2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

v. Statements of Cash Flows

In fiscal 2006, 2005 and 2004, the Company paid interest of $14,748,000, $14,470,000 and $14,415,000, respectively, and made income tax payments of $5,352,000, $708,000 and $3,258,000, respectively. In fiscal 2005, the Company acquired equipment with a cost of $1,438,000 under a capital lease obligation.

w. Business and Credit Risk

Financial instruments, primarily cash and cash equivalents, short-term investments and accounts receivable, potentially subject the Company to concentrations of credit risk. The Company limits its credit risk associated with cash and cash equivalents and short-term investments by placing such investments in highly liquid funds and instruments. Receivables associated with third-party credit cards are processed by financial institutions, which are monitored for financial stability. The Company is dependent on key suppliers to provide sufficient quantities of inventory at competitive prices. No single supplier represented 10% or more of net purchases in fiscal 2006, 2005 or 2004. A majority of the Company's purchases during fiscal 2006 were imported. Management believes that any event causing a disruption of imports from any specific country could be mitigated by moving production to readily available alternative sources.

x. Insurance

The Company is self-insured for workers' compensation and employee-related health care benefits, up to certain stop-loss limits. Such costs are accrued based on known claims and an estimate of incurred but not reported claims. Further, the Company utilizes a cooperative arrangement with a number of other companies to assist in managing certain insurance risks. The Company's expenses associated with this relationship could be impacted by the loss history associated with the cooperative as a whole. Liabilities associated with these risks are estimated by considering historical claims experience and other actuarial assumptions.

y. Store Preopening Costs

Non-capital expenditures, such as payroll costs incurred prior to the opening of a new store, are charged to expense in the period in which they were incurred.

z. New Accounting Pronouncements

In May 2005, the Financial Accounting Standards Board ("FASB") issued SFAS No. 154, "Accounting Changes and Error Corrections." SFAS No. 154 provides guidance on the accounting for and reporting of accounting changes and error corrections. This statement is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005 and early adoption is permitted. The Company will adopt SFAS No. 154 effective as of October 1, 2006.

In June 2006, the FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes." FASB Interpretation No. 48 provides guidance for the recognition and measurement of uncertain tax positions in an enterprise's financial statements. Recognition involves a determination of whether it is more likely than not that a tax position will be sustained upon examination with the presumption that the tax position will be examined by the appropriate taxing authority that would have full knowledge of all relevant information. This interpretation is effective for fiscal years beginning after December 15, 2006.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Early adoption is permitted if the enterprise has not issued financial statements, including interim financial statements, in the period of adoption. The impact from adoption of FASB Interpretation No. 48, if any, on the Company's consolidated financial position or results of operations has not yet been determined.

In June 2006, the Emerging Issues Task Force ("EITF") issued EITF Issue 06-3, "How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That Is, Gross versus Net Presentation)." EITF Issue 06-3 provides guidance related to the presentation in financial statements of any tax assessed by a governmental authority that is directly imposed on a revenue-producing transaction between a seller and a customer, including, but not limited to, sales, use, value added, and some excise taxes. The EITF concluded that the presentation of taxes within the scope of EITF Issue 06-3 on either a gross (included in revenues and costs) or a net (excluded from revenues) basis is an accounting policy decision that should disclosed. In addition, the aggregate amount of any such taxes that are reported on a gross basis should be disclosed in interim and annual financial statements. The guidance in EITF Issue 06-3 is effective for interim and annual reporting periods beginning after December 15, 2006. The Company presently reports taxes within the scope of EITF Issue 06-3 on a net basis and adoption is not expected to have an impact on the Company's consolidated financial statements.

3. INVENTORIES

Inventories as of September 30 were comprised of the following (in thousands):

	2006	2005
Finished goods	$ 86,937	$ 97,056
Work-in-progress	2,736	3,283
Raw materials	4,586	5,572
	$ 94,259	$ 105,911

4. PROPERTY, PLANT AND EQUIPMENT, NET

Property, plant and equipment as of September 30 was comprised of the following (in thousands):

	2006	2005
Land	$ 1,400	$ 1,400
Building and improvements	12,762	12,474
Furniture and equipment	56,608	53,917
Leasehold improvements	103,160	102,149
	173,930	169,940
Less: accumulated depreciation and amortization	(102,500)	(93,767)
	$ 71,430	$ 76,173

Furniture and equipment includes equipment acquired under a capital lease obligation on December 1, 2004. As of September 30, 2006, the equipment had a cost of $1,438,000 and accumulated amortization of $546,000 (see Note 9).

4. PROPERTY, PLANT AND EQUIPMENT, NET (Continued)

During fiscal 2006, 2005 and 2004, the Company recorded pre-tax charges under SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," of $2,578,000, $3,151,000 and $1,816,000, respectively, related to the impairment of leasehold improvements and furniture and equipment at certain of its retail locations.

As of September 30, 2006, $700,000 of assets held for sale (not included above) relate to the manufacturing and warehouse facilities located in Costa Rica that were acquired in the purchase of iMaternity (see Note 5).

These facilities, shut down during fiscal 2002, are being marketed for sale, are not being depreciated and are separately reflected in the accompanying Consolidated Balance Sheets as "Assets held for sale." One of these facilities was sold in fiscal 2006 for $225,000. The two remaining Costa Rica manufacturing and warehousing facilities are expected to be sold during fiscal 2007. The carrying values of the Costa Rican facilities were reduced by $275,000 during fiscal 2005 to their estimated realizable values, which were determined based on purchase offers from interested parties, less estimated selling costs.

5. EXIT/RESTRUCTURING ACTIVITIES RELATED TO ACQUISITION

A summary of the charges incurred and reserves recorded in connection with the eSpecialty Brands, LLC ("iMaternity") acquisition on October 17, 2001 for exit/restructuring activities during fiscal 2006, 2005 and 2004 is as follows (in thousands):

	Lease Termination Fees	Severance	Exit and Other Costs	Total
Reserves recorded in purchase accounting	$ 4,200	$ 2,587	$ 2,150	$ 8,937
Balance—September 30, 2003	$ 668	$ 600	$ 325	$ 1,593
Charges during fiscal 2004	(419)	(200)	(124)	(743)
Balance—September 30, 2004	249	400	201	850
Charges during fiscal 2005	(249)	(200)	(169)	(618)
Balance—September 30, 2005	—	200	32	232
Charges during fiscal 2006	—	(200)	(32)	(232)
Balance—September 30, 2006	$ —	$ —	$ —	$ —

6. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

As of September 30, accrued expenses and other current liabilities were comprised of the following (in thousands):

	2006	2005
Salaries, wages and employee benefits	$ 14,657	$ 8,846
Income taxes payable	1,565	1,161
Interest	2,273	2,483
Deferred rent	4,192	3,790
Sales taxes	3,170	2,456
Insurance	1,892	2.671
Audit and legal	4,137	3,400
Remaining payout for redeemed Series A Preferred Stock	679	679
Accrued store construction costs	681	152
Gift certificates and store credits	3,895	3,233
Other	7,312	6,692
	$ 44,453	$ 35,563

7. DEFERRED RENT AND OTHER NON-CURRENT LIABILITIES

As of September 30, deferred rent and other non-current liabilities were comprised of the following (in thousands):

	2006	2005
Deferred rent	$ 27,410	$ 29,169
Less: current portion included in accrued expenses and other current liabilities	(4,192)	(3,790)
Non-current deferred rent	23,218	25,379
Other	1,423	291
	$ 24,641	$ 25,670

8. LINE OF CREDIT

On October 15, 2004, the Company entered into a new five-year $60,000,000 senior secured revolving credit facility (the "Credit Facility"), which replaced the former $60 million credit facility that included a $56,000,000 borrowing base revolving line of credit. The Credit Facility will mature on October 15, 2009. Upon the Company's request and with the consent of the lender, permitted borrowings under the Credit Facility may be increased up to an additional $15,000,000, in increments of $2,500,000, up to a maximum limit of $75,000,000. Proceeds from advances under the Credit Facility, with certain restrictions, may be used to provide financing for working capital, letters of credit, capital expenditures, debt prepayments, dividends, share repurchases and other general corporate purposes. The Company paid certain closing fees in connection with the negotiation and execution of the Credit Facility. The Company also pays an unused line fee under the Credit Facility and certain early termination fees would be owed if the Credit Facility is terminated prior to its third anniversary. The Credit Facility contains various affirmative and negative covenants and representations and warranties. There are no financial covenant requirements under the Credit Facility unless either (i) Excess Availability (as defined in the agreement) falls below $10,000,000, or

8. LINE OF CREDIT (Continued)

(ii) average Financial Covenant Adjusted Availability (as defined in the agreement) for any calendar month is less than $15,000,000. If either of the events in item (i) or (ii) above occurs, the Company would be required to meet a certain minimum fixed charge coverage ratio (which increases from 1.00x during the first two years of the Credit Facility to 1.10x during the fifth year of the Credit Facility). During all of fiscal 2006 and 2005, the Company exceeded the requirements for the Excess Availability and average Financial Covenant Adjusted Availability. The Credit Facility is secured by a security interest in the Company's accounts receivable, inventory, real estate interests, letter of credit rights, cash, intangibles and certain other assets. The interest rate on outstanding borrowings is equal to, at the Company's election, either the lender's prime rate or the lender's LIBOR rate plus the applicable margin. The applicable margin for LIBOR rate borrowings is variable, ranging from 1.25% to 1.75%, based upon the availability calculation made in accordance with the Credit Facility. The applicable margin for LIBOR rate borrowings, based upon the availability calculation made in accordance with the agreement, has been 1.25% since the inception of the Credit Facility. Any amounts outstanding under the Credit Facility may be accelerated and become due and payable immediately and all loan and letter of credit commitments thereunder may be terminated upon an event of default and expiration of any applicable cure period. Events of default include: (i) nonpayment of obligations due under the Credit Facility, (ii) failure to perform any covenant or agreement contained in the Credit Facility, (iii) material misrepresentations, (iv) failure to pay, or certain other defaults under, other material indebtedness of the Company, (v) certain bankruptcy or insolvency events, (vi) a change of control, (vii) material uninsured losses, (viii) indictments of the Company or senior management in a material forfeiture action, and (ix) customary ERISA defaults, among others.

As of September 30, 2006, outstanding borrowings under the Credit Facility consisted of no direct borrowings and $8,460,000 in letters of credit with $51,540,000 of availability under the credit line, compared to no direct borrowings and $8,445,000 in letters of credit with $51,555,000 of availability under the credit line as of September 30, 2005. Borrowings under the Credit Facility as of September 30, 2006 would have borne interest at a rate of between approximately 6.57% and 8.25% per annum. During fiscal 2006 and 2005, the Company's average level of direct borrowings under the Credit Facility was $0.3 million and $3.1 million, respectively.

9. LONG-TERM DEBT

The following table summarizes the Company's long-term debt as of September 30 (in thousands):

	2006	2005
11¼% senior notes due August 1, 2010 (net of unamortized discount)	$ 114,130	$ 123,868
Industrial Revenue Bond, interest is variable (5.3% as of September 30, 2006), principal due annually until September 1, 2020 (collateralized in full by a standby letter of credit)	2,810	2,945
Government Mortgage Notes:		
Interest at 3.0%, principal due monthly until May 1, 2011 (collateralized by a second mortgage on certain property and equipment at the Company's headquarters)	721	863
Interest at 2.0%, principal due monthly until March 1, 2011 (collateralized by certain equipment at the Company's headquarters)	100	120
Capital Lease Obligation:		
Equipment lease, interest at 6.75%, payments due monthly until November 30, 2007 (collateralized by certain equipment at the Company's headquarters)	588	1,060
	118,349	128,856
Less: current portion	(814)	(769)
	$ 117,535	$ 128,087

Long-term debt maturities as of September 30, 2006 are as follows (in thousands):

Fiscal Year	
2007	$ 836
2008	410
2009	338
2010	115,347
2011	296
2012 and thereafter	2,015
	119,242
Less: unamortized discount	(870)
Less: amount representing interest on capital lease obligation	(23)
	$ 118,349

In August 2002, the Company issued $125,000,000 of 11¼% senior notes (the "Senior Notes"). The Senior Notes are due August 1, 2010 and were issued at 98.719% of their face amount, resulting in an annual effective interest rate of 11.50%. Interest on the Senior Notes is payable semi-annually in cash on February 1 and August 1, commencing on February 1, 2003. The Senior Notes were issued by Mothers Work, are senior unsecured obligations of Mothers Work, and are unconditionally guaranteed on a senior basis by all of the Company's domestic subsidiaries (see Note 15). The Senior Notes are redeemable at the Company's option, in whole or in part at any time on or after August 1, 2006, at 105.625% of their face amount, plus accrued and unpaid interest, declining ratably to 100% of their face amount, plus accrued

9. LONG-TERM DEBT (Continued)

and unpaid interest, on or after August 1, 2009. The indenture to the Senior Notes contains covenants that impose certain restrictions on the Company's ability to, among other things, incur additional indebtedness, pay dividends, repurchase stock, and enter into other various types of transactions. Subject to the foregoing restrictions, the Senior Notes also limit the amount of dividends and other restricted payments that may be paid by the Company under a formula that includes a $10 million fixed amount, plus approximately 50% of the Company's net income since issuance of the Senior Notes and allowable proceeds from certain other debt or equity transactions. During all of fiscal 2006, 2005 and 2004, the Company was in compliance with the required covenants. Any amounts outstanding under the Senior Notes may be accelerated and become due and payable immediately upon an event of default and expiration of any applicable cure period. Events of default include: (i) nonpayment of obligations due under the Senior Notes, (ii) failure to perform any covenant or agreement contained in the Senior Notes, (iii) material misrepresentations, (iv) failure to pay, or certain other defaults under, other material indebtedness of the Company, (v) certain bankruptcy or insolvency events, and (vi) material uninsured losses. Upon the occurrence of a Change in Control, as defined in the indenture to the Senior Notes, Holders of the Senior Notes have the right to require that the Company repurchase each Holder's Notes at 101% of the principal amount, plus accrued and unpaid interest.

In connection with the issuance of the Senior Notes, the Company incurred deferred financing costs of $4,497,000. These deferred financing costs, along with the debt discount, are being amortized and included in interest expense over the term of the Senior Notes, using the effective interest method.

In August 2006, the Company's Board of Directors authorized the repurchase of up to $10.0 million principal amount of the Senior Notes. During August and September 2006, the Company completed the repurchase of the authorized amount in two transactions at an aggregate of 105.832% of the $10.0 million principal amount, plus accrued and unpaid interest. In connection with the repurchases, the Company recorded pre-tax charges totaling $873,000, representing the premium paid plus the write-off of unamortized debt issuance discount and deferred financing costs. On December 8, 2006, the Company completed the repurchase of $25.0 million of the Senior Notes (see Note 22).

On December 1, 2004, the Company amended an existing operating lease for certain equipment in its main distribution facility, extending the remaining lease term to November 30, 2007 (the "Primary Term Expiration Date"). The amended lease was determined to be a capital lease in accordance with the provisions of SFAS No. 13, "Accounting for Leases." The lease provides for monthly rental payments through the Primary Term Expiration Date with a final installment of one dollar to purchase the equipment.

10. COMMON AND PREFERRED STOCK

The Company has authorization to issue up to 2,000,000 shares of preferred stock, par value $0.01 with 41,000 shares authorized Series A Cumulative Convertible Preferred Stock and 300,000 shares authorized Series B Junior Participating Preferred Stock ("Series B Preferred Stock"). There was no preferred stock issued or outstanding as of September 30, 2006 or 2005.

The Series B Preferred Stock can be purchased in units equal to one one-thousandth of a share (the "Series B Units") under the terms of the Rights Agreement (see Note 11). The holders of the Series B Units are entitled to receive dividends when and if declared on common stock. Series B Units are junior to

10. COMMON AND PREFERRED STOCK (Continued)

the common stock for both dividends and liquidations. Each Series B Unit votes as one share of common stock.

During fiscal 2003, the Board of Directors approved a share repurchase program under which the Company was authorized to repurchase up to $10,000,000 of its outstanding common stock from time to time in private transactions or on the open market through March 4, 2005. As of September 30, 2005, the Company had purchased and retired 142,269 shares in the aggregate under the repurchase program at a total cost of $3,242,000, or an average cost of $22.79 per share, of which 75,715 shares were repurchased in fiscal 2004, at an average cost of $23.44 per share. There were no repurchases under the repurchase program during fiscal 2005. The indenture governing the Senior Notes and the terms of the Company's Credit Facility contain restrictions that place limits on certain payments by the Company, including payments to repurchase shares of its common stock. The Company's repurchases of common stock have been made in compliance with all restrictions under the indenture governing the Senior Notes and the terms of its Credit Facility.

11. RIGHTS AGREEMENT

On October 9, 2005, the Company entered into an Amended and Restated Rights Agreement to renew its then existing Rights Agreement (collectively referred to as the "Rights Agreement") that would otherwise have expired on October 9, 2005. Under the Rights Agreement, the Company provided and will provide one Right (the "Right") for each share of Mothers Work common stock now or hereafter outstanding. Under certain limited conditions, as defined in the Rights Agreement, each Right entitles the registered holder to purchase from the Company one Series B Unit at $85 per share, subject to adjustment. The Rights expire on October 9, 2015 (the "Final Expiration Date").

The Rights Agreement provides the independent directors of the Company with some discretion in determining when the Distribution Date (as defined in the Rights Agreement) shall occur and the date until which the Rights may be redeemed. In addition, the Rights Agreement exempts from its operation any person that acquires, obtains the right to acquire, or otherwise obtains beneficial ownership of 15.0% or more of the then outstanding shares of the Company's common stock (an "Acquiring Person") without any intention of changing or influencing control of the Company provided that such person, as promptly as practicable, divests himself or itself of a sufficient number of shares of common stock so that such person would no longer be an Acquiring Person.

The Rights are not exercisable until the Distribution Date, which will occur upon the earlier of (i) ten business days following a public announcement that an Acquiring Person has acquired beneficial ownership of 15.0% or more of the Company's outstanding common stock, and ten business days following the commencement of a tender offer or exchange offer that would result in a person or group owning 15.0% or more of the Company's outstanding common stock, or (ii) such later date as may be determined by action of a majority of the independent directors. The Rights have certain anti-takeover effects. The Rights will cause substantial dilution to a person or group that attempts to acquire the Company without conditioning the offer on the redemption of the Rights.

11. RIGHTS AGREEMENT (Continued)

The Rights can be mandatorily redeemed by action of a majority of the independent directors at any time prior to the earlier of the Final Expiration Date and the Distribution Date for $0.01 per Right. Upon exercise and the occurrence of certain events, as defined in the Rights Agreement, each holder of a Right, except the Acquiring Person, will have the right to receive Series B Units, or common stock of the acquiring company, in each case having a value equal to two times the exercise price of the Right.

12. STOCK OPTION PLANS AND WARRANTS

The Company has three stock option plans: the Director Stock Option Plan (the "Director Plan"), the Amended and Restated 1987 Stock Option Plan (the "1987 Plan") and the 2005 Equity Incentive Plan (the "2005 Plan"). The Director Plan expired on December 31, 2004 and no further options may be granted under that plan. Options issued under the Director Plan will remain outstanding until they have expired, been exercised or have otherwise terminated. Under the 1987 Plan, officers and certain employees, including outside directors, may be granted options to purchase the Company's common stock with exercise prices as determined by the Compensation Committee of the Board of Directors that are no lower than the fair market value of the stock on the date of grant. In February 2003, the stockholders of the Company approved an amendment to increase the number of shares of common stock available for issuance upon the exercise of options granted under the 1987 Plan by 500,000, such that a total of 2,175,000 options could be issued under the 1987 Plan and the Director Plan (including up to a total of 200,000 options which were issuable under the Director Plan). In January 2006, the stockholders of the Company approved the adoption of the 2005 Plan. Under the 2005 Plan, employees, directors, consultants and other individuals who provide services to the Company, may be granted awards in the form of options, stock appreciation rights, restricted stock or restricted stock units. Up to 500,000 shares of the Company's common stock may be issued in respect of awards under the 2005 Plan, with no more than 250,000 of those shares permitted to be issued in respect of restricted stock or restricted stock units granted under the 2005 Plan, and awards of options to purchase the Company's common stock will have exercise prices as determined by the Compensation Committee of the Board of Directors that are no lower than the fair market value of the stock on the date of grant.

Effective October 1, 2004, each outside director is granted 5,000 fully vested options on an annual basis, with an exercise price equal to the fair market value of the stock on the grant date. No options have been granted by the Company with an exercise price less than the fair market value of the Company's common stock on the date of grant for any of the periods presented. The majority of the options issued under the plans vest ratably over a five-year period, although some options vest immediately, and options issued under the plans generally expire ten years from the date of grant. The Company issues new shares upon exercise of vested options. As of September 30, 2006, there were 564,127 options available for grant under the plans.

12. STOCK OPTION PLANS AND WARRANTS (Continued)

Stock option activity for all plans was as follows:

	Outstanding Options	Weighted Average Exercise Price	Weighted Average Remaining Life	Aggregate Intrinsic Value
	(in thousands)		(years)	(in thousands)
Balance—September 30, 2003	1,094	$ 16.36		
Granted	233	23.41		
Exercised	(80)	11.14		
Forfeited	(50)	24.97		
Expired	(6)	28.07		
Balance—September 30, 2004	1,191	17.67		
Granted	368	13.04		
Exercised	(82)	9.74		
Forfeited	(236)	29.26		
Expired	(11)	25.92		
Balance—September 30, 2005	1,230	14.50		
Granted	282	14.35		
Exercised	(302)	16.38		
Forfeited	(36)	11.10		
Expired	(86)	15.46		
Balance—September 30, 2006	1,088	13.99	6.7	$ 37,138
Exercisable—September 30, 2006	634	$ 14.08	5.3	$ 21,596

As of September 30, 2006, $4,556,000 of total unrecognized compensation cost related to non-vested awards is expected to be recognized over a weighted-average period of 1.5 years. During the years ended September 30, 2006, 2005 and 2004, the total intrinsic value of options exercised was $5,085,000, $364,000 and $914,000, respectively. The total cash received from these option exercises was $4,913,000, $485,000 and $276,000, respectively, and the actual tax benefit realized for the tax deductions from these option exercises was $1,983,000, $115,000 and $311,000, respectively. During fiscal 2005, options to purchase 27,270 shares of common stock with an aggregate exercise price of $307,000 were exercised by the option holders tendering 20,286 shares of the Company's common stock, which were held by the option holders. During fiscal 2004, options to purchase 54,540 shares of common stock with an aggregate exercise price of $614,000 were exercised by the option holders tendering 28,438 shares of the Company's common stock, which were held by the option holders.

On September 27, 2005, the Company accelerated the vesting of all outstanding stock options having per share exercise prices of $23.50 or more. Options to purchase 133,500 shares, having exercise prices ranging from $23.62 to $37.05 per share, were affected by the vesting acceleration.

12. STOCK OPTION PLANS AND WARRANTS (Continued)

The weighted average fair value of the stock options granted during fiscal 2006, 2005 and 2004 was estimated to be $8.60, $8.74 and $15.85, respectively. The weighted average fair value of each option granted is calculated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions:

	Year Ended September 30, 2006	2005	2004
Dividend yield	none	none	none
Expected price volatility	58 %	61 %	62 %
Risk-free interest rates	4.5 %	4.0 %	3.9 %
Expected lives	6.4 years	8.0 years	8.1 years

Expected volatility was determined using a weighted average of the historic volatility of the Company's common stock as of the option grant date measured over a period equal to the expected life of the grant. Risk-free interest rates were based on the U. S. Treasury yield curve in effect at the date of the grant. Expected lives were determined using the simplified method, which measures the average of the option vesting term and the option contractual term.

The following table summarizes information about stock options outstanding as of September 30, 2006:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding (in thousands)	Weighted Average Remaining Life	Weighted Average Exercise Price	Number Exercisable (in thousands)	Weighted Average Exercise Price
$ 7.40 to $ 8.00	66	5.1	$ 7.67	51	$ 7.68
8.01 to 9.00	77	2.7	8.94	76	8.95
9.01 to 10.00	174	3.2	9.39	174	9.39
10.01 to 12.00	232	8.0	10.11	54	10.35
12.01 to 13.00	272	8.1	12.84	116	12.85
13.01 to 15.00	47	8.4	14.11	26	13.76
15.01 to 23.50	48	9.0	21.45	2	18.63
23.51 to 24.00	66	7.2	23.62	66	23.62
24.01 to 37.00	78	8.1	29.10	41	28.61
37.01 to 37.05	28	6.2	37.05	28	37.05
$ 7.40 to $37.05	1,088	6.7	$ 13.99	634	$ 14.08

In connection with the acquisition of iMaternity on October 17, 2001 (see Note 5), the Company issued to the sellers warrants to purchase 350,000 shares of the Company's common stock at an exercise price of $22.50 per share (the "Warrants"). The Warrants were immediately vested upon grant and were exercisable for seven years from the date of grant. In the fourth quarter of fiscal 2006, certain holders of the Warrants turned in Warrants to purchase 125,000 shares of the Company's common stock and were issued 53,873 shares of the Company's common stock pursuant to cashless exercise net issuance elections. As of September 30, 2006, there were no remaining Warrants outstanding.

13. INCOME TAXES

For the years ended September 30, the income tax provision (benefit) was comprised of the following (in thousands):

	2006	2005	2004
Current provision	$ 5,104	$ 419	$ 1,137
Deferred provision (benefit)	715	(1,299)	2,329
	$ 5,819	$ (880)	$ 3,466
Federal provision (benefit)	$ 4,988	$ (704)	$ 2,945
State provision (benefit)	831	(176)	521
	$ 5,819	$ (880)	$ 3,466

The reconciliations of the statutory federal rate to the Company's effective income tax rates for the years ended September 30 were as follows:

	2006	2005	2004
Statutory federal tax rate	35.0 %	(34.0)%	34.0 %
State taxes, net of federal benefit	4.0	(36.9)	4.2
Federal rate adjustment on deferred tax assets	—	(14.6)	—
Other	—	2.1	2.6
	39.0 %	(83.4)%	40.8 %

The deferred tax effects of temporary differences giving rise to the Company's net deferred tax assets as of September 30 were as follows (in thousands):

	2006	2005
Deferred tax assets:		
Net operating loss carryforwards	$ 1,273	$ 1,596
Depreciation	1,903	2,527
Deferred rent	10,210	10,874
Inventory reserves	986	980
Employee benefit accruals	1,990	2,268
Reserves recorded in iMaternity acquisition	—	86
Stock-based compensation	1,042	—
Other accruals	929	870
Other	1,000	900
	19,333	20,101
Deferred tax liability:		
Prepaid expenses	(772)	(825)
	$ 18,561	$ 19,276

As of September 30, 2006, the Company has net operating loss carryforwards for federal tax purposes of $3,637,000, which were acquired in the acquisition of iMaternity and begin to expire in 2021. While the acquired net operating loss carryforwards are subject to certain annual limitations due to the change in ownership, the Company does not expect the limitations to reduce its ability to ultimately use such

13. INCOME TAXES (Continued)

carryforwards. The tax benefit of the acquired net operating loss carryforwards was recorded under the purchase method of accounting.

As of September 30, 2006 and 2005, management determined that the deferred tax assets should reflect the state tax benefits for several of the states in which the Company is operating. This determination was made in accordance with the provisions of SFAS No. 109. Management determined that no state tax benefits associated with the temporary differences should be reflected for the remaining states in which it is operating, given the continued historical uncertainty related to realizing state tax benefits. Had the state tax benefits been reflected for the remaining states, the deferred tax assets as of September 30, 2006 would be approximately $1,100,000 higher.

No valuation allowance has been provided for the net deferred tax assets. Based on the Company's historical levels of taxable income, management believes it is more likely than not that the Company will realize the net deferred tax assets as of September 30, 2006. There can be no assurance that the Company will generate taxable earnings or any specific level of earnings in the future.

14. COMMITMENTS AND CONTINGENCIES

The Company leases its retail facilities and certain equipment under various non-cancelable operating leases. Certain of these leases have renewal options. Total rent expense under operating leases amounted to $74,682,000, $75,634,000 and $73,690,000 in fiscal 2006, 2005 and 2004, respectively. Such amounts include contingent rentals based upon a percentage of sales totaling $103,000, $28,000 and $388,000 in fiscal 2006, 2005 and 2004, respectively.

Store operating leases and warehouse leases generally provide for payment of direct operating costs in addition to rent. Future annual minimum operating lease payments, excluding such direct operating costs, as well as leases for equipment rental as of September 30, 2006 are as follows (in thousands):

Fiscal Year	
2007	$ 55,195
2008	50,079
2009	45,620
2010	37,852
2011	33,613
2012 and thereafter	70,344
	$ 292,703

From time to time, the Company is named as a defendant in legal actions arising from normal business activities. Litigation is inherently unpredictable and although the amount of any liability that could arise with respect to currently pending actions cannot be accurately predicted, the Company does not believe that the resolution of any pending action will have a material adverse effect on its financial position, results of operations or liquidity.

15. GUARANTOR SUBSIDIARIES

Pursuant to the terms of the indenture relating to the Senior Notes, each of the domestic subsidiaries of Mothers Work, Inc. (the "Guarantor Subsidiaries") has jointly and severally provided an unconditional guarantee of the obligations of Mothers Work with respect to the Senior Notes. There are no restrictions on any of the assets of the Guarantor Subsidiaries which would limit their ability to transfer funds to Mothers Work in the form of loans, advances or cash dividends, except as provided by applicable law. None of the Company's foreign subsidiaries (the "Non-Guarantor Subsidiaries") have guaranteed the Senior Notes. The condensed consolidating financial information for the Company, the Guarantor Subsidiaries, and the Company's Non-Guarantor Subsidiaries as of September 30, 2006 and 2005 and for the fiscal years ended September 30, 2006, 2005 and 2004 as presented below has been prepared from the books and records maintained by the Guarantor Subsidiaries and the Company. The condensed consolidating financial information may not necessarily be indicative of the results of operations or financial position had the Guarantor Subsidiaries operated as independent entities. Certain intercompany revenues and expenses included in the subsidiary records are eliminated in consolidation. As a result of this activity, an amount due to/due from parent will exist at any time.

15. GUARANTOR SUBSIDIARIES (Continued)

Mothers Work, Inc.
Condensed Consolidating Balance Sheet
September 30, 2006
(in thousands)

	Mothers Work (Parent Company)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries (Foreign Operations)	Consolidating Eliminations	Mothers Work Consolidated
ASSETS					
Current assets:					
Cash and cash equivalents	$ 16,878	$ 96	$ 1,930	$ —	$ 18,904
Short-term investments	9,425	—	—	—	9,425
Trade receivables	11,631	—	—	—	11,631
Inventories	91,653	—	2,606	—	94,259
Deferred income taxes	6,018	—	—	—	6,018
Prepaid expenses and other current assets	8,226	—	169	—	8,395
Total current assets	143,831	96	4,705	—	148,632
Property, plant and equipment, net	69,026	—	2,404	—	71,430
Assets held for sale	—	—	700	—	700
Other assets	66,774	69	131	—	66,974
Investments in and advances to (from) affiliates	1,839	274,649	(4,184)	(272,304)	—
Total assets	$ 281,470	$ 274,814	$ 3,756	$ (272,304)	$ 287,736
LIABILITIES AND STOCKHOLDERS' EQUITY					
Current liabilities:					
Line of credit borrowings	$ —	$ —	$ —	$ —	$ —
Current portion of long-term debt	814	—	—	—	814
Accounts payable	19,593	—	—	—	19,593
Accrued expenses and other current liabilities	39,281	4,756	416	—	44,453
Total current liabilities	59,688	4,756	416	—	64,860
Long-term debt	117,535	—	—	—	117,535
Deferred rent and other non-current liabilities	23,547	—	1,094	—	24,641
Total liabilities	200,770	4,756	1,510	—	207,036
Total stockholders' equity	80,700	270,058	2,246	(272,304)	80,700
Total liabilities and stockholders' equity	$ 281,470	$ 274,814	$ 3,756	$ (272,304)	$ 287,736

15. GUARANTOR SUBSIDIARIES (Continued)

Mothers Work, Inc.
Condensed Consolidating Balance Sheet
September 30, 2005
(in thousands)

	Mothers Work (Parent Company)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries (Foreign Operations)	Consolidating Eliminations	Mothers Work Consolidated
ASSETS					
Current assets:					
Cash and cash equivalents	$ 2,901	$ 37	$ 99	$ —	$ 3,037
Trade receivables	7,604	—	77	—	7,681
Inventories	103,236	—	2,675	—	105,911
Deferred income taxes	6,015	—	—	—	6,015
Prepaid expenses and other current assets	4,816	—	—	—	4,816
Total current assets	124,572	37	2,851	—	127,460
Property, plant and equipment, net	73,672	—	2,501	—	76,173
Assets held for sale	—	—	925	—	925
Other assets	68,598	4	157	—	68,759
Investments in and advances to (from) affiliates	(6,877)	248,075	(3,405)	(237,793)	—
Total assets	$ 259,965	$ 248,116	$ 3,029	$ (237,793)	$ 273,317
LIABILITIES AND STOCKHOLDERS' EQUITY					
Current liabilities:					
Line of credit borrowings	$ —	$ —	$ —	$ —	$ —
Current portion of long-term debt	769	—	—	—	769
Accounts payable	19,885	15	—	—	19,900
Accrued expenses and other current liabilities	23,227	11,469	867	—	35,563
Total current liabilities	43,881	11,484	867	—	56,232
Long-term debt	128,087	—	—	—	128,087
Deferred rent and other non-current liabilities	24,669	—	1,001	—	25,670
Total liabilities	196,637	11,484	1,868	—	209,989
Total stockholders' equity	63,328	236,632	1,161	(237,793)	63,328
Total liabilities and stockholders' equity	$ 259,965	$ 248,116	$ 3,029	$ (237,793)	$ 273,317

15. GUARANTOR SUBSIDIARIES (Continued)

Mothers Work, Inc.

Condensed Consolidating Statements of Operations

(in thousands)

	Mothers Work (Parent Company)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries (Foreign Operations)	Consolidating Eliminations	Mothers Work Consolidated
For the Year Ended September 30, 2006					
Net sales	$ 585,272	$ 31,035	$ 17,472	$ (31,035)	$ 602,744
Cost of goods sold	280,693	—	7,389	—	288,082
Gross profit	304,579	31,035	10,083	(31,035)	314,662
Selling, general and administrative expenses	306,613	451	8,305	(31,035)	284,334
Operating income (loss)	(2,034)	30,584	1,778	—	30,328
Interest income (expense), net	(35,375)	20,841	—	—	(14,534)
Loss on extinguishment of debt	(873)	—	—	—	(873)
Equity in earnings of subsidiaries	53,203	—	—	(53,203)	—
Income before income taxes	14,921	51,425	1,778	(53,203)	14,921
Income tax provision	5,819	17,999	693	(18,692)	5,819
Net income	$ 9,102	$ 33,426	$ 1,085	$ (34,511)	$ 9,102
For the Year Ended September 30, 2005					
Net sales	$ 547,924	$ 29,218	$ 13,703	$ (29,218)	$ 561,627
Cost of goods sold	271,283	—	6,170	—	277,453
Gross profit	276,641	29,218	7,533	(29,218)	284,174
Selling, general and administrative expenses	292,394	257	6,503	(29,218)	269,936
Operating income (loss)	(15,753)	28,961	1,030	—	14,238
Interest income (expense), net	(29,060)	13,767	—	—	(15,293)
Equity in earnings of subsidiaries	43,758	—	—	(43,758)	—
Income (loss) before income taxes	(1,055)	42,728	1,030	(43,758)	(1,055)
Income tax provision (benefit)	(880)	14,955	431	(15,386)	(880)
Net income (loss)	$ (175)	$ 27,773	$ 599	$ (28,372)	$ (175)

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15. GUARANTOR SUBSIDIARIES (Continued)

Mothers Work, Inc.

Condensed Consolidating Statements of Operations (Continued)

(in thousands)

	Mothers Work (Parent Company)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries (Foreign Operations)	Consolidating Eliminations	Mothers Work Consolidated
For the Year Ended September 30, 2004					
Net sales	$ 510,751	$ 27,245	$ 7,300	$ (27,245)	$ 518,051
Cost of goods sold	239,251	—	3,500	—	242,751
Gross profit	271,500	27,245	3,800	(27,245)	275,300
Selling, general and administrative expenses	275,618	165	3,492	(27,245)	252,030
Operating income (loss)	(4,118)	27,080	308	—	23,270
Interest income (expense), net	(24,564)	9,799	—	—	(14,765)
Equity in earnings of subsidiaries	37,187	—	—	(37,187)	—
Income before income taxes	8,505	36,879	308	(37,187)	8,505
Income tax provision	3,466	12,908	128	(13,036)	3,466
Net income	$ 5,039	$ 23,971	$ 180	$ (24,151)	$ 5,039

15. GUARANTOR SUBSIDIARIES (Continued)

Mothers Work, Inc.
Condensed Consolidating Statement of Cash Flows
For the Year Ended September 30, 2006
(in thousands)

	Mothers Work (Parent Company)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries (Foreign Operations)	Consolidating Eliminations	Mothers Work Consolidated
Cash Flows from Operating Activities					
Net income	$ 9,102	$33,426	$1,085	$(34,511)	$ 9,102
Adjustments to reconcile net income to net cash provided by operating activities:					
Depreciation and amortization	15,648	8	462	—	16,118
Stock-based compensation expense	2,796	—	—	—	2,796
Loss on impairment of long-lived assets	2,466	—	146	—	2,612
(Gain) loss on disposal of assets	(156)	—	17	—	(139)
Loss on extinguishment of debt	873	—	—	—	873
Accretion of discount on notes	186	—	—	—	186
Deferred income tax provision	715	—	—	—	715
Amortization of deferred financing costs	689	—	—	—	689
Changes in assets and liabilities:					
Decrease (increase) in—					
Trade receivables	(4,027)	—	77	—	(3,950)
Inventories	11,583	—	69	—	11,652
Prepaid expenses and other assets	(3,401)	4	(169)	—	(3,566)
Investments in and advances to (from) affiliates	(8,076)	(26,651)	216	34,511	—
Increase (decrease) in—					
Accounts payable, accrued expenses and other current liabilities	13,815	(6,728)	139	—	7,226
Deferred rent and other non-current liabilities	(1,994)	—	93	—	(1,901)
Net cash provided by operating activities	40,219	59	2,135	—	42,413
Cash Flows from Investing Activities					
Purchase of short-term investments	(97,555)	—	—	—	(97,555)
Proceeds from sale of short-term investments	88,130	—	—	—	88,130
Capital expenditures	(13,433)	—	(500)	—	(13,933)
Proceeds from sale of assets held for sale	—	—	225	—	225
Purchase of intangible assets	(4)	—	(29)	—	(33)
Net cash used in investing activities	(22,862)	—	(304)	—	(23,166)
Cash Flows from Financing Activities					
Increase in cash overdrafts	1,077	—	—	—	1,077
Repayment of long-term debt	(10,770)	—	—	—	(10,770)
Premium on repurchase of long-term debt	(583)	—	—	—	(583)
Proceeds from exercise of stock options	4,913	—	—	—	4,913
Excess tax benefit from exercise of stock options	1,983	—	—	—	1,983
Net cash used in financing activities	(3,380)	—	—	—	(3,380)
Net Increase in Cash and Cash Equivalents	13,977	59	1,831	—	15,867
Cash and Cash Equivalents, Beginning of Year	2,901	37	99	—	3,037
Cash and Cash Equivalents, End of Year	$16,878	$ 96	$1,930	$ —	$18,904

15. GUARANTOR SUBSIDIARIES (Continued)

Mothers Work, Inc.
Condensed Consolidating Statement of Cash Flows
For the Year Ended September 30, 2005
(in thousands)

	Mothers Work (Parent Company)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries (Foreign Operations)	Consolidating Eliminations	Mothers Work Consolidated
Cash Flows from Operating Activities					
Net income (loss)	$ (175)	$27,773	$ 599	$(28,372)	$ (175)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:					
Depreciation and amortization	15,099	—	403	—	15,502
Loss on impairment of long-lived assets	3,165	—	275	—	3,440
Loss on disposal of assets	726	—	—	—	726
Accretion of discount on notes	167	—	—	—	167
Deferred income tax benefit	(1,299)	—	—	—	(1,299)
Tax benefit from stock option exercises	115	—	—	—	115
Amortization of deferred financing costs	588	—	—	—	588
Changes in assets and liabilities:					
Decrease (increase) in—					
Trade receivables	(3,267)	—	(32)	—	(3,299)
Inventories	(12,207)	—	(961)	—	(13,168)
Prepaid expenses and other assets	1,175	—	214	—	1,389
Investments in and advances to (from) affiliates	5,793	(32,926)	(1,239)	28,372	—
Increase (decrease) in—					
Accounts payable, accrued expenses and other current liabilities	(1,707)	5,146	504	—	3,943
Deferred rent and other non-current liabilities	(890)	—	285	—	(605)
Net cash provided by operating activities	7,283	(7)	48	—	7,324
Cash Flows from Investing Activities					
Purchase of short-term investments	(7,000)	—	—	—	(7,000)
Proceeds from sale of short-term investments	13,400	—	—	—	13,400
Capital expenditures	(16,719)	—	(925)	—	(17,644)
Purchase of intangible assets	(149)	—	(21)	—	(170)
Net cash used in investing activities	(10,468)	—	(946)	—	(11,414)
Cash Flows from Financing Activities					
Decrease in cash overdrafts	(166)	—	—	—	(166)
Repayment of long-term debt	(666)	—	—	—	(666)
Payout for redeemed Series A Preferred Stock	(373)	—	—	—	(373)
Deferred financing costs	(620)	—	—	—	(620)
Proceeds from exercise of stock options	485	—	—	—	485
Net cash used in financing activities	(1,340)	—	—	—	(1,340)
Net Decrease in Cash and Cash Equivalents	(4,525)	(7)	(898)	—	(5,430)
Cash and Cash Equivalents, Beginning of Year	7,426	44	997	—	8,467
Cash and Cash Equivalents, End of Year	$ 2,901	$ 37	$ 99	$ —	$ 3,037

15. GUARANTOR SUBSIDIARIES (Continued)

Mothers Work, Inc.
Condensed Consolidating Statement of Cash Flows
For the Year Ended September 30, 2004
(in thousands)

	Mothers Work (Parent Company)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries (Foreign Operations)	Consolidating Eliminations	Mothers Work Consolidated
Cash Flows from Operating Activities					
Net income	$ 5,039	$ 23,971	$ 180	$(24,151)	$ 5,039
Adjustments to reconcile net income to net cash provided by operating activities:					
Depreciation and amortization	14,067	—	203	—	14,270
Loss on impairment of long-lived assets	1,816	—	—	—	1,816
Loss on disposal of assets	1,223	—	—	—	1,223
Accretion of discount on notes	149	—	—	—	149
Deferred income tax provision	2,329	—	—	—	2,329
Tax benefit from stock option exercises	311	—	—	—	311
Amortization of deferred financing costs	415	—	—	—	415
Other	224	—	—	—	224
Changes in assets and liabilities:					
Decrease (increase) in—					
Trade receivables	(489)	—	(37)	—	(526)
Inventories	(7,808)	—	(430)	—	(8,238)
Prepaid expenses and other assets	(1,817)	—	(214)	—	(2,031)
Investments in and advances to (from) affiliates	(9,417)	(16,173)	1,439	24,151	—
Increase (decrease) in—					
Accounts payable, accrued expenses and other current liabilities	6,857	(7,787)	106	—	(824)
Deferred rent and other non-current liabilities	3,539	—	560	—	4,099
Net cash provided by operating activities	16,438	11	1,807	—	18,256
Cash Flows from Investing Activities					
Purchase of short-term investments	(54,075)	—	—	—	(54,075)
Proceeds from sale of short-term investments	52,675	—	—	—	52,675
Capital expenditures	(20,317)	—	(1,223)	—	(21,540)
Purchase of intangible assets	(30)	—	(50)	—	(80)
Net cash used in investing activities	(21,747)	—	(1,273)	—	(23,020)
Cash Flows from Financing Activities					
Increase in cash overdrafts	684	—	—	—	684
Repayment of long-term debt	(279)	—	—	—	(279)
Repurchase of common stock	(1,775)	—	—	—	(1,775)
Payout for redeemed Series A Preferred Stock	(1,362)	—	—	—	(1,362)
Deferred financing costs	(44)	—	—	—	(44)
Proceeds from exercise of stock options	276	—	—	—	276
Net cash used in financing activities	(2,500)	—	—	—	(2,500)
Net Increase (Decrease) in Cash and Cash Equivalents	(7,809)	11	534	—	(7,264)
Cash and Cash Equivalents, Beginning of Year	15,235	33	463	—	15,731
Cash and Cash Equivalents, End of Year	$ 7,426	$ 44	$ 997	$ —	$ 8,467

DMC Exhibit 2038_084
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