentive Compensation Plan, as amended	
10.4	Form of Non-Qualified Option Agreement for the Chairman and Executive Officers (included as Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q filed on August 18, 2006, and incorporated herein by reference).	*

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Exhibits

10.5	Form of Incentive Stock Option Agreement for the Chairman and Executive Officers (included as Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q filed on August 18, 2006, and incorporated herein by reference).	*
10.6	Form of Non-Qualified Option Agreement for Non-Employee Directors (included as Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q filed on August 18, 2006, and incorporated herein by reference).	*
10.7	Form of Option Repurchase Agreement dated January 29, 2009 (included as Exhibit 10.1 to the Company's Current Report on Form 8-K filed on February 3, 2009 and incorporated herein by reference).	*
10.8	Company's Amended and Restated Non-Employee Director Compensation Plan (included as Exhibit 4.1 to the Company's Registration Statement on Form S-8 (No. 333-170764), and incorporated herein by reference).	*
10.9	Sixth Amended and Restated Loan and Security Agreement dated November 10, 2010, by and among Bank of America, N.A., as Administrative Agent and Collateral Agent, the Revolving Credit Lenders identified therein, the Company, as Borrowers' Representative, and the Company and CMRG Apparel, LLC, as Borrowers (included as Exhibit 10.1 to the Company's Current Report on Form 8-K/A filed on January 7, 2011, and incorporated herein by reference).	* †
10.10	First Amendment to Sixth Amended and Restated Loan and Security Agreement dated June 26, 2013, by and among Bank of America, N.A., as Administrative Agent and Collateral Agent, the Revolving Credit Lenders identified therein, the Company, as Borrowers' Representative, and the Company and CMRG Apparel, LLC, as Borrowers (included as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed on August 23, 2013, and incorporated herein by reference).	*
10.11	Master Loan and Security Agreement dated July 20, 2007 between the Company and Banc of America Leasing & Capital, LLC (included as Exhibit 10.1 to the Company's Current Report on Form 8-K filed on July 23, 2007, and incorporated herein by reference).	*
10.12	Amendment Number 1 to Master Loan and Security Agreement dated September 30, 2013 between the Company and Banc of America Leasing & Capital, LLC. (included as Exhibit 10.2 to the Company's Current Report on Form 8-K filed on October 3, 2013, and incorporated herein by reference).	*
10.13	Equipment Security Note Number 17608-70003 to the Master Loan and Security Agreement, as amended, dated October 1, 2013 between the Company and Banc of America Leasing & Capital, LLC. (included as Exhibit 10.3 to the Company's Current Report on Form 8-K filed on October 3, 2013, and incorporated herein by reference).	*
10.14	Equipment Security Note Number 17608-70004 to the Master Loan and Security Agreement, as amended, dated September 30, 2013 between the Company and Banc of America Leasing & Capital, LLC. (included as Exhibit 10.4 to the Company's Current Report on Form 8-K filed on October 3, 2013, and incorporated herein by reference).	*
10.15	Equipment Security Note Number 17608-70005 to the Master Loan and Security Agreement, as amended, dated September 30, 2013 between the Company and Banc of America Leasing & Capital, LLC. (included as Exhibit 10.5 to the Company's Current Report on Form 8-K filed on October 3, 2013, and incorporated herein by reference).	*
10.16	Equipment Security Note Number 17608-70006 to the Master Loan and Security Agreement, as amended, dated September 30, 2013 between the Company and Banc of America Leasing & Capital, LLC. (included as Exhibit 10.6 to the Company's Current Report on Form 8-K filed on October 3, 2013, and incorporated herein by reference).	*

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Exhibits

10.17	Equipment Security Note Number 17608-70007 to the Master Loan and Security Agreement, as amended, dated December 23, 2013 between the Company and Banc of America Leasing & Capital, LLC. (included as Exhibit 10.1 to the Company's Current Report on Form 8-K filed on January 8, 2014, and incorporated herein by reference).	*
10.18	Equipment Security Note Number 17608-70008 to the Master Loan and Security Agreement, as amended, dated December 23, 2013 between the Company and Banc of America Leasing & Capital, LLC. (included as Exhibit 10.2 to the Company's Current Report on Form 8-K filed on January 8, 2014, and incorporated herein by reference).	*
10.19	Equipment Security Note Number 17608-70009 to the Master Loan and Security Agreement, as amended, dated December 23, 2013 between the Company and Banc of America Leasing & Capital, LLC. (included as Exhibit 10.3 to the Company's Current Report on Form 8-K filed on January 8, 2014, and incorporated herein by reference).	*
10.20	Amended and Restated Consulting Agreement, effective as of April 28, 2011 between the Company and Jewelcor Management, Inc. (included as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed on May 20, 2011, and incorporated herein by reference).	*
10.21	Employment Agreement between the Company and Seymour Holtzman dated as of April 28, 2011 (included as Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q filed on May 20, 2011, and incorporated herein by reference).	*
10.22	Revised and Restated Employment Agreement dated as of November 5, 2009 between the Company and David A. Levin (included as Exhibit 10.1 to the Company's Current Report on Form 8-K filed on November 19, 2009, and incorporated herein by reference).	*
10.23	Temporary Employment Agreement, effective as of February 2, 2014, between the Company and John E. Kyees (included as Exhibit 10.1 to the Company's Current Report on Form 8-K filed on March 10, 2014, and incorporated herein by reference).	*
10.24	Revised and Restated Employment Agreement dated as of November 5, 2009 between the Company and Dennis R. Hernreich (included as Exhibit 10.2 to the Company's Current Report on Form 8-K filed on November 19, 2009, and incorporated herein by reference).	*
10.25	Employment Agreement between the Company and Robert S. Molloy dated as of January 7, 2010 (included as Exhibit 10.2 to the Company's Current Report on Form 8-K filed on January 11, 2010, and incorporated herein by reference).	*
10.26	Employment Agreement between the Company and Francis Chane dated as of January 8, 2010 (included as Exhibit 10.34 to the Company's Annual Report on Form 10-K filed on March 19, 2010, and incorporated herein by reference).	*
10.27	Employment Agreement between the Company and Kenneth Ederle dated as of January 1, 2013 (included as Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q filed on November 22, 2013, and incorporated herein by reference).	*
10.28	Employment Agreement between the Company and Jack R. McKinney dated as of January 8, 2010 (included as Exhibit 10.37 to the Company's Annual Report on Form 10-K filed on March 19, 2010, and incorporated herein by reference).	*
10.29	Employment Agreement between the Company and Peter E. Schmitz dated as of January 1, 2013 (included as Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q filed on November 22, 2013, and incorporated herein by reference).	*

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Exhibits

10.30	Employment Agreement between the Company and Vickie Smith dated as of January 1, 2013 (included as Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q filed on November 22, 2013, and incorporated herein by reference).	*
10.31	Employment Agreement between the Company and Walter E. Sprague dated as of January 8, 2010 (included as Exhibit 10.40 to the Company's Annual Report on Form 10-K filed on March 19, 2010, and incorporated herein by reference).	*
10.32	Employment Agreement between the Company and Peter H. Stratton, Jr. dated as of January 7, 2010 (included as Exhibit 10.41 to the Company's Annual Report on Form 10-K filed on March 19, 2010, and incorporated herein by reference).	*
10.33	Employment Agreement between the Company and Brian Reaves (included as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed on May 21, 2010, and incorporated herein by reference).	*
10.34	Employment Agreement between the Company and John Wagner dated as of January 1, 2013 (included as Exhibit 10.5 to the Company's Quarterly Report on Form 10-Q filed on November 22, 2013, and incorporated herein by reference).	*
10.35	Employment Agreement between the Company and Derrick Walker dated as of May 29, 2012 (included as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed on August 17, 2012, and incorporated herein by reference).	*
10.36	Employment Agreement between the Company and Angela Chew dated as of January 1, 2013 (included as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed on November 22, 2013, and incorporated herein by reference).	*
10.37	2013-2016 Destination XL Group, Inc. Long-Term Incentive Plan (included as Exhibit 10.1 to the Company's Current Report on Form 8-K filed June 3, 2013, and incorporated herein by reference).	*
10.38	Form of Non-Qualified Option Agreement pursuant to the Company's 2013-2016 Long-Term Incentive Plan (included as Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q filed on August 23, 2013, and incorporated herein by reference).	*
10.39	Form of Restricted Stock Grant Agreement pursuant to the Company's 2013-2016 Long-Term Incentive Plan (included as Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q filed on August 23, 2013, and incorporated herein by reference).	*
10.40	Company's Second Amended and Restated Annual Incentive Plan (included as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed November 19, 2010 and incorporated herein by reference).	*
10.41	Registration Rights Agreement entered into as of April 26, 2002, by and between the Company and the persons identified therein (included as Exhibit 10.8 to the Company's Current Report on Form 8-K filed on May 23, 2002, and incorporated herein by reference).	*
10.42	Registration Rights Agreement dated November 18, 2003 by and between the Company and Thomas Weisel Partners LLC (included as Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q filed on December 9, 2003, and incorporated herein by reference).	*
10.43	Contribution Agreement dated January 30, 2006 by and among the Company, Spirit SPE Canton, LLC and Spirit Finance Acquisitions, LLC (included as Exhibit 10.1 to the Company's Current Report on Form 8-K filed on February 3, 2006, and incorporated herein by reference).	*

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Exhibits

10.44	Membership Interest Purchase Agreement dated January 30, 2006 by and between the Company and Spirit Finance Acquisitions, LLC (included as Exhibit 10.2 to the Company's Current Report on Form 8-K filed on February 3, 2006, and incorporated herein by reference).	*
10.45	Lease Agreement dated February 1, 2006 by and between the Company and Spirit SPE Canton, LLC (included as Exhibit 10.3 to the Company's Current Report on Form 8-K filed on February 3, 2006, and incorporated herein by reference).	*
10.46	Buying Agency Agreement effective November 16, 2005 by and between Designs Apparel, Inc. and Li & Fung (included as Exhibit 10.47 to the Company's Annual Report on Form 10-K filed March 31, 2006, and incorporated herein by reference).	*
21.1	Subsidiaries of the Registrant.	
23.1	Consent of Independent Registered Public Accounting Firm.	
23.2	Consent of Independent Registered Public Accounting Firm.	
31.1	Certification of Chief Executive Officer of the Company pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934.	
31.2	Certification of Chief Financial Officer of the Company pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934.	
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	
101	The following materials from the Company's Annual Report on Form 10-K for the year ended February 1, 2014, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Operations, (iii) Consolidated Statements of Changes in Stockholders' Equity, (iv) Consolidated Statements of Comprehensive Income, (v) Consolidated Statements of Cash Flows, and (vi) Notes to Consolidated Financial Statements.	

* Previously filed with the Securities and Exchange Commission.

† Portions of this Exhibit have been omitted pursuant to a grant of confidential treatment.

DESTINATION XL GROUP, INC.

2006 INCENTIVE COMPENSATION PLAN

(as amended and restated effective as of August 1, 2013)

DESTINATION XL GROUP, INC.

2006 INCENTIVE COMPENSATION PLAN

(as amended and restated effective as of August 1, 2013)

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DESTINATION XL GROUP, INC.

2006 INCENTIVE COMPENSATION PLAN

1. **Purpose.** The purpose of this DESTINATION XL GROUP, INC. 2006 INCENTIVE COMPENSATION PLAN (the “Plan”) is to assist DESTINATION XL GROUP, INC., a Delaware corporation (the “Company”) and its Related Entities (as hereinafter defined) in attracting, motivating, retaining and rewarding high-quality executives and other employees, officers, directors, consultants and other persons who provide services to the Company or its Related Entities by enabling such persons to acquire or increase a proprietary interest in the Company in order to strengthen the mutuality of interests between such persons and the Company’s shareholders, and providing such persons with performance incentives to expend their maximum efforts in the creation of shareholder value. The Plan was originally adopted effective as of July 31, 2006, was amended effective as of August 27, 2009, August 5, 2010, and was further amended effective as of August 1, 2013.

2. **Definitions.** For purposes of the Plan, the following terms shall be defined as set forth below, in addition to such terms defined in Section 1 hereof.

(a) “**Award**” means any Option, Stock Appreciation Right, Restricted Stock Award, Deferred Stock Award, Share granted as a bonus or in lieu of another Award, Dividend Equivalent, Other Stock-Based Award or Performance Award, together with any other right or interest, granted to a Participant under the Plan.

(b) “**Award Agreement**” means any written agreement, contract or other instrument or document evidencing any Award granted by the Committee hereunder.

(c) “**Beneficiary**” means the person, persons, trust or trusts that have been designated by a Participant in his or her most recent written beneficiary designation filed with the Committee to receive the benefits specified under the Plan upon such Participant’s death or to which Awards or other rights are transferred if and to the extent permitted under Section 10(b) hereof. If, upon a Participant’s death, there is no designated Beneficiary or surviving designated Beneficiary, then the term Beneficiary means the person, persons, trust or trusts entitled by will or the laws of descent and distribution to receive such benefits.

(d) “**Beneficial Owner**” shall have the meaning ascribed to such term in Rule 13d-3 under the Exchange Act and any successor to such Rule.

(e) “**Board**” means the Company’s Board of Directors.

(f) “**Cause**” shall, with respect to any Participant, have the meaning specified in the Award Agreement. In the absence of any definition in the Award Agreement, “Cause” shall have the equivalent meaning or the same meaning as “cause” or “for cause” set forth in any employment, consulting, or other agreement for the performance of services between the Participant and the Company or a Related Entity or, in the absence of any such agreement or any such definition in such agreement, such term shall mean (i) the failure by the Participant to perform, in a reasonable manner, his or her duties as assigned by the Company or a Related

Entity, (ii) any violation or breach by the Participant of his or her employment, consulting or other similar agreement with the Company or a Related Entity, if any, (iii) any violation or breach by the Participant of any non-competition, non-solicitation, non-disclosure and/or other similar agreement with the Company or a Related Entity, (iv) any act by the Participant of dishonesty or bad faith with respect to the Company or a Related Entity, (v) use of alcohol, drugs or other similar substances in a manner that adversely affects the Participant's work performance, or (vi) the commission by the Participant of any act, misdemeanor, or crime reflecting unfavorably upon the Participant or the Company or any Related Entity. The good faith determination by the Committee of whether the Participant's Continuous Service was terminated by the Company for "Cause" shall be final and binding for all purposes hereunder.

(g) "**Change in Control**" means a Change in Control as defined in Section 9(b) of the Plan.

(h) "**Code**" means the Internal Revenue Code of 1986, as amended from time to time, including regulations thereunder and successor provisions and regulations thereto.

(i) "**Committee**" means a committee designated by the Board to administer the Plan; provided, however, that if the Board fails to designate a committee or if there are no longer any members on the committee so designated by the Board, then the Board shall serve as the Committee. The Committee shall consist of at least two directors, and each member of the Committee shall be (i) a "non-employee director" within the meaning of Rule 16b-3 (or any successor rule) under the Exchange Act, unless administration of the Plan by "non-employee directors" is not then required in order for exemptions under Rule 16b-3 to apply to transactions under the Plan, (ii) an "outside director" within the meaning of Section 162(m) of the Code, and (iii) "Independent".

(j) "**Consultant**" means any person (other than an Employee or a Director, solely with respect to rendering services in such person's capacity as a director) who is engaged by the Company or any Related Entity to render consulting or advisory services to the Company or such Related Entity.

(k) "**Continuous Service**" means the uninterrupted provision of services to the Company or any Related Entity in any capacity of Employee, Director, Consultant or other service provider. Continuous Service shall not be considered to be interrupted in the case of (i) any approved leave of absence, (ii) transfers among the Company, any Related Entities, or any successor entities, in any capacity of Employee, Director, Consultant or other service provider, or (iii) any change in status as long as the individual remains in the service of the Company or a Related Entity in any capacity of Employee, Director, Consultant or other service provider (except as otherwise provided in the Award Agreement). An approved leave of absence shall include sick leave, military leave, or any other authorized personal leave.

(l) "**Covered Employee**" means an Eligible Person who is a "covered employee" within the meaning of Section 162(m)(3) of the Code, or any successor provision thereto.

(m) “**Deferred Stock**” means a right to receive Shares, including Restricted Stock, cash measured based upon the value of Shares or a combination thereof, at the end of a specified deferral period.

(n) “**Deferred Stock Award**” means an Award of Deferred Stock granted to a Participant under Section 6(e) hereof.

(o) “**Director**” means a member of the Board or the board of directors of any Related Entity.

(p) “**Disability**” means a permanent and total disability (within the meaning of Section 22(e) of the Code), as determined by a medical doctor satisfactory to the Committee.

(q) “**Dividend Equivalent**” means a right, granted to a Participant under Section 6(g) hereof, to receive cash, Shares, other Awards or other property equal in value to dividends paid with respect to a specified number of Shares, or other periodic payments.

(r) “**Effective Date**” means the effective date of the Plan, which shall be the Shareholder Approval Date.

(s) “**Eligible Person**” means each officer, Director, Employee, Consultant and other person who provides services to the Company or any Related Entity. The foregoing notwithstanding, only employees of the Company, or any parent corporation or subsidiary corporation of the Company (as those terms are defined in Sections 424(e) and (f) of the Code, respectively), shall be Eligible Persons for purposes of receiving any Incentive Stock Options. An Employee on leave of absence may be considered as still in the employ of the Company or a Related Entity for purposes of eligibility for participation in the Plan.

(t) “**Employee**” means any person, including an officer or Director, who is an employee of the Company or any Related Entity. The payment of a director’s fee by the Company or a Related Entity shall not be sufficient to constitute “employment” by the Company.

(u) “**Exchange Act**” means the Securities Exchange Act of 1934, as amended from time to time, including rules thereunder and successor provisions and rules thereto.

(v) “**Fair Market Value**” means the fair market value of Shares, Awards or other property as determined by the Committee, or under procedures established by the Committee. Unless otherwise determined by the Committee, the Fair Market Value of a Share as of any given date shall be the closing sale price per Share reported on a consolidated basis for stock listed on the principal stock exchange or market on which Shares are traded on the date immediately preceding the date as of which such value is being determined or, if there is no sale on that date, then on the last previous day on which a sale was reported.

(w) “**Good Reason**” shall, with respect to any Participant, have the meaning specified in the Award Agreement. In the absence of any definition in the Award Agreement, “Good Reason” shall have the equivalent meaning or the same meaning as “good reason” or “for good reason” set forth in any employment, consulting or other agreement for the performance of services between the Participant and the Company or a Related Entity or, in the absence of any

such agreement or any such definition in such agreement, such term shall mean (i) the assignment to the Participant of any duties inconsistent in any material respect with the Participant's duties or responsibilities as assigned by the Company or a Related Entity, or any other action by the Company or a Related Entity which results in a material diminution in such duties or responsibilities, excluding for this purpose an isolated, insubstantial and inadvertent action not taken in bad faith and which is remedied by the Company or a Related Entity promptly after receipt of notice thereof given by the Participant; (ii) any material failure by the Company or a Related Entity to comply with its obligations to the Participant as agreed upon, other than an isolated, insubstantial and inadvertent failure not occurring in bad faith and which is remedied by the Company or a Related Entity promptly after receipt of notice thereof given by the Participant; or (iii) the Company's or Related Entity's requiring the Participant to be based at any office or location outside of fifty miles from the location of employment or service as of the date of Award, except for travel reasonably required in the performance of the Participant's responsibilities.

(x) "**Incentive Stock Option**" means any Option intended to be designated as an incentive stock option within the meaning of Section 422 of the Code or any successor provision thereto.

(y) "**Independent**", when referring to either the Board or members of the Committee, shall have the same meaning as used in the rules of the Nasdaq Stock Market or any national securities exchange on which any securities of the Company are listed for trading, and if not listed for trading, by the rules of the Nasdaq Stock Market.

(z) "**Incumbent Board**" means the Incumbent Board as defined in Section 9(b)(ii) of the Plan.

(aa) "**Option**" means a right granted to a Participant under Section 6(b) hereof, to purchase Shares or other Awards at a specified price during specified time periods.

(bb) "**Optionee**" means a person to whom an Option is granted under this Plan or any person who succeeds to the rights of such person under this Plan.

(cc) "**Other Stock-Based Awards**" means Awards granted to a Participant under Section 6(i) hereof.

(dd) "**Participant**" means a person who has been granted an Award under the Plan which remains outstanding, including a person who is no longer an Eligible Person.

(ee) "**Performance Award**" shall mean any Award of Performance Shares or Performance Units granted pursuant to Section 6(h).

(ff) "**Performance Period**" means that period established by the Committee at the time any Performance Award is granted or at any time thereafter during which any performance goals specified by the Committee with respect to such Award are to be measured.

(gg) "**Performance Share**" means any grant pursuant to Section 6(h) of a unit valued by reference to a designated number of Shares, which value may be paid to the Participant by

delivery of such property as the Committee shall determine, including cash, Shares, other property, or any combination thereof, upon achievement of such performance goals during the Performance Period as the Committee shall establish at the time of such grant or thereafter.

(hh) "**Performance Unit**" means any grant pursuant to Section 6(h) of a unit valued by reference to a designated amount of property (including cash) other than Shares, which value may be paid to the Participant by delivery of such property as the Committee shall determine, including cash, Shares, other property, or any combination thereof, upon achievement of such performance goals during the Performance Period as the Committee shall establish at the time of such grant or thereafter.

(ii) "**Person**" shall have the meaning ascribed to such term in Section 3(a)(9) of the Exchange Act and used in Sections 13(d) and 14(d) thereof, and shall include a "group" as defined in Section 13(d) thereof.

(jj) "**Prior Plan**" means the Company's 1992 Stock Incentive Plan, as amended.

(kk) "**Related Entity**" means any Subsidiary, and any business, corporation, partnership, limited liability company or other entity designated by Board in which the Company or a Subsidiary holds a substantial ownership interest, directly or indirectly.

(ll) "**Restricted Stock**" means any Share issued with the restriction that the holder may not sell, transfer, pledge or assign such Share and with such risks of forfeiture and other restrictions as the Committee, in its sole discretion, may impose (including any restriction on the right to vote such Share and the right to receive any dividends), which restrictions may lapse separately or in combination at such time or times, in installments or otherwise, as the Committee may deem appropriate.

(mm) "**Restricted Stock Award**" means an Award granted to a Participant under Section 6(d) hereof.

(nn) "**Rule 16b-3**" means Rule 16b-3, as from time to time in effect and applicable to the Plan and Participants, promulgated by the Securities and Exchange Commission under Section 16 of the Exchange Act.

(oo) "**Shareholder Approval Date**" means the date on which this Plan is approved by the shareholders of the Company eligible to vote in the election of directors, by a vote sufficient to meet the requirements of Code Sections 162(m) (if applicable) and 422, Rule 16b-3 under the Exchange Act (if applicable), applicable requirements under the rules of any stock exchange or automated quotation system on which the Shares may be listed or quoted, and other laws, regulations and obligations of the Company applicable to the Plan.

(pp) "**Shares**" means the shares of common stock of the Company, par value \$.01 per share, and such other securities as may be substituted (or resubstituted) for Shares pursuant to Section 10(c) hereof.

(qq) "**Stock Appreciation Right**" means a right granted to a Participant under Section 6(c) hereof.

(rr) “**Subsidiary**” means any corporation or other entity in which the Company has a direct or indirect ownership interest of 50% or more of the total combined voting power of the then outstanding securities or interests of such corporation or other entity entitled to vote generally in the election of directors or in which the Company has the right to receive 50% or more of the distribution of profits or 50% or more of the assets on liquidation or dissolution.

(ss) “**Substitute Awards**” shall mean Awards granted or Shares issued by the Company in assumption of, or in substitution or exchange for, Awards previously granted, or the right or obligation to make future Awards, by a company acquired by the Company or any Related Entity or with which the Company or any Related Entity combines.

3. **Administration.**

(a) **Authority of the Committee.** The Plan shall be administered by the Committee, except to the extent the Board elects to administer the Plan, in which case the Plan shall be administered by only those directors who are Independent Directors, in which case references herein to the “Committee” shall be deemed to include references to the Independent members of the Board. The Committee shall have full and final authority, subject to and consistent with the provisions of the Plan, to select Eligible Persons to become Participants, grant Awards, determine the type, number and other terms and conditions of, and all other matters relating to, Awards, prescribe Award Agreements (which need not be identical for each Participant) and rules and regulations for the administration of the Plan, construe and interpret the Plan and Award Agreements and correct defects, supply omissions or reconcile inconsistencies therein, and to make all other decisions and determinations as the Committee may deem necessary or advisable for the administration of the Plan. In exercising any discretion granted to the Committee under the Plan or pursuant to any Award, the Committee shall not be required to follow past practices, act in a manner consistent with past practices, or treat any Eligible Person or Participant in a manner consistent with the treatment of other Eligible Persons or Participants.

(b) **Manner of Exercise of Committee Authority.** The Committee, and not the Board, shall exercise sole and exclusive discretion on any matter relating to a Participant then subject to Section 16 of the Exchange Act with respect to the Company to the extent necessary in order that transactions by such Participant shall be exempt under Rule 16b-3 under the Exchange Act. Any action of the Committee shall be final, conclusive and binding on all persons, including the Company, its Related Entities, Participants, Beneficiaries, transferees under Section 10(b) hereof or other persons claiming rights from or through a Participant, and shareholders. The express grant of any specific power to the Committee, and the taking of any action by the Committee, shall not be construed as limiting any power or authority of the Committee. The Committee may delegate to officers or managers of the Company or any Related Entity, or committees thereof, the authority, subject to such terms as the Committee shall determine, to perform such functions, including administrative functions as the Committee may determine to the extent that such delegation will not result in the loss of an exemption under Rule 16b-3(d)(1) for Awards granted to Participants subject to Section 16 of the Exchange Act in respect of the Company and will not cause Awards intended to qualify as “performance-based compensation” under Code Section 162(m) to fail to so qualify. The Committee may appoint agents to assist it in administering the Plan.

(c) **Limitation of Liability.** The Committee and the Board, and each member thereof, shall be entitled to, in good faith, rely or act upon any report or other information furnished to him or her by any officer or Employee, the Company's independent auditors, Consultants or any other agents assisting in the administration of the Plan. Members of the Committee and the Board, and any officer or Employee acting at the direction or on behalf of the Committee or the Board, shall not be personally liable for any action or determination taken or made in good faith with respect to the Plan, and shall, to the extent permitted by law, be fully indemnified and protected by the Company with respect to any such action or determination.

4. **Shares Subject to Plan.**

(a) **Limitation on Overall Number of Shares Available for Delivery Under Plan.** Subject to adjustment as provided in Section 10(c) hereof, the total number of Shares reserved and available for delivery under the Plan shall be 7,250,000; provided, however, that the maximum number of Shares issued or available for issuance under the Plan with respect to Awards other than Options and Stock Appreciation Rights shall not exceed 4,250,000. Any Shares delivered under the Plan may consist, in whole or in part, of authorized and unissued shares or treasury shares.

(b) **Application of Limitation to Grants of Award.** No Award may be granted if the number of Shares to be delivered in connection with such an Award or, in the case of an Award relating to Shares but settled only in cash (such as cash-only Stock Appreciation Rights), the number of Shares to which such Award relates, exceeds the number of Shares remaining available for delivery under the Plan, minus the number of Shares deliverable in settlement of or relating to then outstanding Awards. The Committee may adopt reasonable counting procedures to ensure appropriate counting, avoid double counting (as, for example, in the case of tandem or substitute awards) and make adjustments if the number of Shares actually delivered differs from the number of Shares previously counted in connection with an Award.

(c) **Availability of Shares Not Delivered under Awards and Adjustments to Limits.**

(i) If any Shares subject to an Award are forfeited, expire or otherwise terminate without issuance of such Shares, or any Award is settled for cash or otherwise does not result in the issuance of all or a portion of the Shares subject to such Award, the Shares shall, to the extent of such forfeiture, expiration, termination, cash settlement or non-issuance, again be available for Awards under the Plan, subject to Section 4(c)(v) below.

(ii) Awards that are settled or exercised through the payment of Shares shall be counted in full against the number of Shares available for award under the Plan, regardless of the number of Shares actually issued upon settlement or exercise of any such Award.

(iii) Substitute Awards shall not reduce the Shares authorized for grant under the Plan or authorized for grant to a Participant in any period. Additionally, in the event that a company acquired by the Company or any Related Entity or with which the Company or any Related Entity combines has shares available under a pre-existing plan approved by shareholders and not adopted in contemplation of such acquisition or combination, the shares

available for delivery pursuant to the terms of such pre-existing plan (as adjusted, to the extent appropriate, using the exchange ratio or other adjustment or valuation ratio or formula used in such acquisition or combination to determine the consideration payable to the holders of common stock of the entities party to such acquisition or combination) may be used for Awards under the Plan and shall not reduce the Shares authorized for delivery under the Plan; provided that Awards using such available shares shall not be made after the date awards or grants could have been made under the terms of the pre-existing plan, absent the acquisition or combination, and shall only be made to individuals who were not Employees or Directors prior to such acquisition or combination.

(iv) Any Share that again becomes available for delivery pursuant to this Section 4(c) shall be added back as one (1) Share.

(v) Notwithstanding anything in this Section 4(c) to the contrary and solely for purposes of determining whether Shares are available for the delivery of Incentive Stock Options, the maximum aggregate number of shares that may be granted under this Plan shall be determined without regard to any Shares restored pursuant to this Section 4(c) that, if taken into account, would cause the Plan to fail the requirement under Code Section 422 that the Plan designate a maximum aggregate number of shares that may be issued.

(d) **No Further Awards Under Prior Plan.** In light of the adoption of this Plan, no further awards shall be made under the Prior Plan after the Effective Date.

5. Eligibility; Per-Person Award Limitations. Awards may be granted under the Plan only to Eligible Persons. Subject to adjustment as provided in Section 10(c), in any fiscal year of the Company during any part of which the Plan is in effect, no Participant may be granted Awards that are not Performance Units with respect to more than 1,000,000 Shares. In addition, the maximum dollar value payable to any one Participant with respect to Performance Units is (x) \$3,000,000 with respect to any 12 month Performance Period (pro-rated for any Performance Period that is less than 12 months based upon the ratio of the number of days in the Performance Period as compared to 365), and (y) with respect to any Performance Period that is more than 12 months, \$3,000,000 multiplied by the number of full 12 month periods that are in the Performance Period.

6. Specific Terms of Awards.

(a) **General** Awards may be granted on the terms and conditions set forth in this Section 6. In addition, the Committee may impose on any Award or the exercise thereof, at the date of grant or thereafter (subject to Section 10(e)), such additional terms and conditions, not inconsistent with the provisions of the Plan, as the Committee shall determine, including terms requiring forfeiture of Awards in the event of termination of the Participant's Continuous Service and terms permitting a Participant to make elections relating to his or her Award. The Committee shall retain full power and discretion to accelerate, waive or modify, at any time, any term or condition of an Award that is not mandatory under the Plan. Except in cases in which the Committee is authorized to require other forms of consideration under the Plan, or to the extent other forms of consideration must be paid to satisfy the requirements of Delaware law, no consideration other than services may be required for the grant (but not the exercise) of any Award.

(b) **Options.** The Committee is authorized to grant Options to any Eligible Person on the following terms and conditions:

(i) **Exercise Price.** Other than in connection with Substitute Awards, the exercise price per Share purchasable under an Option shall be determined by the Committee, provided that such exercise price shall not be less than 100% of the Fair Market Value of a Share on the date of grant of the Option and shall not, in any event, be less than the par value of a Share on the date of grant of the Option. If an Employee owns or is deemed to own (by reason of the attribution rules applicable under Section 424(d) of the Code) more than 10% of the combined voting power of all classes of stock of the Company (or any parent corporation or subsidiary corporation of the Company, as those terms are defined in Sections 424(e) and (f) of the Code, respectively) and an Incentive Stock Option is granted to such employee, the exercise price of such Incentive Stock Option (to the extent required by the Code at the time of grant) shall be no less than 110% of the Fair Market Value a Share on the date such Incentive Stock Option is granted. Other than pursuant to Section 10(c), (A) the terms of outstanding Options may not be amended to reduce the exercise price per Share of such Options, (B) an outstanding Option may not be cancelled, exchanged, substituted, bought out or surrendered in exchange for (i) cash or other Awards, in each case, having a Fair Market Value in excess of the amount by which the Fair Market Value of the Shares underlying such Option exceeds the aggregate exercise price of such Option or (ii) Options with an exercise price per Share that is less than the exercise price per Share of the original Option and (C) the Committee shall not be permitted to take any other action with respect to an Option that may be treated as a repricing, in each case, without approval of the Company's shareholders.

(ii) **Time and Method of Exercise.** Subject to the maximum term of any Option set forth in Section 7(b), the Committee shall determine the time or times at which or the circumstances under which an Option may be exercised in whole or in part (including based on achievement of performance goals and/or future service requirements), the time or times at which Options shall cease to be or become exercisable following termination of Continuous Service or upon other conditions, the methods by which the exercise price may be paid or deemed to be paid (including in the discretion of the Committee a cashless exercise procedure), the form of such payment, including, without limitation, cash, Shares, other Awards or Awards granted under other plans of the Company or a Related Entity, or other property (including notes or other contractual obligations of Participants to make payment on a deferred basis provided that such deferred payments are not in violation of the Sarbanes-Oxley Act of 2002, or any rule or regulation adopted thereunder or any other applicable law), and the methods by or forms in which Shares will be delivered or deemed to be delivered to Participants.

(iii) **Incentive Stock Options.** The terms of any Incentive Stock Option granted under the Plan shall comply in all respects with the provisions of Section 422 of the Code. Anything in the Plan to the contrary notwithstanding, no term of the Plan relating to Incentive Stock Options (including any Stock Appreciation Right issued in tandem therewith) shall be interpreted, amended or altered, nor shall any discretion or authority granted under the Plan be exercised, so as to disqualify either the Plan or any Incentive Stock Option under Section

422 of the Code, unless the Participant has first requested, or consents to, the change that will result in such disqualification. Thus, if and to the extent required to comply with Section 422 of the Code, Options granted as Incentive Stock Options shall be subject to the following special terms and conditions:

(A) the Option shall not be exercisable more than ten years after the date such Incentive Stock Option is granted; provided, however, that if a Participant owns or is deemed to own (by reason of the attribution rules of Section 424(d) of the Code) more than 10% of the combined voting power of all classes of stock of the Company (or any parent corporation or subsidiary corporation of the Company, as those terms are defined in Sections 424(e) and (f) of the Code, respectively) and the Incentive Stock Option is granted to such Participant, the term of the Incentive Stock Option shall be (to the extent required by the Code at the time of the grant) for no more than five years from the date of grant; and

(B) The aggregate Fair Market Value (determined as of the date the Incentive Stock Option is granted) of the Shares with respect to which Incentive Stock Options granted under the Plan and all other option plans of the Company (and any parent corporation or subsidiary corporation of the Company, as those terms are defined in Sections 424(e) and (f) of the Code, respectively) during any calendar year exercisable for the first time by the Participant during any calendar year shall not (to the extent required by the Code at the time of the grant) exceed \$100,000.

(c) **Stock Appreciation Rights.** The Committee may grant Stock Appreciation Rights to any Eligible Person in conjunction with all or part of any Option granted under the Plan or at any subsequent time during the term of such Option (a "Tandem Stock Appreciation Right"), or without regard to any Option (a "Freestanding Stock Appreciation Right"), in each case upon such terms and conditions as the Committee may establish in its sole discretion, not inconsistent with the provisions of the Plan, including the following:

(i) **Right to Payment.** A Stock Appreciation Right shall confer on the Participant to whom it is granted a right to receive, upon exercise thereof, the excess of (A) the Fair Market Value of one Share on the date of exercise over (B) the grant price of the Stock Appreciation Right as determined by the Committee. The grant price of a Stock Appreciation Right shall not be less than the Fair Market Value of a Share on the date of grant, in the case of a Freestanding Stock Appreciation Right, or less than the associated Option exercise price, in the case of a Tandem Stock Appreciation Right. Other than pursuant to Section 10(c), (A) the terms of outstanding Stock Appreciation Rights may not be amended to reduce the exercise price per Share of such Stock Appreciation Rights, (B) an outstanding Stock Appreciation Right may not be cancelled, exchanged, substituted, bought out or surrendered in exchange for (i) cash or other Awards, in each case, having a Fair Market Value in excess of the amount by which the Fair Market Value of the Shares underlying such Stock Appreciation Right exceeds the aggregate exercise price of such Stock Appreciation Right or (ii) Stock Appreciation Rights with an exercise price per Share that is less than the exercise price per Share of the original Stock Appreciation Right and (C) the Committee shall not be permitted to take any other action with respect to a Stock Appreciation Right that may be treated as a repricing, in each case, without approval of the Company's shareholders.

(ii) **Other Terms.** Subject to the maximum term of any Stock Appreciation Right set forth in Section 7(b), the Committee shall determine at the date of grant or thereafter, the time or times at which and the circumstances under which a Stock Appreciation Right may be exercised in whole or in part (including based on achievement of performance goals and/or future service requirements), the time or times at which Stock Appreciation Rights shall cease to be or become exercisable following termination of Continuous Service or upon other conditions, the method of exercise, method of settlement, form of consideration payable in settlement, method by or forms in which Shares will be delivered or deemed to be delivered to Participants, whether or not a Stock Appreciation Right shall be in tandem or in combination with any other Award, and any other terms and conditions of any Stock Appreciation Right.

(iii) **Tandem Stock Appreciation Rights.** Any Tandem Stock Appreciation Right may be granted at the same time as the related Option is granted or, for Options that are not Incentive Stock Options, at any time thereafter before exercise or expiration of such Option. Any Tandem Stock Appreciation Right related to an Option may be exercised only when the related Option would be exercisable and the Fair Market Value of the Shares subject to the related Option exceeds the exercise price at which Shares can be acquired pursuant to the Option. In addition, if a Tandem Stock Appreciation Right exists with respect to less than the full number of Shares covered by a related Option, then an exercise or termination of such Option shall not reduce the number of Shares to which the Tandem Stock Appreciation Right applies until the number of Shares then exercisable under such Option equals the number of Shares to which the Tandem Stock Appreciation Right applies. Any Option related to a Tandem Stock Appreciation Right shall no longer be exercisable to the extent the Tandem Stock Appreciation Right has been exercised, and any Tandem Stock Appreciation Right shall no longer be exercisable to the extent the related Option has been exercised.

(d) **Restricted Stock Awards.** The Committee is authorized to grant Restricted Stock Awards to any Eligible Person on the following terms and conditions:

(i) **Grant and Restrictions.** Restricted Stock Awards shall be subject to such restrictions on transferability, risk of forfeiture and other restrictions, if any, as the Committee may impose, or as otherwise provided in this Plan, covering a period of time specified by the Committee (the "Restriction Period"). The terms of any Restricted Stock Award granted under the Plan shall be set forth in a written Award Agreement which shall contain provisions determined by the Committee and not inconsistent with the Plan. The restrictions may lapse separately or in combination at such times, under such circumstances (including based on achievement of performance goals and/or future service requirements), in such installments or otherwise, as the Committee may determine at the date of grant or thereafter. Except to the extent restricted under the terms of the Plan and any Award Agreement relating to a Restricted Stock Award, a Participant granted Restricted Stock shall have all of the rights of a shareholder, including the right to vote the Restricted Stock and the right to receive dividends thereon (subject to any mandatory reinvestment or other requirement imposed by the Committee). During the Restriction Period, subject to Section 10(b) below, the Restricted Stock may not be sold, transferred, pledged, hypothecated, margined or otherwise encumbered by the Participant.

(ii) **Forfeiture.** Except as otherwise determined by the Committee, upon termination of a Participant's Continuous Service during the applicable Restriction Period,

the Participant's Restricted Stock that is at that time subject to a risk of forfeiture that has not lapsed or otherwise been satisfied shall be forfeited and reacquired by the Company; provided that the Committee may provide, by rule or regulation or in any Award Agreement, or may determine in any individual case, that forfeiture conditions relating to Restricted Stock Awards shall be waived in whole or in part in the event of terminations resulting from specified causes.

(iii) **Certificates for Stock.** Restricted Stock granted under the Plan may be evidenced in such manner as the Committee shall determine. If certificates representing Restricted Stock are registered in the name of the Participant, the Committee may require that such certificates bear an appropriate legend referring to the terms, conditions and restrictions applicable to such Restricted Stock, that the Company retain physical possession of the certificates, and that the Participant deliver a stock power to the Company, endorsed in blank, relating to the Restricted Stock.

(iv) **Dividends and Splits.** As a condition to the grant of a Restricted Stock Award, the Committee may require or permit a Participant to elect that any cash dividends paid on a Share of Restricted Stock be automatically reinvested in additional Shares of Restricted Stock or applied to the purchase of additional Awards under the Plan. Unless otherwise determined by the Committee, Shares distributed in connection with a stock split or stock dividend, and other property distributed as a dividend, shall be subject to restrictions and a risk of forfeiture to the same extent as the Restricted Stock with respect to which such Shares or other property have been distributed.

(e) **Deferred Stock Award.** The Committee is authorized to grant Deferred Stock Awards to any Eligible Person on the following terms and conditions:

(i) **Award and Restrictions.** Satisfaction of a Deferred Stock Award shall occur upon expiration of the deferral period specified for such Deferred Stock Award by the Committee (or, if permitted by the Committee, as elected by the Participant). In addition, a Deferred Stock Award shall be subject to such restrictions (which may include a risk of forfeiture) as the Committee may impose, if any, which restrictions may lapse at the expiration of the deferral period or at earlier specified times (including based on achievement of performance goals and/or future service requirements), separately or in combination, in installments or otherwise, as the Committee may determine. A Deferred Stock Award may be satisfied by delivery of Shares, cash equal to the Fair Market Value of the specified number of Shares covered by the Deferred Stock, or a combination thereof, as determined by the Committee at the date of grant or thereafter. Prior to satisfaction of a Deferred Stock Award, a Deferred Stock Award carries no voting or dividend or other rights associated with Share ownership.

(ii) **Forfeiture.** Except as otherwise determined by the Committee, upon termination of a Participant's Continuous Service during the applicable deferral period or portion thereof to which forfeiture conditions apply (as provided in the Award Agreement evidencing the Deferred Stock Award), the Participant's Deferred Stock Award that is at that time subject to a risk of forfeiture that has not lapsed or otherwise been satisfied shall be forfeited; provided that the Committee may provide, by rule or regulation or in any Award Agreement, or may determine in any individual case, that forfeiture conditions relating to a Deferred Stock Award shall be waived in whole or in part in the event of terminations resulting from specified causes, and the Committee may in other cases waive in whole or in part the forfeiture of any Deferred Stock Award.

(iii) **Dividend Equivalents.** Unless otherwise determined by the Committee at date of grant, any Dividend Equivalents that are granted with respect to any Deferred Stock Award shall be either (A) paid with respect to such Deferred Stock Award at the dividend payment date in cash or in Shares of unrestricted stock having a Fair Market Value equal to the amount of such dividends, or (B) deferred with respect to such Deferred Stock Award and the amount or value thereof automatically deemed reinvested in additional Deferred Stock, other Awards or other investment vehicles, as the Committee shall determine or permit the Participant to elect.

(f) **Bonus Stock and Awards in Lieu of Obligations.** The Committee is authorized to grant Shares to any Eligible Persons as a bonus, or to grant Shares or other Awards in lieu of obligations to pay cash or deliver other property under the Plan or under other plans or compensatory arrangements, provided that, in the case of Eligible Persons subject to Section 16 of the Exchange Act, the amount of such grants remains within the discretion of the Committee to the extent necessary to ensure that acquisitions of Shares or other Awards are exempt from liability under Section 16(b) of the Exchange Act. Shares or Awards granted hereunder shall be subject to such other terms as shall be determined by the Committee.

(g) **Dividend Equivalents.** The Committee is authorized to grant Dividend Equivalents to any Eligible Person entitling the Eligible Person to receive cash, Shares, other Awards, or other property equal in value to the dividends paid with respect to a specified number of Shares, or other periodic payments. Dividend Equivalents may be Awarded on a free-standing basis or in connection with another Award. The Committee may provide that Dividend Equivalents shall be paid or distributed when accrued or shall be deemed to have been reinvested in additional Shares, Awards, or other investment vehicles, and subject to such restrictions on transferability and risks of forfeiture, as the Committee may specify. Notwithstanding the foregoing, in no event shall Dividend Equivalents be paid in connection with the grant of a Performance Award until such time as the Committee has certified that the performance goals with respect to such Performance Award have been achieved for the relevant Performance Period.

(h) **Performance Awards.** The Committee is authorized to grant Performance Awards to any Eligible Person payable in cash, Shares, or other Awards, on terms and conditions established by the Committee, subject to the provisions of Section 8 if and to the extent that the Committee shall, in its sole discretion, determine that an Award shall be subject to those provisions. The performance criteria to be achieved during any Performance Period and the length of the Performance Period shall be determined by the Committee upon the grant of each Performance Award. Except as provided in Section 9 or as may be provided in an Award Agreement, Performance Awards will be distributed only after the end of the relevant Performance Period. The performance goals to be achieved for each Performance Period shall be conclusively determined by the Committee and may be based upon the criteria set forth in Section 8(b), or in the case of an Award that the Committee determines shall not be subject to Section 8 hereof, any other criteria that the Committee, in its sole discretion, shall determine should be used for that purpose. The amount of the Award to be distributed shall be conclusively

determined by the Committee. Performance Awards may be paid in a lump sum or in installments following the close of the Performance Period or, in accordance with procedures established by the Committee, on a deferred basis.

(i) **Other Stock-Based Awards.** The Committee is authorized, subject to limitations under applicable law, to grant to any Eligible Person such other Awards that may be denominated or payable in, valued in whole or in part by reference to, or otherwise based on, or related to, Shares, as deemed by the Committee to be consistent with the purposes of the Plan. Other Stock-Based Awards may be granted to Participants either alone or in addition to other Awards granted under the Plan, and such Other Stock-Based Awards shall also be available as a form of payment in the settlement of other Awards granted under the Plan. The Committee shall determine the terms and conditions of such Awards. Shares delivered pursuant to an Award in the nature of a purchase right granted under this Section 6(i) shall be purchased for such consideration, (including without limitation loans from the Company or a Related Entity provided that such loans are not in violation of the Sarbanes Oxley Act of 2002, or any rule or regulation adopted thereunder or any other applicable law) paid for at such times, by such methods, and in such forms, including, without limitation, cash, Shares, other Awards or other property, as the Committee shall determine.

7. Certain Provisions Applicable to Awards.

(a) **Stand-Alone, Additional, Tandem, and Substitute Awards.** Awards granted under the Plan may, in the discretion of the Committee, be granted either alone or in addition to, in tandem with, or in substitution or exchange for, any other Award or any award granted under another plan of the Company, any Related Entity, or any business entity to be acquired by the Company or a Related Entity, or any other right of a Participant to receive payment from the Company or any Related Entity. Such additional, tandem, and substitute or exchange Awards may be granted at any time. If an Award is granted in substitution or exchange for another Award or award, the Committee shall require the surrender of such other Award or award in consideration for the grant of the new Award. In addition, Awards may be granted in lieu of cash compensation, including in lieu of cash amounts payable under other plans of the Company or any Related Entity, in which the value of Stock subject to the Award is equivalent in value to the cash compensation (for example, Deferred Stock or Restricted Stock), or in which the exercise price, grant price or purchase price of the Award in the nature of a right that may be exercised is equal to the Fair Market Value of the underlying Stock minus the value of the cash compensation surrendered (for example, Options or Stock Appreciation Right granted with an exercise price or grant price “discounted” by the amount of the cash compensation surrendered).

(b) **Term of Awards.** The term of each Award shall be for such period as may be determined by the Committee; provided that in no event shall the term of any Option or Stock Appreciation Right exceed a period of ten years (or in the case of an Incentive Stock Option such shorter term as may be required under Section 422 of the Code).

(c) **Form and Timing of Payment Under Awards; Deferrals.** Subject to the terms of the Plan and any applicable Award Agreement, payments to be made by the Company or a Related Entity upon the exercise of an Option or other Award or settlement of an Award

may be made in such forms as the Committee shall determine, including, without limitation, cash, Shares, other Awards or other property, and may be made in a single payment or transfer, in installments, or on a deferred basis. Any installment or deferral provided for in the preceding sentence shall, however, be subject to the Company's compliance with the provisions of the Sarbanes-Oxley Act of 2002, the rules and regulations adopted by the Securities and Exchange Commission thereunder, and all applicable rules of the Nasdaq Stock Market or any national securities exchange on which the Company's securities are listed for trading and, if not listed for trading on either the Nasdaq Stock Market or a national securities exchange, then the rules of the Nasdaq Stock Market. The settlement of any Award may be accelerated, and cash paid in lieu of Shares in connection with such settlement, in the discretion of the Committee or upon occurrence of one or more specified events (in addition to a Change in Control). Installment or deferred payments may be required by the Committee (subject to Section 10(e) of the Plan, including the consent provisions thereof in the case of any deferral of an outstanding Award not provided for in the original Award Agreement) or permitted at the election of the Participant on terms and conditions established by the Committee. Payments may include, without limitation, provisions for the payment or crediting of a reasonable interest rate on installment or deferred payments or the grant or crediting of Dividend Equivalents or other amounts in respect of installment or deferred payments denominated in Shares.

(d) **Exemptions from Section 16(b) Liability.** It is the intent of the Company that the grant of any Awards to or other transaction by a Participant who is subject to Section 16 of the Exchange Act shall be exempt from Section 16 pursuant to an applicable exemption (except for transactions acknowledged in writing to be non-exempt by such Participant). Accordingly, if any provision of this Plan or any Award Agreement does not comply with the requirements of Rule 16b-3 then applicable to any such transaction, such provision shall be construed or deemed amended to the extent necessary to conform to the applicable requirements of Rule 16b-3 so that such Participant shall avoid liability under Section 16(b).

(e) **Code Section 409A.**

The following provisions shall apply to any Award that is or may potentially be subject to the requirements of Section 409A of the Code.

(i) The Award Agreement for any Award that the Committee reasonably determines to be a "non-qualified deferred compensation plan" under Section 409A of the Code (a "Section 409A Plan"), and the provisions of the Plan applicable to that Award, shall be construed in a manner consistent with, the applicable requirements of Section 409A of the Code, and the Committee, in its sole discretion and without the consent of any Participant, may amend any Award Agreement (and the provisions of the Plan applicable thereto) if and to the extent that the Committee determines that such amendment is necessary or appropriate to comply with the requirements of Section 409A of the Code.

(ii) If any Award constitutes a Section 409A Plan, then the Award shall be subject to the following additional requirements, if and to the extent required to comply with Section 409A of the Code:

(A) Payments under the Section 409A Plan may not be made earlier than the first to occur of (u) the Participant's "separation from service", (v) the date the Participant becomes "disabled", (w) the Participant's death, (x) a "specified time (or pursuant to a fixed schedule)" specified in the Award Agreement at the date of the deferral of such compensation, (y) a "change in the ownership or effective control of the corporation, or in the ownership of a substantial portion of the assets" of the Company, or (z) the occurrence of an "unforeseeable emergency";

(B) The time or schedule for any payment of the deferred compensation may not be accelerated, except to the extent provided in applicable Treasury Regulations or other applicable guidance issued by the Internal Revenue Service;

(C) Any elections with respect to the deferral of such compensation or the time and form of distribution of such deferred compensation shall comply with the requirements of Section 409A(a)(4) of the Code; and

(D) In the case of any Participant who is “specified employee”, a distribution on account of a “separation from service” may not be made before the date which is six months after the date of the Participant’s “separation from service” (or, if earlier, the date of the Participant’s death).

For purposes of the foregoing, the terms in quotations shall have the same meanings as those terms have for purposes of Section 409A of the Code, and the limitations set forth herein shall be applied in such manner (and only to the extent) as shall be necessary to comply with any requirements of Section 409A of the Code that are applicable to the Award.

(iii) Notwithstanding the foregoing, the Company does not make any representation to any Participant or Beneficiary that any Awards made pursuant to this Plan are exempt from, or satisfy, the requirements of Section 409A, and the Company shall have no liability or other obligation to indemnify or hold harmless the Participant or any Beneficiary for any tax, additional tax, interest or penalties that the Participant or any Beneficiary may incur in the event that any provision of this Plan, or any Award Agreement, or any amendment or modification thereof, or any other action taken with respect thereto, is deemed to violate any of the requirements of Section 409A.

8. Code Section 162(m) Provisions.

(a) **Covered Employees.** The Committee, in its discretion, may determine at the time an Award is granted to an Eligible Person who is, or is likely to be, as of the end of the tax year in which the Company would claim a tax deduction in connection with such Award, a Covered Employee, that the provisions of this Section 8 shall be applicable to such Award.

(b) **Performance Criteria.** If an Award is subject to this Section 8, then the lapsing of restrictions thereon and the distribution of cash, Shares or other property pursuant thereto, as applicable, shall be contingent upon achievement of one or more objective performance goals. Performance goals shall be objective and shall otherwise meet the requirements of Section 162(m) of the Code and regulations thereunder including the

requirement that the level or levels of performance targeted by the Committee result in the achievement of performance goals being “substantially uncertain.” One or more of the following business criteria for the Company, on a consolidated basis, and/or for Related Entities, or for business or geographical units of the Company and/or a Related Entity (except with respect to the total shareholder return and earnings per share criteria), shall be used by the Committee in establishing performance goals for such Awards: (1) earnings per share; (2) revenues or margins; (3) cash flow; (4) operating margin; (5) return on net assets, investment, capital, or equity; (6) economic value added; (7) direct contribution; (8) net income; pretax earnings; earnings before interest and taxes; earnings before interest, taxes, depreciation and amortization; earnings after interest expense and before extraordinary or special items; operating income; income before interest income or expense, unusual items and income taxes, local, state or federal and excluding budgeted and actual bonuses which might be paid under any ongoing bonus plans of the Company; (9) working capital; (10) management of fixed costs or variable costs; (11) identification or consummation of investment opportunities or completion of specified projects in accordance with corporate business plans, including strategic mergers, acquisitions or divestitures; (12) total shareholder return; and (13) debt reduction. Any of the above goals may be determined on an absolute or relative basis or as compared to the performance of a published or special index deemed applicable by the Committee including, but not limited to, the Standard & Poor’s 500 Stock Index or a group of companies that are comparable to the Company. Except as otherwise specified by the Committee at the time the goals are set, the Committee shall exclude the impact of: (i) restructurings, discontinued operations, extraordinary items, and other unusual or non-recurring charges, (ii) an event either not directly related to the operations of the Company or not within the reasonable control of the Company’s management, (iii) a change in accounting standards required by generally accepted accounting principles, or (iv) any other item or event specified by the Committee at the time the goals are set.

(c) **Performance Period; Timing For Establishing Performance Goals.** Achievement of performance goals in respect of such Performance Awards shall be measured over a Performance Period no shorter than 12 months and no longer than 5 years, as specified by the Committee. Performance goals shall be established not later than 90 days after the beginning of any Performance Period applicable to such Performance Awards, or at such other date as may be required or permitted for “performance-based compensation” under Code Section 162(m).

(d) **Adjustments.** The Committee may, in its discretion, reduce the amount of a settlement otherwise to be made in connection with Awards subject to this Section 8, but may not exercise discretion to increase any such amount payable to a Covered Employee in respect of an Award subject to this Section 8. The Committee shall specify the circumstances in which such Awards shall be paid or forfeited in the event of termination of Continuous Service by the Participant prior to the end of a Performance Period or settlement of Awards.

(e) **Committee Certification.** No Participant shall receive any payment under the Plan that is subject to this Section 8 unless the Committee has certified, by resolution or other appropriate action in writing, that the performance criteria and any other material terms previously established by the Committee or set forth in the Plan, have been satisfied to the extent necessary to qualify as “performance based compensation” under Code Section 162(m).

9. Change in Control.

(a) **Effect of “Change in Control.”** If and only to the extent provided in the Award Agreement, or to the extent otherwise determined by the Committee, upon the occurrence of a “Change in Control,” as defined in Section 9(b):

(i) Any Option or Stock Appreciation Right that was not previously vested and exercisable as of the time of the Change in Control, shall become immediately vested and exercisable, subject to applicable restrictions set forth in Section 10(a) hereof.

(ii) Any restrictions, deferral of settlement, and forfeiture conditions applicable to a Restricted Stock Award, Deferred Stock Award or an Other Stock-Based Award subject only to future service requirements granted under the Plan shall lapse and such Awards shall be deemed fully vested as of the time of the Change in Control, except to the extent of any waiver by the Participant and subject to applicable restrictions set forth in Section 10(a) hereof.

(iii) With respect to any outstanding Award subject to achievement of performance goals and conditions under the Plan, the Committee may, in its discretion, deem such performance goals and conditions as having been met as of the date of the Change in Control.

(b) **Definition of “Change in Control”.** Unless otherwise specified in an Award Agreement, a “Change in Control” shall mean the occurrence of any of the following:

(i) The acquisition by any Person of Beneficial Ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of more than fifty percent (50%) of either (A) the then outstanding shares of common stock of the Company (the “Outstanding Company Common Stock”) or (B) the combined voting power of the then outstanding voting securities of the Company entitled to vote generally in the election of directors (the “Outstanding Company Voting Securities) (the foregoing Beneficial Ownership hereinafter being referred to as a “Controlling Interest”); provided, however, that for purposes of this Section 9(b), the following acquisitions shall not constitute or result in a Change of Control: (v) any acquisition directly from the Company; (w) any acquisition by the Company; (x) any acquisition by any Person that as of the Effective Date owns Beneficial Ownership of a Controlling Interest; (y) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or any Subsidiary; or (z) any acquisition by any corporation pursuant to a transaction which complies with clauses (A), (B) and (C) of subsection (iii) below; or

(ii) During any period of two (2) consecutive years (not including any period prior to the Effective Date) individuals who constitute the Board on the Effective Date (the “Incumbent Board”) cease for any reason to constitute at least a majority of the Board; provided, however, that any individual becoming a director subsequent to the Effective Date whose election, or nomination for election by the Company’s shareholders, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board; or

(iii) Consummation of a reorganization, merger, statutory share exchange or consolidation or similar corporate transaction involving the Company or any of its Subsidiaries, a sale or other disposition of all or substantially all of the assets of the Company, or the acquisition of assets or stock of another entity by the Company or any of its Subsidiaries (each a “Business Combination”), in each case, unless, following such Business Combination, (A) all or substantially all of the individuals and entities who were the Beneficial Owners, respectively, of the Outstanding Company Common Stock and Outstanding Company Voting Securities immediately prior to such Business Combination beneficially own, directly or indirectly, more than fifty percent (50%) of the then outstanding shares of common stock and the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the corporation resulting from such Business Combination (including, without limitation, a corporation which as a result of such transaction owns the Company or all or substantially all of the Company’s assets either directly or through one or more subsidiaries) in substantially the same proportions as their ownership, immediately prior to such Business Combination of the Outstanding Company Common Stock and Outstanding Company Voting Securities, as the case may be, (B) no Person (excluding any employee benefit plan (or related trust) of the Company or such corporation resulting from such Business Combination or any Person that as of the Effective Date owns Beneficial Ownership of a Controlling Interest) beneficially owns, directly or indirectly, fifty percent (50%) or more of the then outstanding shares of common stock of the corporation resulting from such Business Combination or the combined voting power of the then outstanding voting securities of such corporation except to the extent that such ownership existed prior to the Business Combination and (C) at least a majority of the members of the Board of Directors of the corporation resulting from such Business Combination were members of the Incumbent Board at the time of the execution of the initial agreement, or of the action of the Board, providing for such Business Combination; or

(iv) Approval by the shareholders of the Company of a complete liquidation or dissolution of the Company.

10. *General Provisions.*

(a) ***Compliance With Legal and Other Requirements.*** The Company may, to the extent deemed necessary or advisable by the Committee, postpone the issuance or delivery of Shares or payment of other benefits under any Award until completion of such registration or qualification of such Shares or other required action under any federal or state law, rule or regulation, listing or other required action with respect to any stock exchange or automated quotation system upon which the Shares or other Company securities are listed or quoted, or compliance with any other obligation of the Company, as the Committee, may consider appropriate, and may require any Participant to make such representations, furnish such information and comply with or be subject to such other conditions as it may consider appropriate in connection with the issuance or delivery of Shares or payment of other benefits in compliance with applicable laws, rules, and regulations, listing requirements, or other obligations.

(b) **Limits on Transferability; Beneficiaries.** No Award or other right or interest granted under the Plan shall be pledged, hypothecated or otherwise encumbered or subject to any lien, obligation or liability of such Participant to any party, or assigned or transferred by such Participant otherwise than by will or the laws of descent and distribution or to a Beneficiary upon the death of a Participant, and such Awards or rights that may be exercisable shall be exercised during the lifetime of the Participant only by the Participant or his or her guardian or legal representative, except that Awards and other rights (other than Incentive Stock Options and Stock Appreciation Rights in tandem therewith) may be transferred to one or more Beneficiaries or other transferees during the lifetime of the Participant, and may be exercised by such transferees in accordance with the terms of such Award, but only if and to the extent such transfers are permitted by the Committee pursuant to the express terms of an Award Agreement (subject to any terms and conditions which the Committee may impose thereon). A Beneficiary, transferee, or other person claiming any rights under the Plan from or through any Participant shall be subject to all terms and conditions of the Plan and any Award Agreement applicable to such Participant, except as otherwise determined by the Committee, and to any additional terms and conditions deemed necessary or appropriate by the Committee.

(c) **Adjustments.**

(i) **Adjustments to Awards.** In the event that any extraordinary dividend or other distribution (whether in the form of cash, Shares, or other property), recapitalization, forward or reverse split, reorganization, merger, consolidation, spin-off, combination, repurchase, share exchange, liquidation, dissolution or other similar corporate transaction or event affects the Shares and/or such other securities of the Company or any other issuer such that a substitution, exchange, or adjustment is determined by the Committee to be appropriate, then the Committee shall, in such manner as it may deem equitable, substitute, exchange or adjust any or all of (A) the number and kind of Shares which may be delivered in connection with Awards granted thereafter, (B) the number and kind of Shares by which annual per-person Award limitations are measured under Section 5 hereof, (C) the number and kind of Shares subject to or deliverable in respect of outstanding Awards, (D) the exercise price, grant price or purchase price relating to any Award and/or make provision for payment of cash or other property in respect of any outstanding Award, and (E) any other aspect of any Award that the Committee determines to be appropriate. Notwithstanding the foregoing, in the case of any “equity restructuring” (within the meaning of Financial Accounting Standards Board Accounting Standards Codification Topic 718, Compensation - Stock Compensation, formerly known as Financial Accounting Standards Board Statement of Financial Accounting Standards No. 123 (revised 2004) or any other applicable accounting standard), the Committee shall make such adjustments to Awards on account of such equity restructuring as shall be necessary in order that the “fair value” of the adjusted Award immediately following the equity restructuring shall be equal to the “fair value” of the original Award immediately prior to the equity restructuring, based on the Share price and other pertinent factors on the effective date of the equity restructuring. For purposes of the preceding sentence, “fair value” shall be determined in accordance with the provisions of Financial Accounting Standards Board Accounting Standards Codification Topic 718, Compensation - Stock Compensation or any other applicable accounting standard.

(ii) *Adjustments in Case of Certain Corporate Transactions.*

(A) In the event of any merger, consolidation or other reorganization in which the Company does not survive, or in the event of any Change in Control, any outstanding Awards may be dealt with in accordance with any of the following approaches, as determined by the agreement effectuating the transaction or, if and to the extent not so determined, as determined by the Committee: (1) the continuation of the outstanding Awards by the Company, if the Company is a surviving corporation, (2) the assumption or substitution for, the outstanding Awards by the surviving corporation or its parent or subsidiary, (3) full exercisability or vesting and accelerated expiration of the outstanding Awards, or (4) settlement of the value of the outstanding Awards in cash or cash equivalents or other property followed by cancellation of such Awards (which value, in the case of Options or Stock Appreciation Rights, shall be measured by the amount, if any, by which the Fair Market Value of a Share exceeds the exercise or grant price of the Option or Stock Appreciation Right as of the effective date of the transaction). The Committee shall give written notice of any proposed transaction referred to in this Section 10(c)(ii) a reasonable period of time prior to the closing date for such transaction (which notice may be given either before or after the approval of such transaction), in order that Participants may have a reasonable period of time prior to the closing date of such transaction within which to exercise any Awards that are then exercisable (including any Awards that may become exercisable upon the closing date of such transaction). A Participant may condition his exercise of any Awards upon the consummation of the transaction.

(B) For purposes of this Section 10(c)(ii), an Option, Stock Appreciation Right, Restricted Stock Award, Deferred Stock Award or Other Stock-Based Award shall be considered assumed or substituted for if following the Change in Control the Award confers the right to purchase or receive, for each Share subject to the Option, Stock Appreciation Right, Restricted Stock Award, Deferred Stock Award or Other Stock-Based Award immediately prior to the Change in Control, on substantially the same vesting and other terms and conditions as were applicable to the Award immediately prior to the Change in Control, the consideration (whether stock, cash or other securities or property) received in the transaction constituting a Change in Control by holders of Shares for each Share held on the effective date of such transaction (and if holders were offered a choice of consideration, the type of consideration chosen by the holders of a majority of the outstanding shares); provided, however, that if such consideration received in the transaction constituting a Change in Control is not solely common stock of the successor company or its parent or subsidiary, the Committee may, with the consent of the successor company or its parent or subsidiary, provide that the consideration to be received upon the exercise or vesting of an Option, Stock Appreciation Right, Restricted Stock Award, Deferred Stock Award or Other Stock-Based Award, for each Share subject thereto, will be solely common stock of the successor company or its parent or subsidiary substantially equal in fair market value to the per share consideration received by holders of Shares in the transaction constituting a Change in Control. The determination of such substantial equality of value of consideration shall be made by the Committee in its sole discretion and its determination shall be conclusive and binding.

(iii) *Other Adjustments.* The Committee (and the Board if and only to the extent such authority is not required to be exercised by the Committee to comply with Section 162(m) of the Code) is authorized to make adjustments in the terms and conditions of, and the criteria included in, Awards (including Performance Awards, or performance goals

relating thereto) in recognition of unusual or nonrecurring events (including, without limitation, acquisitions and dispositions of businesses and assets) affecting the Company, any Related Entity or any business unit, or the financial statements of the Company or any Related Entity, or in response to changes in applicable laws, regulations, accounting principles, tax rates and regulations or business conditions or in view of the Committee's assessment of the business strategy of the Company, any Related Entity or business unit thereof, performance of comparable organizations, economic and business conditions, personal performance of a Participant, and any other circumstances deemed relevant, provided that no such adjustment shall be authorized or made if and to the extent that such authority or the making of such adjustment would cause Options, Stock Appreciation Rights, Performance Awards granted pursuant to Section 8(b) hereof to Participants designated by the Committee as Covered Employees and intended to qualify as "performance-based compensation" under Code Section 162(m) and the regulations thereunder to otherwise fail to qualify as "performance-based compensation" under Code Section 162(m) and regulations thereunder.

(d) **Taxes.** The Company and any Related Entity are authorized to withhold from any Award granted, any payment relating to an Award under the Plan, including from a distribution of Shares, or any payroll or other payment to a Participant, amounts of withholding and other taxes due or potentially payable in connection with any transaction involving an Award, and to take such other action as the Committee may deem advisable to enable the Company or any Related Entity and Participants to satisfy obligations for the payment of withholding taxes and other tax obligations relating to any Award. This authority shall include authority to withhold or receive Shares or other property and to make cash payments equal in value to the Shares withheld or received from the Participant in satisfaction of a Participant's tax obligations, either on a mandatory or elective basis in the discretion of the Committee.

(e) **Changes to the Plan and Awards.** The Board may amend, alter, suspend, discontinue or terminate the Plan, or the Committee's authority to grant Awards under the Plan, without the consent of shareholders or Participants, except that any amendment or alteration to the Plan shall be subject to the approval of the Company's shareholders not later than the annual meeting next following such Board action if such shareholder approval is required by any federal or state law or regulation (including, without limitation, Rule 16b-3 or Code Section 162(m)) or the rules of any stock exchange or automated quotation system on which the Shares may then be listed or quoted, and the Board may otherwise, in its discretion, determine to submit other such changes to the Plan to shareholders for approval; provided that, without the consent of an affected Participant, no such Board action may materially and adversely affect the rights of such Participant under any previously granted and outstanding Award. The Committee may waive any conditions or rights under, or amend, alter, suspend, discontinue or terminate any Award theretofore granted and any Award Agreement relating thereto, except as otherwise provided in the Plan; provided that, without the consent of an affected Participant, no such Committee or the Board action may materially and adversely affect the rights of such Participant under such Award.

(f) **Limitation on Rights Conferred Under Plan.** Neither the Plan nor any action taken hereunder or under any Award shall be construed as (i) giving any Eligible Person or Participant the right to continue as an Eligible Person or Participant or in the employ or service of the Company or a Related Entity; (ii) interfering in any way with the right of the

Company or a Related Entity to terminate any Eligible Person's or Participant's Continuous Service at any time, (iii) giving an Eligible Person or Participant any claim to be granted any Award under the Plan or to be treated uniformly with other Participants and Employees, or (iv) conferring on a Participant any of the rights of a shareholder of the Company including, without limitation, any right to receive dividends or distributions, any right to vote or act by written consent, any right to attend meetings of shareholders or any right to receive any information concerning the Company's business, financial condition, results of operation or prospects, unless and until such time as the Participant is duly issued Shares on the stock books of the Company in accordance with the terms of an Award. None of the Company, its officers or its directors shall have any fiduciary obligation to the Participant with respect to any Shares awarded pursuant to this Plan unless and until the Participant is duly issued Shares on the stock books of the Company in accordance with the terms of an Award. Neither the Company nor any of the Company's officers, directors, representatives or agents are granting any rights under the Plan to the Participant whatsoever, oral or written, express or implied, other than those rights expressly set forth in this Plan or the Award Agreement.

(g) **Unfunded Status of Awards; Creation of Trusts.** The Plan is intended to constitute an "unfunded" plan for incentive and deferred compensation. With respect to any payments not yet made to a Participant or obligation to deliver Shares pursuant to an Award, nothing contained in the Plan or any Award shall give any such Participant any rights that are greater than those of a general creditor of the Company; provided that the Committee may authorize the creation of trusts and deposit therein cash, Shares, other Awards or other property, or make other arrangements to meet the Company's obligations under the Plan. Such trusts or other arrangements shall be consistent with the "unfunded" status of the Plan unless the Committee otherwise determines with the consent of each affected Participant. The trustee of such trusts may be authorized to dispose of trust assets and reinvest the proceeds in alternative investments, subject to such terms and conditions as the Committee may specify and in accordance with applicable law.

(h) **Nonexclusivity of the Plan.** Neither the adoption of the Plan by the Board nor its submission to the shareholders of the Company for approval shall be construed as creating any limitations on the power of the Board or a committee thereof to adopt such other incentive arrangements as it may deem desirable including incentive arrangements and awards which do not qualify under Section 162(m) of the Code.

(i) **Payments in the Event of Forfeitures; Fractional Shares.** Unless otherwise determined by the Committee, in the event of a forfeiture of an Award with respect to which a Participant paid cash or other consideration, the Participant shall be repaid the amount of such cash or other consideration. No fractional Shares shall be issued or delivered pursuant to the Plan or any Award. The Committee shall determine whether cash, other Awards or other property shall be issued or paid in lieu of such fractional shares or whether such fractional shares or any rights thereto shall be forfeited or otherwise eliminated.

(j) **Governing Law.** The validity, construction and effect of the Plan, any rules and regulations under the Plan, and any Award Agreement shall be determined in accordance with the laws of the State of Delaware without giving effect to principles of conflict of laws, and applicable federal law.

(k) **Non-U.S. Laws.** The Committee shall have the authority to adopt such modifications, procedures, and subplans as may be necessary or desirable to comply with provisions of the laws of foreign countries in which the Company or its Subsidiaries may operate to assure the viability of the benefits from Awards granted to Participants performing services in such countries and to meet the objectives of the Plan.

(l) **Plan Effective Date and Shareholder Approval; Termination of Plan.** The Plan shall become effective on the Effective Date, which is the date the Plan was approved by shareholders of the Company eligible to vote in the election of directors, by a vote sufficient to meet the requirements of Code Sections 162(m) (if applicable) and 422, Rule 16b-3 under the Exchange Act (if applicable), applicable requirements under the rules of any stock exchange or automated quotation system on which the Shares may be listed or quoted, and other laws, regulations, and obligations of the Company applicable to the Plan. Awards may be granted subject to shareholder approval, but may not be exercised or otherwise settled in the event the shareholder approval is not obtained. The Plan shall terminate at the earliest of (a) such time as no Shares remain available for issuance under the Plan, (b) termination of this Plan by the Board, or (c) the tenth anniversary of the Effective Date. Awards outstanding upon expiration of the Plan shall remain in effect until they have been exercised or terminated, or have expired.

DESTINATION XL GROUP, INC.
Wholly-owned unless otherwise indicated

<u>Subsidiary:</u>	<u>Place of Incorporation:</u>
Casual Male Retail Store, LLC (f/k/a Designs CMAL Retail Store Inc.)	Delaware
Casual Male Direct, LLC (f/k/a Designs CMAL TBD Inc.)	Delaware
CMRG Apparel Management, Inc.	Delaware
CMRG Holdco, LLC	Delaware
CMXL Apparel, LP (a)	Delaware
CMRG Apparel, LLC (f/k/a Designs Apparel, Inc.) (b)	Delaware
Casual Male Store, LLC (f/k/a Designs CMAL Store Inc.)	Delaware
Capture, LLC (c)	Virginia
Casual Male RBT, LLC	Delaware
Casual Male RBT (U.K.) LLC (d)	Delaware
Casual Male Canada Inc.	Ontario, Canada
Casual Male (EUROPE) LLC	Delaware
Think Big Products LLC	Delaware
Canton PL Liquidating Corp. (f/k/a LP Innovations, Inc.)	Nevada
CMRG Global Holdings, Ltd.	Cayman Islands
CMRG Europe B.V. (e)	Netherlands
CMRG Hong Kong Limited	Hong Kong
(a) A limited partnership in which CMRG Apparel Management, Inc. is a General Partner owning 1% and CMRG Holdco, LLC is a Limited Partner owning 99%. (Both partners are wholly-owned subsidiaries of Destination XL Group, Inc.)	
(b) 100% owned by CMXL Apparel, LP (a wholly-owned subsidiary of Destination XL Group, Inc.)	
(c) 100% owned by Casual Male Store, LLC (a wholly-owned subsidiary of Destination XL Group, Inc.)	
(d) 100% owned by Casual Male RBT, LLC (a wholly-owned subsidiary of Destination XL Group, Inc.)	
(e) 100% owned by CMRG Global Holdings, Ltd.	

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the Registration Statements (Form S-3 Nos. 333-118966, 333-112598 and 333-90742 and Form S-8 Nos. 333-112561, 333-112218, 333-136890, 33-52892, 333-164618, 333-163245, 333-170708, and 333-170764) of Destination XL Group, Inc. of our reports dated March 17, 2014, with respect to the consolidated financial statements of Destination XL Group, Inc. and the effectiveness of internal control over financial reporting of Destination XL Group, Inc., included in the Annual Report (Form 10-K) for the year ended February 1, 2014.

/s/ KPMG LLP

Boston, Massachusetts
March 17, 2014

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the Registration Statements (Form S-3 Nos. 333-118966, 333-112598 and 333-90742 and Form S-8 Nos. 333-112561, 333-112218, 333-136890, 33-52892, 333-164618, 333-163245, 333-170708, and 333-170764) of Destination XL Group, Inc. of our report dated March 15, 2013, with respect to the consolidated financial statements of Destination XL Group, Inc. as of February 2, 2013 and for each of the two years in the period ended February 2, 2013, included in this Annual Report (Form 10-K) as of February 1, 2014.

/s/ Ernst & Young LLP

Boston, Massachusetts
March 17, 2014

PRINCIPAL EXECUTIVE OFFICER CERTIFICATION

I, David A. Levin, certify that:

1. I have reviewed this Annual Report on Form 10-K of Destination XL Group, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 17, 2014

/s/ DAVID A. LEVIN

David A. Levin
President and Chief Executive Officer

PRINCIPAL FINANCIAL OFFICER CERTIFICATION

I, John E. Kyees, certify that:

1. I have reviewed this Annual Report on Form 10-K of Destination XL Group, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 17, 2014

/s/ JOHN E. KYEES

John E. Kyees
Interim Chief Financial Officer

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report on Form 10-K of Destination XL Group, Inc. (the "Company") for the period ended February 1, 2014, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, David A. Levin, Chief Executive Officer of the Company, certify pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"); and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

This certification is being furnished as an exhibit to the Report pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, and shall not be deemed "filed" for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section. This certification will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act, regardless of any general incorporation language in such filing, except to the extent that the Company specifically incorporates this certification by reference.

Dated: March 17, 2014

/s/ DAVID A. LEVIN

David A. Levin
Chief Executive Officer

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report on Form 10-K of Destination XL Group, Inc. (the "Company") for the period ended February 1, 2014, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, John E. Kyees, Interim Chief Financial Officer of the Company, certify pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"); and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

This certification is being furnished as an exhibit to the Report pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, and shall not be deemed "filed" for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section. This certification will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act, regardless of any general incorporation language in such filing, except to the extent that the Company specifically incorporates this certification by reference.

Dated: March 17, 2014

/s/ JOHN E. KYEES

John E. Kyees
Interim Chief Financial Officer

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

