

In addition, these forward-looking statements necessarily depend upon assumptions, estimates and dates that may be incorrect or imprecise and involve known and unknown risks, uncertainties and other factors. Accordingly, any forward-looking statements included in this report do not purport to be predictions of future events or circumstances and may not be realized. Forward-looking statements can be identified by, among other things, the use of forward-looking terms such as “believes,” “expects,” “may,” “will,” “should,” “seeks,” “pro forma,” “anticipates,” “intends,” “continues,” “could,” “estimates,” “plans,” “potential,” “predicts,” “goal,” “objective,” or the negative of any of these terms, or comparable terminology, or by discussions of our outlook, plans, goals, strategy or intentions. Forward-looking statements speak only as of the date made. Except as required by applicable law, including the securities laws of the United States and the rules and regulations of the Securities and Exchange Commission, we assume no obligation to update any of these forward-looking statements to reflect actual results, changes in assumptions or changes in other factors affecting these forward-looking statements.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to market risk from changes in interest rates. We have not entered into any market risk sensitive instruments for trading purposes. The analysis below presents the sensitivity of the market value of our financial instruments to selected changes in market interest rates. The range of changes presented reflects our view of changes that are reasonably possible over a one-year period.

As of September 30, 2006, we had cash, cash equivalents and short-term investments of \$28.3 million, which include money market accounts and auction rate securities that bear interest at variable rates. A change in market interest rates earned on the cash, cash equivalents and short-term investments impacts the interest income and cash flows, but does not significantly impact the fair market value of the financial instruments. Due to the average maturity and conservative nature of our investment portfolio, we believe a sudden change in interest rates would not have a material effect on the value of our investment portfolio.

As of September 30, 2006, the principal components of our debt portfolio were the \$115.0 million principal amount of Senior Notes due 2010 and the \$60.0 million Credit Facility, both of which are denominated in U.S. dollars. The fair value of the debt portfolio is referred to as the “debt value.” The Senior Notes bear interest at a fixed rate of 11¼%. Although a change in market interest rates would not affect the interest incurred or cash flow related to this fixed rate portion of the debt portfolio, the debt value would be affected.

Our Credit Facility carries a variable interest rate that is tied to market indices. As of September 30, 2006, we had no direct borrowings and \$8.5 million of letters of credit outstanding under our Credit Facility. Borrowings under the Credit Facility would have borne interest at a rate of between approximately 6.57% and 8.25% per annum, as of September 30, 2006. Any future borrowings under the Credit Facility would, to the extent of outstanding borrowings, be affected by changes in market interest rates. A change in market interest rates on the variable portion of the debt portfolio impacts the interest incurred and cash flows, but does not impact the value of the financial instrument.

The sensitivity analysis as it relates to the fixed rate portion of our debt portfolio assumes an instantaneous 100 basis point move in interest rates from their levels as of September 30, 2006, with all other variables held constant. A 100 basis point increase in market interest rates would result in a decrease in the value of the debt by approximately \$3.5 million as of September 30, 2006. A 100 basis point decline in market interest rates would cause the debt value to increase by approximately \$3.5 million as of September 30, 2006.

Based on the variable rate debt included in our debt portfolio as of September 30, 2006, a 100 basis point increase in interest rates would result in additional interest incurred for the year of less than \$0.1 million. A 100 basis point decrease in interest rates would correspondingly lower our interest expense for the year by less than \$0.1 million.

Other than as described above, we do not believe that the market risk exposure on other financial instruments is material.

Item 8. Financial Statements and Supplementary Data

Our Consolidated Financial Statements appear on pages F-1 through F-36, as set forth in Item 15.

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

None.

Item 9A. Controls and Procedures

Disclosure Controls and Procedures

Our disclosure controls and procedures are designed to ensure that information required to be disclosed by us in the reports that are filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. These disclosure controls and procedures include controls and procedures designed to ensure that information required to be disclosed under the Exchange Act is accumulated and communicated to our management on a timely basis to allow decisions regarding required disclosure. We evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of September 30, 2006. Based on this evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that as of September 30, 2006, these controls and procedures were effective.

Internal Control over Financial Reporting

(a) Management's Annual Report on Internal Control over Financial Reporting

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of the Company's financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. 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 the assets of the Company, (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 receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company, and (iii) 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.

Management assessed the Company's internal control over financial reporting as of September 30, 2006, the end of the Company's fiscal year. Management based its assessment on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Management's assessment included evaluation of such elements as the design and operating effectiveness of key financial reporting controls, process documentation, accounting policies, and the Company's overall control environment.

Based on its assessment, management has concluded that the Company's internal control over financial reporting was effective as of the end of the fiscal year to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with generally accepted accounting principles. The results of management's assessment were reviewed with the Audit Committee of the Company's Board of Directors.

KPMG LLP audited management's assessment and independently assessed the effectiveness of the Company's internal control over financial reporting. KPMG LLP has issued an attestation report concurring with management's assessment, which is included below.

(b) Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Mothers Work, Inc.:

We have audited management's assessment, included in Management's Annual Report on Internal Control over Financial Reporting presented above, that Mothers Work, Inc. maintained effective internal control over financial reporting as of September 30, 2006, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Mothers Work, 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. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of 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, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and 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, management's assessment that Mothers Work, Inc. maintained effective internal control over financial reporting as of September 30, 2006, is fairly stated, in all material respects, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Also, in our opinion, Mothers Work, Inc. maintained, in all material respects, effective internal control over financial reporting as of September 30, 2006, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Mothers Work, Inc. and subsidiaries as of

September 30, 2006 and 2005, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the years in the three-year period ended September 30, 2006 and the related financial statement schedule, and our report dated December 13, 2006 expressed an unqualified opinion on those consolidated financial statements and the related financial statement schedule.

/s/ KPMG LLP

Philadelphia, Pennsylvania
December 13, 2006

(c) Change in Internal Control over Financial Reporting

There have been no changes in internal control over financial reporting identified in connection with management's evaluation that occurred during the last fiscal quarter ended September 30, 2006, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

None.

PART III

Item 10. Directors and Executive Officers of the Registrant

Information concerning directors, appearing under the captions "Election of Directors" and "Section 16(a) Beneficial Ownership Reporting Compliance" in our Proxy Statement (the "Proxy Statement") will be filed with the Securities and Exchange Commission in connection with the Annual Meeting of Stockholders scheduled to be held on January 19, 2007, and information concerning executive officers, appearing under the caption "Item 1. Business—Executive Officers of the Company" in Part I of this Form 10-K, is incorporated herein by reference in response to this Item 10.

The Board of Directors has adopted a Code of Business Conduct and Ethics, which was filed as an exhibit to the fiscal 2003 Form 10-K. We intend to satisfy the amendment and waiver disclosure requirements under applicable securities regulations by posting any amendments of, or waivers to, the Code of Business Conduct and Ethics on our web site.

Item 11. Executive Compensation

The information contained in the Proxy Statement from the section titled "Compensation Committee Report on Executive Compensation" up to, but not including, the section titled "Security Ownership of Certain Beneficial Owners and Management," with respect to executive compensation, and in the section titled "Compensation of Directors" with respect to director compensation, is incorporated herein by reference in response to this Item 11.

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

The information contained in the section titled “Security Ownership of Certain Beneficial Owners and Management” in the Proxy Statement, with respect to security ownership of certain beneficial owners and management, and in the section titled “Summary of All Existing Equity Compensation Plans,” with respect to securities authorized for issuance under equity compensation plans, is incorporated herein by reference in response to this Item 12.

Item 13. Certain Relationships and Related Transactions

Not applicable.

Item 14. Principal Accountant Fees and Services

The information contained in the Proxy Statement in the section titled “Auditor Fees and Services” is incorporated herein by reference in response to this Item 14.

PART IV.

Item 15. Exhibits, Financial Statement Schedules

(a)(1) Financial Statements

The financial statements listed in the accompanying Index to Consolidated Financial Statements are filed as part of this Form 10-K, commencing on page F-1.

(2) Financial Statement Schedules

Schedule II—Valuation and Qualifying Accounts.

All other schedules are omitted because they are not applicable or not required, or because the required information is included in the consolidated financial statements or notes thereto.

(3) Exhibits

See following Index of Exhibits.

INDEX OF EXHIBITS

Exhibit No.	Description
*3.1	Amended and Restated Certificate of Incorporation of the Company (effective March 10, 1993) (Exhibit 3.3 to the Company's Registration Statement on Form S-1, Registration No. 33-57912, dated February 4, 1993).
*3.2	By-Laws of the Company (as amended through October 9, 2005) (Exhibit 3.2 to the Company's Current Report on Form 8-K dated October 9, 2005).
*3.3	Amendment to the Amended and Restated Certificate of Incorporation of the Company dated February 11, 2003 (Exhibit 3.3 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2003 (the "March 2003 Form 10-Q")).
*3.4	Amendment to the Certificate of Designation of the Series B Junior Participating Preferred Stock of the Company dated February 11, 2003 (Exhibit 3.4 to the Company's March 2003 10-Q).
*4.1	Specimen certificate representing shares of the Company's common stock with legend regarding Preferred Stock Purchase Rights (Exhibit 4.2 to the Company's Current Report on Form 8-K dated October 12, 1995).
*4.2	Amended and Restated Rights Agreement, dated as of October 9, 2005, between Mothers Work, Inc. and StockTrans, Inc., which includes the Form of Series B Rights Certificate, the Certificate of Designation of the voting powers, designations, preferences, and relative, participating, optional or other special rights and qualifications, limitations and restrictions of the Series B Junior Participating Preferred Stock, and a Summary of Rights to Purchase Preferred Stock attached thereto as Exhibits A, B and C respectively (Exhibit 4.1 to the Company's Current Report on Form 8-K dated October 9, 2005).
*4.3	Indenture dated as of August 5, 2002, among the Company and Cave Springs, Inc., eSpecialty Brands, LLC, Dan Howard Industries, Inc., and Mother's Stores, Inc., as guarantors, and J.P. Morgan Trust Company, National Association, a national banking association, as Trustee (Exhibit 4.11 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002).
†*10.1	1994 Director Stock Option Plan (Exhibit 10.12 to the Company's Annual Report on Form 10-K for the year ended September 30, 1994).
*10.2	Loan Agreement dated September 1, 1995 between Philadelphia Authority For Industrial Development ("PAID") and the Company (Exhibit 10.26 to the Company's Registration Statement on Form S-1, Registration No. 33-97318, dated October 26, 1995 (the "1995 Registration Statement")).
*10.3	Indenture of Trust dated September 1, 1995 between PAID and Society National Bank (Exhibit 10.29 to the Company's 1995 Registration Statement).
*10.4	Variable/Fixed Rate Federally Taxable Economic Development Bond (Mothers Work, Inc.), Series of 1995, in the aggregate principal amount of \$4,000,000 (Exhibit 10.30 to the Company's 1995 Registration Statement).
*10.5	Note dated as of February 14, 1996 from the Company to PIDC Local Development Corporation (Exhibit 10.29 to the Company's Annual Report on Form 10-K for the year ended September 30, 1996 (the "1996 Form 10-K")).
*10.6	Installment Sale Agreement dated as of April 4, 1996 by and between PIDC Financing Corporation and the Company (Exhibit 10.30 to the 1996 Form 10-K).

- *10.7 Open-ended Mortgage dated as of April 4, 1996 between PIDC Financing Corporation and the Pennsylvania Industrial Development Authority (“PIDA”) (Exhibit 10.31 to the 1996 Form 10-K).
- *10.8 Loan Agreement dated as of April 4, 1996 by and between PIDC Financing Corporation and PIDA (Exhibit 10.32 to the 1996 Form 10-K).
- *10.9 Amended and Restated Loan and Security Agreement dated as of October 15, 2004 by and among Mothers Work, Inc., Cave Springs, Inc., Mothers Work Canada, Inc., and Fleet Retail Group, Inc. (Exhibit 10.1 to the Company’s Current Report on Form 8-K dated October 15, 2004).
- †*10.10 1987 Stock Option Plan (as amended and restated) (Exhibit 4.1 to the Company’s Registration Statement on Form S-8, Registration No. 333-59529, dated July 21, 1998).
- †*10.11 Amendment to the Company’s 1987 Stock Option Plan, as amended and restated, effective as of November 13, 2002 (Exhibit 10.25 to the Company’s March 2003 Form 10-Q).
- †*10.12 Form of Non-Qualified Stock Option Agreement under the Company’s 1987 Stock Option Plan (Exhibit 10.18 to the Company’s Annual Report on Form 10-K for the year ended September 30, 2004 (the “2004 Form 10-K”)).
- †*10.13 Form of Non-Qualified Stock Option Agreement under the Company’s 1994 Director Stock Option Plan (Exhibit 10.19 to the 2004 Form 10-K).
- †*10.14 Amended and Restated Employment Agreement dated as of April 28, 2005, between Mothers Work, Inc. and Dan W. Matthias (Exhibit 10.20 to the Company’s Current Report on Form 8-K dated April 26, 2005 (the “April 26, 2005 Form 8-K”)).
- †*10.15 Amended and Restated Employment Agreement dated as of April 28, 2005, between Mothers Work, Inc. and Rebecca C. Matthias (Exhibit 10.21 to the April 26, 2005 Form 8-K).
- †*10.16 Amended and Restated Employment Agreement dated as of April 26, 2005, between Mothers Work, Inc. and Edward M. Krell (Exhibit 10.22 to the April 26, 2005 Form 8-K).
- †*10.17 Description of the Company’s Non-Employee Directors Compensation Policy (Exhibit 10.1 to the Company’s Quarterly Report on Form 10-Q for the quarter ended March 31, 2005).
- *10.18 First Modification Agreement dated as of September 26, 2005 by and among Mothers Work, Inc., Cave Springs, Inc., Mothers Work Canada, Inc., and Fleet Retail Group, LLC. (Exhibit 10.18 to the Company’s Annual Report on Form 10-K for the year ended September 30, 2005).
- †*10.19 Amendment to Amended and Restated Employment Agreement dated as of December 29, 2005, between Mothers Work, Inc. and Dan W. Matthias (Exhibit 10.19 to the Company’s Current Report on Form 8-K dated December 29, 2005 (the “December 29, 2005 Form 8-K”)).
- †*10.20 Amendment to Amended and Restated Employment Agreement dated as of December 29, 2005, between Mothers Work, Inc. and Rebecca C. Matthias (Exhibit 10.20 to the December 29, 2005 Form 8-K).
- †*10.21 Form of Waiver of Rights Under Company’s 1987 Stock Option Plan and 1994 Director Stock Option Plan executed by each of the Company’s Non-Management Directors (Exhibit 10.21 to the December 29, 2005 Form 8-K).
- †*10.22 Form of Waiver of Rights Under Company’s 1987 Stock Option Plan executed by certain of the Company’s executive officers (Exhibit 10.22 to the December 29, 2005 Form 8-K).

- †*10.23 Second Amendment to Amended and Restated Employment Agreement dated as of May 8, 2006, between Mothers Work, Inc. and Dan W. Matthias (Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2006 (the "March 2006 Form 10-Q")).
- †*10.24 Second Amendment to Amended and Restated Employment Agreement dated as of May 8, 2006, between Mothers Work, Inc. and Rebecca C. Matthias (Exhibit 10.5 to the March 2006 Form 10-Q).
- †*10.25 Letter Agreement dated as of November 14, 2006 between Mothers Work, Inc. and Dan W. Matthias (Exhibit 10.19 to the Company's Current Report on Form 8-K dated November 14, 2006 (the "November 14, 2006 Form 8-K")).
- †*10.26 Letter Agreement dated as of November 14, 2006 between Mothers Work, Inc. and Rebecca C. Matthias (Exhibit 10.20 to the November 14, 2006 Form 8-K).
- †10.27 Company's 2005 Equity Incentive Plan (as amended through October 9, 2006)
- †10.28 Form of Restricted Stock Award Agreement under the Company's 2005 Equity Incentive Plan.
- †10.29 Form of Non-Qualified Stock Option Agreement under the Company's 2005 Equity Incentive Plan.
- *14 Code of Business Conduct and Ethics (Exhibit 14 to the Company's Annual Report on Form 10-K for the year ended September 30, 2003 (the "2003 Form 10-K")).
- *21 Subsidiaries of the Company (Exhibit 21 to the 2003 Form 10-K).
- 23 Consent of KPMG LLP.
- 31.1 Certification of the Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of the Executive Vice President—Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of the 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 the Executive Vice President—Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

*Incorporated by reference.

†Management contract or compensatory plan or arrangement.

MOTHERS WORK, INC. AND SUBSIDIARIES
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS
AND FINANCIAL STATEMENT SCHEDULE

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
Mothers Work, Inc.:

We have audited the accompanying consolidated balance sheets of Mothers Work, Inc. and subsidiaries as of September 30, 2006 and 2005, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the years in the three-year period ended September 30, 2006. In connection with our audits of the consolidated financial statements, we also have audited the related financial statement schedule, Valuation and Qualifying Accounts. These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Mothers Work, Inc. and subsidiaries as of September 30, 2006 and 2005, and the results of their operations and their cash flows for each of the years in the three-year period ended September 30, 2006, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed in Note 2, the Company adopted SFAS No. 123(R), "Share-Based Payment," effective October 1, 2005 using the modified prospective method.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Mothers Work, Inc.'s internal control over financial reporting as of September 30, 2006, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated December 13, 2006 expressed an unqualified opinion on management's assessment of, and the effective operation of, internal control over financial reporting.

/s/ KPMG LLP

Philadelphia, Pennsylvania
December 13, 2006

MOTHERS WORK, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share amounts)

	September 30,	
	2006	2005
ASSETS		
Current assets		
Cash and cash equivalents	\$ 18,904	\$ 3,037
Short-term investments	9,425	—
Trade receivables	11,631	7,681
Inventories	94,259	105,911
Deferred income taxes	6,018	6,015
Prepaid expenses and other current assets	8,395	4,816
Total current assets	148,632	127,460
Property, plant and equipment, net	71,430	76,173
Assets held for sale	700	925
Other assets		
Goodwill	50,389	50,389
Deferred financing costs, net of accumulated amortization of \$1,927 and \$1,379	2,795	3,697
Other intangible assets, net of accumulated amortization of \$2,413 and \$2,481	726	878
Deferred income taxes	12,543	13,261
Other non-current assets	521	534
Total other assets	66,974	68,759
Total assets	\$ 287,736	\$ 273,317
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Line of credit borrowings	\$ —	\$ —
Current portion of long-term debt	814	769
Accounts payable	19,593	19,900
Accrued expenses and other current liabilities	44,453	35,563
Total current liabilities	64,860	56,232
Long-term debt	117,535	128,087
Deferred rent and other non-current liabilities	24,641	25,670
Total liabilities	207,036	209,989
Commitments and contingencies (Note 14)		
Stockholders' equity		
Preferred stock, 2,000,000 shares authorized		
Series A cumulative convertible preferred stock, \$.01 par value, 41,000 shares authorized, none outstanding	—	—
Series B junior participating preferred stock, \$.01 par value; 300,000 shares authorized, none outstanding	—	—
Common stock, \$.01 par value; 20,000,000 shares authorized, 5,624,374 and 5,268,535 shares issued and outstanding, respectively	56	53
Additional paid-in capital	71,431	63,164
Retained earnings	9,213	111
Total stockholders' equity	80,700	63,328
Total liabilities and stockholders' equity	\$ 287,736	\$ 273,317

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

MOTHERS WORK, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share amounts)

	Year Ended September 30,		
	2006	2005	2004
Net sales	\$ 602,744	\$ 561,627	\$ 518,051
Cost of goods sold	288,082	277,453	242,751
Gross profit	314,662	284,174	275,300
Selling, general and administrative expenses	284,334	269,936	252,030
Operating income	30,328	14,238	23,270
Interest expense, net	14,534	15,293	14,765
Loss on extinguishment of debt	873	—	—
Income (loss) before income taxes	14,921	(1,055)	8,505
Income tax provision (benefit)	5,819	(880)	3,466
Net income (loss)	\$ 9,102	\$ (175)	\$ 5,039
Net income (loss) per share—Basic	\$ 1.70	\$ (0.03)	\$ 0.97
Average shares outstanding—Basic	5,348	5,242	5,212
Net income (loss) per share—Diluted	\$ 1.63	\$ (0.03)	\$ 0.92
Average shares outstanding—Diluted	5,591	5,242	5,501

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

MOTHERS WORK, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(in thousands)

	Common Stock		Additional Paid-in Capital	Retained Earnings (Accumulated Deficit)	Total
	Number of Shares	Amount			
Balance as of September 30, 2003	5,231	\$ 52	\$ 63,559	\$ (4,753)	\$ 58,858
Exercise of stock options	51	1	275	—	276
Repurchase and retirement of common shares	(75)	(1)	(1,774)	—	(1,775)
Tax benefit from stock option exercises	—	—	311	—	311
Non-cash compensation	—	—	194	—	194
Net income	—	—	—	5,039	5,039
Balance as of September 30, 2004	5,207	52	62,565	286	62,903
Exercise of stock options	62	1	484	—	485
Tax benefit from stock option exercises	—	—	115	—	115
Net loss	—	—	—	(175)	(175)
Balance as of September 30, 2005	5,269	53	63,164	111	63,328
Stock-based compensation	—	—	1,374	—	1,374
Exercise of stock options and warrants	355	3	4,910	—	4,913
Tax benefit from stock option exercises	—	—	1,983	—	1,983
Net income	—	—	—	9,102	9,102
Balance as of September 30, 2006	5,624	\$ 56	\$ 71,431	\$ 9,213	\$ 80,700

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

MOTHERS WORK, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Year Ended September 30,		
	2006	2005	2004
Cash Flows from Operating Activities			
Net income (loss)	\$ 9,102	\$ (175)	\$ 5,039
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	16,118	15,502	14,270
Stock-based compensation expense	2,796	—	—
Loss on impairment of long-lived assets	2,612	3,440	1,816
(Gain) loss on disposal of assets	(139)	726	1,223
Loss on extinguishment of debt	873	—	—
Accretion of discount on notes	186	167	149
Deferred income tax provision (benefit)	715	(1,299)	2,329
Tax benefit from stock option exercises	—	115	311
Amortization of deferred financing costs	689	588	415
Other	—	—	224
Changes in assets and liabilities:			
Decrease (increase) in—			
Trade receivables	(3,950)	(3,299)	(526)
Inventories	11,652	(13,168)	(8,238)
Prepaid expenses and other assets	(3,566)	1,389	(2,031)
Increase (decrease) in—			
Accounts payable, accrued expenses and other current liabilities	7,226	3,943	(824)
Deferred rent and other non-current liabilities	(1,901)	(605)	4,099
Net cash provided by operating activities	42,413	7,324	18,256
Cash Flows from Investing Activities			
Purchase of short-term investments	(97,555)	(7,000)	(54,075)
Proceeds from sale of short-term investments	88,130	13,400	52,675
Capital expenditures	(13,933)	(17,644)	(21,540)
Proceeds from sale of assets held for sale	225	—	—
Purchase of intangible assets	(33)	(170)	(80)
Net cash used in investing activities	(23,166)	(11,414)	(23,020)
Cash Flows from Financing Activities			
Increase (decrease) in cash overdrafts	1,077	(166)	684
Repayment of long-term debt	(10,770)	(666)	(279)
Premium on repurchase of long-term debt	(583)	—	—
Repurchase of common stock	—	—	(1,775)
Payout for redeemed Series A preferred stock	—	(373)	(1,362)
Deferred financing costs	—	(620)	(44)
Proceeds from exercise of stock options	4,913	485	276
Excess tax benefit from exercise of stock options	1,983	—	—
Net cash used in financing activities	(3,380)	(1,340)	(2,500)
Net Increase (Decrease) in Cash and Cash Equivalents	15,867	(5,430)	(7,264)
Cash and Cash Equivalents, Beginning of Year	3,037	8,467	15,731
Cash and Cash Equivalents, End of Year	<u>\$ 18,904</u>	<u>\$ 3,037</u>	<u>\$ 8,467</u>

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

MOTHERS WORK, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. NATURE OF BUSINESS

Mothers Work, Inc. and subsidiaries ("Mothers Work" or the "Company") is a specialty designer and retailer of maternity clothing. The Company operated 1,541 retail locations as of September 30, 2006, including 810 stores and 731 leased departments, throughout the United States and Canada. In addition, the Company markets maternity apparel at Kohl's® stores throughout the United States under an exclusive product and license agreement. Mothers Work, Inc. was incorporated in Delaware in 1982.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Mothers Work, Inc. and its direct and indirect wholly-owned subsidiaries of Cave Springs, Inc., Mothers Work Canada, Inc., Maternity Factory Warehouse Centre, Inc. (a wholly-owned subsidiary of Mothers Work Canada, Inc.) and Confecciones Acona S.A. All significant intercompany transactions and accounts have been eliminated in consolidation.

b. Fiscal Year-End

The Company operates on a fiscal year ending September 30 of each year. All references to fiscal years of the Company refer to the fiscal years ended on September 30 in those years. For example, the Company's "fiscal 2006" ended on September 30, 2006.

c. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make certain estimates and assumptions that may affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

d. Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, cash in the bank and short-term investments with an original maturity of three months or less when purchased. Cash overdrafts of \$3,890,000 and \$2,813,000 were included in accounts payable as of September 30, 2006 and 2005, respectively.

The Company maintains cash accounts that, at times, may exceed federally insured limits. The Company has not experienced any losses from maintaining cash accounts in excess of such limits. Management believes that it is not exposed to any significant credit risks on its cash accounts.

e. Short-Term Investments

The Company's short-term investments may be classified as either held-to-maturity or available-for-sale. Held-to-maturity securities represent those securities that the Company has both the intent and ability to hold to maturity and are carried at amortized cost. Interest on these securities, as well as amortization of discounts and premiums, is included in interest income. Available-for-sale securities represent those securities that do not meet the classification of held-to-maturity, are not actively traded and are carried at fair value, which approximates amortized cost. Unrealized gains and losses on these

MOTHERS WORK, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

securities are excluded from earnings and are reported as a separate component of stockholders' equity until realized. When available-for-sale securities are sold, the cost of the securities is specifically identified and is used to determine the realized gain or loss.

The Company's short-term investments as of September 30, 2006 were classified as available-for-sale and consisted exclusively of auction rate securities with the cost equal to the fair value. These securities had liquidity provisions at specified interest rate reset dates, typically every 7, 28 or 35 days, and the original maturity of the securities was beyond three months. There were no realized gains or losses associated with available-for-sale investments in fiscal 2006, 2005 or 2004.

f. Inventories

Inventories are valued at the lower of cost or market. Cost is determined by the "first-in, first-out" (FIFO) method. Inventories of goods manufactured by the Company include the cost of materials, freight, direct labor, and manufacturing and distribution overhead.

g. Property, Plant and Equipment

Property, plant and equipment are stated at cost. Depreciation and amortization are computed for financial reporting purposes on a straight-line basis, using service lives ranging principally from five to ten years for furniture and equipment and forty years for the building. Leasehold improvements are amortized using the straight-line method over the shorter of the lease term or their useful life. The cost of assets sold or retired and the related accumulated depreciation or amortization are removed from the accounts with any resulting gain or loss included in net income (loss). Maintenance and repairs are expensed as incurred except for the capitalization of major renewals and betterments that extend the life of the asset. Long-lived assets are reviewed for impairment whenever adverse events or changes in circumstances or business climate indicate that the carrying value may not be recoverable. Factors used in the evaluation include, but are not limited to, management's plans for future operations, brand initiatives, recent operating results and projected cash flows. If the associated undiscounted cash flows are insufficient to support the recorded asset, an impairment loss is recognized to reduce the carrying value of the asset. The amount of the impairment loss is determined by comparing the discounted expected future cash flows with the carrying value.

During fiscal 2006, 2005 and 2004, the Company recorded impairment write downs of property, plant and equipment totaling \$2,578,000, \$3,151,000 and \$1,816,000, respectively, on a pre-tax basis.

h. Goodwill and Intangible Assets

Goodwill represents the excess of cost over the fair value of net assets acquired in business combinations. Prior to fiscal 2002, goodwill was amortized using the straight-line method over a period of 20 years. Effective October 1, 2001, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets," and no longer amortizes goodwill. Management determined that the Company has one reporting unit for purposes of applying SFAS No.142 based on its reporting structure. The Company makes its assessment of impairment as of September 30 of each fiscal year. The fair value of the Company's single reporting unit at each measurement date is determined based on the fair market value of the Company's outstanding common stock on a control basis and, if necessary, an outside independent valuation is obtained to determine the fair value.

MOTHERS WORK, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Based on these assessments, no impairment loss was required to be recognized at any of the measurement dates. The Company plans to perform an annual assessment for goodwill impairment at the end of each fiscal year or as impairment indicators arise. If the fair market value of the Company's outstanding common stock on a control basis were to significantly decline in the future, the goodwill would likely become impaired.

Intangible assets with definite useful lives, which primarily consist of lease acquisition costs, are amortized over the lease term. Management reviews the carrying amount of these intangible assets as impairment indicators arise, to assess the continued recoverability based on future undiscounted cash flows and operating results from the related asset, future asset utilization and changes in market conditions. During fiscal 2006 and 2005, the Company recorded write-downs of intangible assets totaling \$34,000 and \$14,000, respectively, on a pre-tax basis. During fiscal 2004, there was no impairment to the carrying value of intangible assets. The Company has not identified any unamortizable intangible assets. Aggregate amortization expense of intangible assets in fiscal 2006, 2005 and 2004 was \$199,000, \$209,000 and \$224,000, respectively.

Estimated amortization expense for the next five fiscal years is as follows (in thousands):

Fiscal Year		
	2007	\$ 153
	2008	131
	2009	116
	2010	99
	2011	74

i. Deferred Financing Costs

Deferred financing costs (see Note 9) are amortized to interest expense over the term of the related debt using the effective interest method. Amortization expense of deferred financing costs in fiscal 2006, 2005 and 2004 was \$689,000, \$588,000 and \$415,000, respectively. In connection with a debt extinguishment, in fiscal 2006 the Company wrote off \$213,000 of unamortized deferred financing costs (see Note 9).

Estimated amortization expense of deferred financing costs for the next five fiscal years is as follows (in thousands):

Fiscal Year		
	2007	\$ 662
	2008	722
	2009	794
	2010	617
	2011	—

j. Deferred Rent

Rent expense on operating leases, including rent holidays and scheduled rent increases, is recorded on a straight-line basis over the term of the lease commencing on the date the Company takes possession of the leased property, which is generally four to six weeks prior to a store's opening date. The net excess of

MOTHERS WORK, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

rent expense over the actual cash paid has been recorded as deferred rent in the accompanying Consolidated Balance Sheets. Tenant improvement allowances are also included in the accompanying Consolidated Balance Sheets as deferred rent liabilities and are amortized as a reduction of rent expense over the term of the lease from the possession date.

k. Treasury (Reacquired) Shares

Shares repurchased are retired and treated as authorized but unissued shares, with the cost in excess of par value of the reacquired shares charged to additional paid-in capital and the par value charged to common stock.

l. Fair Value of Financial Instruments

The carrying values of cash and cash equivalents, short-term investments, trade receivables and accounts payable approximate fair value due to the short-term nature of those instruments. Based upon a valuation of the Senior Notes (see Note 9) by a third party, the fair value of the long-term debt as of September 30, 2006 is approximately \$124,812,000, which is slightly higher than its carrying value.

m. Revenue Recognition, Sales Returns and Allowances

Revenue is recognized at the point of sale for retail store sales, including leased department sales, or when merchandise is shipped to customers for licensed product, Internet and mail order sales. Allowances for returns are recorded as a reduction of revenue, based on the Company's historical experience.

n. Other Revenues

Included in net sales are revenues earned by the Company through a variety of marketing partnership programs utilizing the Company's opt-in customer database and various in-store marketing initiatives, focused on baby and parent-related product and services.

o. Cost of Goods Sold

Cost of goods sold in the accompanying Consolidated Statements of Operations includes: merchandise costs (including customs duty expenses), expenses related to inventory shrinkage, product related corporate expenses (including expenses related to payroll, benefit costs and operating expenses of the Company's buying departments), inventory reserves (including lower of cost or market reserves), inbound freight charges, purchasing and receiving costs, inspection costs, warehousing costs, internal transfer costs, and the other costs of the Company's distribution network.

p. Shipping and Handling Fees and Costs

The Company includes shipping and handling revenue earned from its catalog and e-commerce activities in net sales. Shipping and handling costs, which are included in cost of goods sold in the accompanying Consolidated Statements of Operations, include shipping supplies, related labor costs and third-party shipping costs.

MOTHERS WORK, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

q. Selling, General and Administrative Expenses

Selling, general and administrative expenses in the accompanying Consolidated Statements of Operations includes: advertising and marketing expenses, corporate administrative expenses, store expenses (including store payroll and store occupancy expenses), store opening and store closing expenses, and store asset impairment charges.

r. Advertising Costs

The Company expenses the costs of advertising when the advertising occurs. Advertising expenses were \$9,908,000, \$10,591,000 and \$9,922,000 in fiscal 2006, 2005 and 2004, respectively.

s. Income Taxes

The Company utilizes the asset and liability method of accounting for income taxes as prescribed by SFAS No. 109, "Accounting for Income Taxes." Under this method, deferred tax assets and liabilities are recognized for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities as well as from net operating loss carryforwards. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in operations in the period that includes the enactment date.

t. Accounting for Stock-Based Compensation

Effective October 1, 2005, the Company adopted SFAS No. 123(R), "Share-Based Payment," using the modified prospective application method. Prior to adopting SFAS No. 123(R), the Company followed the intrinsic value method of accounting for stock-based employee compensation in accordance with Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations. On September 27, 2005, the Compensation Committee of the Company's Board of Directors approved, and the Board ratified, the acceleration of 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. The closing price of the Company's common stock on September 26, 2005 (the trading day prior to the vesting acceleration) was \$11.31 per share. The primary purpose of this accelerated vesting program was to eliminate the compensation expense associated with these stock options that the Company would otherwise have been required to recognize in future financial statements pursuant to SFAS No. 123(R). The amount of future compensation expense that was avoided in connection with this acceleration was approximately \$1.3 million, net of tax.

For the year ended September 30, 2006, the Company recognized stock-based compensation expense of \$2,796,000, less related income tax benefit of \$1,090,000, under the provisions of SFAS No. 123(R). For the years ended September 30, 2005 and 2004, no compensation expense was recognized for stock option awards granted at fair market value under the provisions of APB Opinion No. 25. The following table illustrates the pro forma effect on net income (loss) and earnings per share if the Company had accounted for its stock option plans prior to October 1, 2005, using the fair value method of accounting under

MOTHERS WORK, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

SFAS No. 123, "Accounting for Stock-Based Compensation," as amended by SFAS No. 148, "Accounting for Stock-Based Compensation—Transition and Disclosure":

	Year Ended September 30,	
	2005	2004
	(in thousands, except per share amounts)	
Net income (loss):		
As reported	\$ (175)	\$ 5,039
Add stock-based compensation expense included in the determination of net income as reported, net of tax	—	116
Deduct total stock-based compensation expense determined under fair value-based method for all awards, net of tax	(2,949)	(1,525)
Pro forma net income (loss)	\$ (3,124)	\$ 3,630
Net income (loss) per share—Basic:		
As reported	\$ (0.03)	\$ 0.97
Pro forma	(0.60)	0.70
Net income (loss) per share—Diluted:		
As reported	\$ (0.03)	\$ 0.92
Pro forma	(0.60)	0.66

u. Earnings per Share

Basic earnings per share is computed by dividing net income (loss) by the weighted average number of outstanding common shares. Diluted earnings per share is computed based upon the weighted average number of outstanding common shares, after giving effect to the potential dilutive effect from the assumed exercise of the common stock equivalents, including stock options and warrants (see Note 12).

The following summarizes those effects for the diluted earnings per share calculation (in thousands):

	Year Ended September 30,		
	2006	2005	2004
Average number of shares outstanding—Basic	5,348	5,242	5,212
Incremental shares from the assumed exercise of outstanding stock options and warrants	243	—	289
Average number of shares outstanding—Diluted	5,591	5,242	5,501

Options and warrants to purchase 35,030, 1,355,050 and 467,170 shares of the Company's common stock were outstanding as of September 30, 2006, 2005 and 2004, respectively, but were not included in the computation of diluted earnings per share for fiscal 2006, 2005 and 2004, respectively, as their effect would have been antidilutive.