MOTHERS WORK INC
Form DEF 14A
December 15, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant x
Filed by a Party other than the Registrant o
Check the appropriate box:

o	Preliminary Proxy Statement
o	**Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
x	Definitive Proxy Statement
o	Definitive Additional Materials
o	Soliciting Material Pursuant to §240.14a-12

MOTHERS WORK, INC.

(Name of Registrant as Specified In Its Charter)
NOT APPLICABLE
(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

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x	No fee required.	
o	Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.	
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o	Fee paid previously with preliminary materials.	
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456 North Fifth Street
Philadelphia, Pennsylvania 19123

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

January 19, 2007

To the Stockholders of Mothers Work, Inc.:

The Annual Meeting of Stockholders of Mothers Work, Inc., a Delaware corporation (the Company), will be held at 9:00 a.m. Eastern Standard Time, on January 19, 2007 at 3000 Two Logan Square, 18th & Arch Streets, Philadelphia, Pennsylvania 19103, for the following purposes:

1. To elect two directors of the Company;

2. To consider and vote upon a proposal to approve the Company s Management Incentive Program;

3. To ratify the action of the Audit Committee of the Board of Directors in appointing KPMG LLP (KPMG) as independent registered public accountants to audit the consolidated financial statements of the Company and its subsidiaries for the fiscal year ending September 30, 2007; and

4. To transact such other business as may properly come before the meeting or any adjournments thereof.

Only holders of the Company s Common Stock at the close of business on Monday, December 11, 2006 are entitled to notice of, and to vote at, the Annual Meeting and any adjournments or postponements thereof. Such stockholders may vote in person or by proxy. The stock transfer books of the Company will not be closed. The accompanying form of proxy is solicited by the Board of Directors of the Company.

By Order of the Board of Directors

Dan W. Matthias
Chairman of the Board and
Chief Executive Officer

IT IS IMPORTANT THAT YOUR SHARES BE REPRESENTED AT THE MEETING. YOU ARE CORDIALLY INVITED TO ATTEND THE MEETING IN PERSON. WHETHER OR NOT YOU EXPECT TO ATTEND IN PERSON, YOU ARE URGED TO COMPLETE, SIGN AND RETURN THE ENCLOSED PROXY CARD IN THE SELF-ADDRESSED ENVELOPE, ENCLOSED FOR YOUR CONVENIENCE, WHICH REQUIRES NO POSTAGE IF MAILED IN THE UNITED STATES. YOU MAY ALSO VOTE YOUR SHARES BY TELEPHONE OR THROUGH THE INTERNET BY FOLLOWING THE INSTRUCTIONS SET FORTH ON THE PROXY CARD. IF YOU DECIDE TO ATTEND THE MEETING AND WISH TO VOTE IN PERSON, YOU MAY REVOKE YOUR PROXY BY WRITTEN NOTICE AT THAT TIME.

December 15, 2006

456 North Fifth Street
Philadelphia, Pennsylvania 19123

PROXY STATEMENT
FOR
ANNUAL MEETING OF STOCKHOLDERS
TO BE HELD ON

January 19, 2007

This proxy statement, which is first being mailed to stockholders on approximately December 18, 2006, is furnished in connection with the solicitation by the Board of Directors of Mothers Work, Inc. (the Company) of proxies to be used at the 2007 Annual Meeting of Stockholders of the Company (the Annual Meeting), to be held at 9:00 a.m., Eastern Standard Time, on January 19, 2007 at 3000 Two Logan Square, 18th & Arch Streets, Philadelphia, Pennsylvania 19103, and at any adjournments or postponements thereof. If proxies in the accompanying form are properly executed and returned prior to voting at the meeting, the shares of the Company s common stock (the Common Stock) represented thereby will be voted as instructed on the proxy. If no instructions are given on a properly executed and returned proxy, the shares of the Common Stock represented thereby will be voted for the election of the nominees for director named below, for the approval of the Company s Management Incentive Program, for the ratification of the appointment of KPMG as independent registered public accountants and in support of management on such other business as may properly come before the Annual Meeting or any adjournments thereof. Any proxy may be revoked by a stockholder prior to its exercise upon written notice to the Secretary of the Company, by delivering a duly executed proxy bearing a later date, or by the vote of a stockholder cast in person at the Annual Meeting. All references herein to the Company s fiscal years refer to the fiscal year ended on September 30 in the year mentioned. For example, the Company s fiscal year 2006 ended on September 30, 2006.

VOTING

Holders of record of the Common Stock on Monday, December 11, 2006 will be entitled to vote at the Annual Meeting or any adjournments or postponements thereof. As of that date, there were 5,888,374 shares of Common Stock outstanding and entitled to vote. The presence, in person or by proxy, of holders of Common Stock entitled to cast at least a majority of the votes which all holders of the Common Stock are entitled to cast will constitute a quorum for purposes of the transaction of business. Each share of Common Stock entitles the holder thereof to one vote on the election of each of the nominees for director and on any other matter that may properly come before the Annual Meeting. Stockholders are not entitled to cumulative voting in the election of directors. Directors are elected by a plurality of the votes cast and votes may be cast in favor of or withheld from each director nominee. Votes that are withheld from a director nominee will be excluded entirely from the vote for such nominee and will have no effect thereon.

Abstentions and broker non-votes (described below) are counted in determining whether a quorum is present. Abstentions with respect to any proposal other than the election of directors will have the same effect as votes against the proposal, because approval requires a vote in favor of the proposal by a majority of the shares entitled to vote, present at the Annual Meeting in person or represented by proxy. A broker non-vote occurs when a broker submits a proxy that does not indicate a vote for some of the proposals because the beneficial owners have not instructed the broker on how to vote on such proposals and the broker does not have discretionary authority to vote in the absence of instructions. Broker non-votes are not considered to be shares entitled to vote (other than for quorum purposes), and will therefore have no effect on the outcome of any of the matters to be voted upon at the Annual Meeting.

The cost of solicitation of proxies by the Board of Directors will be borne by the Company. Proxies may be solicited by mail, personal interview, telephone or facsimile and, in addition, directors, officers and regular employees of the Company may solicit proxies by such methods without additional remuneration. Banks, brokerage houses and other institutions, nominees or fiduciaries will be requested to forward the proxy materials to beneficial owners in order to solicit authorizations for the execution of proxies. The Company will, upon request, reimburse such banks, brokerage houses and other institutions, nominees and fiduciaries for their expenses in forwarding such proxy materials to the beneficial owners of the Common Stock.

ELECTION OF DIRECTORS
(PROPOSAL 1)

The Company s Board of Directors is divided into three classes, with staggered three-year terms. Currently, the Board has seven members. Unless otherwise specified in the accompanying proxy, the shares voted pursuant thereto will be cast for Mr. Dan W. Matthias and Mr. Elam M. Hitchner, III, for terms expiring at the Annual Meeting of Stockholders to be held following fiscal year 2009 (the 2010 Annual Meeting). If, for any reason, at the time of election, any of the nominees named should decline or be unable to accept his nomination or election, it is intended that such proxy will be voted for the election, in the nominee s place, of a substituted nominee, who would be recommended by the Board of Directors. The Board of Directors, however, has no reason to believe that any of the nominees will be unable to serve as a director.

The following biographical information is furnished as to each nominee for election as a director and each of the current directors:

Nominees for Election to the Board of Directors For a Three-Year
Term Expiring at the 2010 Annual Meeting

Dan W. Matthias, 63, co-founded the Company in 1982 (along with Rebecca C. Matthias) and has served as Chairman of the Board since its inception. From 1983 to 1993, he served as the Company s Executive Vice President, and since January 1993, Mr. Matthias has been the Company s Chief Executive Officer. Prior to co-founding the Company, Mr. Matthias had been involved in the computer and electronics industry, serving as a director of Zilog, Inc. and serving as the President of a division of a subsidiary of Exxon Corporation.

Elam M. Hitchner, III, 60, has served as a director since January 1994. Mr. Hitchner was a partner in the law firm of Pepper Hamilton LLP, in Philadelphia, Pennsylvania, which provides legal services to the Company, from May 1992 to June 1999, and returned to the firm in January 2001 as a partner and subsequently as Of Counsel through 2004. Commencing in 2005, Mr. Hitchner began providing consulting services to the firm. Mr. Hitchner does not participate in the provision of legal services to the Company. From July 1999 until December 31, 2000, Mr. Hitchner was a general partner of Meridian Venture Partners and Meridian Venture Partners II, venture capital firms located in Radnor, Pennsylvania. Mr. Hitchner serves as a director and member of the audit committee of eResearchTechnology, Inc.

Members of the Board of Directors Continuing in Office
Term Expiring at the 2008 Annual Meeting

Rebecca C. Matthias, 53, co-founded the Company in 1982 (along with Dan W. Matthias) and has served as a director of the Company and its President since its inception. Since January 1993, Ms. Matthias has also served as the Company s Chief Operating Officer. In 1992, Ms. Matthias was chosen as Regional Entrepreneur of the Year by *Inc.* Magazine and Merrill Lynch Corporation, and in September 2003, Ms. Matthias was recognized as a top woman entrepreneur by the United States Small Business Administration. Prior to co-founding the Company, Ms. Matthias was a construction engineer for the Gilbane Building Company. Additionally, Ms. Matthias serves as a director on the Board of Directors of CSS Industries, Inc.

Joseph A. Goldblum, 57, has served as a director of the Company since 1989. Mr. Goldblum has been President of G-II Equity Investors, Inc., a general partner of G-II Family Partnership L.P., since May 1989. He was also Of Counsel with the law firm of Goldblum & Hess from May 1989 to December 1996.

David Schlessinger, 51, has served as a director of the Company since January 2002. Mr. Schlessinger is the founder and Chairman of the Board of Five Below, Inc., an extreme-value retailer in the teen and pre-teen market, a position that he has held since January 2002. He has been engaged in personal investment activities as well as consulting and board services with private companies since 1998. Mr. Schlessinger founded Zany Brainy, a retail children s educational products company, in 1991 and served as Zany Brainy s Chief Executive Officer until 1996 and as its Chairman until 1998. He founded Encore Books, a retail bookstore chain, in 1973 and served as its Chairman and Chief Executive Officer until 1986.

Members of the Board of Directors Continuing in Office
Term Expiring at the 2009 Annual Meeting

William A. Schwartz, Jr., 67, has served as a director of the Company since August 1998. Mr. Schwartz is President and Chief Executive Officer of U.S. Vision, Inc., a retailer of optical products and services, a position that he has held since 1995. Mr. Schwartz currently is a director of U.S. Vision, Inc. and Commerce Bancorp.

Anne T. Kavanagh, 47, has served as a director of the Company since September 28, 2006. Ms. Kavanagh was elected as a director of the Company on September 28, 2006 to replace the late Stanley C. Tuttleman. Ms. Kavanagh is the founder and Chief Executive Officer of New York-based Kavanagh Consulting L.L.C., a consulting services company focused on corporate financial and strategic advice. Prior to founding her own consulting services business, Ms. Kavanagh served in a variety of senior executive positions in the investment banking industry, including with PaineWebber, Prudential Securities, Salomon Brothers, NatWest Securities and Drexel Burnham Lambert.

Other than the husband and wife relationship between Dan and Rebecca Matthias, there are no family relationships among any of the other directors of the Company.

The Board of Directors recommends a vote FOR Proposal 1 to elect all Nominees to the Board of Directors for a Three-Year Term Expiring at the 2010 Annual Meeting.

Committees and Meetings of
the Board of Directors

During fiscal year 2006, the Board of Directors held seven meetings which were held in person and seven meetings which were held telephonically. Each incumbent director attended at least 75% of the aggregate of the total number of meetings of the Board of Directors and committees of the Board of Directors on which he or she served.

The Company expects all of its directors to attend the annual meetings of stockholders. All of the directors attended last year s annual meeting.

The Board of Directors has three committees: an Audit Committee, a Compensation Committee and a Nominating and Corporate Governance Committee.

During fiscal year 2006, the Audit Committee, which consisted of Mr. Hitchner, Chairman, Mr. Schwartz and the late Mr. Tuttleman, held eight meetings, of which two were held telephonically as scheduled. The Audit Committee now consists of Mr. Hitchner, Chairman, Mr. Schwartz and Ms. Kavanagh. Ms. Kavanagh was appointed to the Audit Committee by the Board of Directors to fill the vacancy on the Audit Committee that resulted from the death of Mr. Tuttleman. Each member of the Audit Committee is considered an independent director under Nasdaq rules and the rules of the Securities and Exchange Commission (SEC). The function of the Audit Committee is to assist the Board of Directors in preserving the integrity of the financial information published by the Company through the review of financial and accounting controls and policies, financial reporting requirements, alternative accounting principles that could be applied and the quality and effectiveness of the independent registered public accountants. The Board of Directors has adopted a written Audit Committee Charter which was revised in 2003 (a copy of which was attached to the Company s proxy statement for fiscal year 2003 as Appendix A).

The Board of Directors has determined that the Audit Committee does not have an audit committee financial expert as that term is defined in the SEC s rules and regulations. However, the Board of Directors believes that each of the members of the Audit Committee has demonstrated that he or she is capable of analyzing and evaluating the Company s financial statements and understanding internal controls and procedures for financial reporting. As the Board of Directors believes that the current members of the Audit Committee are qualified to carry out all of the duties and responsibilities of the Company s Audit Committee, the Board does not believe that it is necessary at this time to actively search for an outside person to serve on the Board of Directors who would qualify as an audit committee financial expert.

During fiscal year 2006, the Compensation Committee, which consists of Mr. Goldblum, Chairman, Mr. Schlessinger and Mr. Schwartz, held three meetings. Each member of the Compensation Committee is considered an independent director under Nasdaq rules. The Compensation Committee considers recommendations of the Company s management regarding compensation, bonuses and fringe benefits of the executive officers of the Company, and determines whether the recommendations of management are consistent with general policies, practices, and compensation scales established by the Board of Directors. The Board of Directors adopted a Compensation Committee Charter in 2003 (a copy of which was attached to the Company s proxy statement for fiscal year 2003 as Appendix B).

On November 15, 2006, the Nominating and Corporate Governance Committee met and recommended to the full Board the re-election of each of Mr. Dan W. Matthias and Mr. Elam M. Hitchner, III, for an additional three-year term as a director of the Company. The Nominating and Corporate Governance Committee held two meetings in fiscal year 2006. The current members of the Nominating and Corporate Governance Committee are Mr. Goldblum, Mr. Hitchner and Mr. Schlessinger. Each member of the Nominating and Corporate Governance Committee is considered an independent director under Nasdaq rules and the rules of the SEC. The Nominating and Corporate Governance Committee functions include establishing the criteria for selecting candidates for nomination to the Board of Directors; actively seeking candidates who meet those criteria; and making recommendations to the Board of Directors of nominees to fill vacancies on, or as additions to, the Board of Directors. The Nominating and Corporate Governance Committee will consider director candidates who have relevant business experience, are accomplished in their respective fields, and who possess the skills and expertise to make a significant contribution to the Board of Directors, the Company and its stockholders. Director nominees should have high-leadership business experience, knowledge about issues affecting the Company and the ability and willingness to apply sound and independent business judgment. The Nominating and Corporate Governance Committee applies the same criteria to nominees recommended by stockholders. Such recommendations should be submitted in writing to the attention of the Nominating and Corporate Governance Committee, c/o Mothers Work, Inc., 456 North Fifth Street, Philadelphia, Pennsylvania, 19123, and should not include self-nominations. The Board of Directors adopted a Nominating and Corporate Governance Committee Charter in 2003 (a copy of which was attached to the Company s proxy statement for fiscal year 2003 as Appendix C).

Nominations of Directors by Stockholders

The Bylaws of the Company provide procedures pursuant to which a stockholder may nominate individuals for election to the Board of Directors at meetings of the stockholders. The procedures are summarized below:

- A stockholder who proposes to nominate an individual for election to the Board of Directors must deliver a written notice to the Secretary of the Company which includes: (i) a complete description of the proposed nominees qualifications, experience and background, and any and all other information that is required to be disclosed in solicitations of proxies for election of directors in an election contest, or is otherwise required, in each case pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended, and Rule 14a-11 thereunder; (ii) a description of all relationships between the proposed nominee and such stockholder and any agreements or understandings between such stockholders and the proposed nominee regarding the nomination; (iii) a description of all relationships between the proposed nominee and any of the Company s competitors, customers, suppliers, labor unions (if any) and any other persons with special interests regarding the Company; (iv) a statement signed by the proposed nominee in which he or she consents to being named in the proxy statement as a nominee and to serving as a director if elected; (v) the name and address of the stockholder giving the notice, as it appears on the Company s books; (vi) the name and address of the beneficial owner, if any, on whose behalf the nomination is being made; (vii) the class and number of shares of the Company which are owned beneficially and of record by such stockholder and such beneficial owner and the time period for which such shares have been held; (viii) a representation that such stockholder and beneficial owner intend to appear in person or by proxy at the meeting; and (ix) a representation that such stockholder and such beneficial owner intend to continue to hold the reported shares through the date of the meeting. If a recommendation is submitted by a group of two or more stockholders, the information regarding the recommending stockholders and beneficial owners, if any, must be submitted with respect to each stockholder in the group and any beneficial owners. The stockholder s written notice should be sent to the attention of the Secretary, c/o Mothers Work, Inc., 456 North Fifth Street, Philadelphia, Pennsylvania, 19123.

- In order for a stockholder s nomination to be considered at any annual meeting of the stockholders, the notice must be delivered not later than the 60th day nor earlier than the 90th day prior to the first anniversary of the preceding year s annual meeting. However, if the date of the annual meeting is more than 30 days before or more than 60 days after such anniversary date, notice must be received not earlier than the 90th day prior to the annual meeting and not later than, the later of, the 60th day prior to the annual meeting or the 15th day following the day on which public announcement of the date of the meeting is first made by the Company.

Stockholder Communications

Pursuant to the policy of the Board of Directors, all communications directed to the Board of Directors will be delivered to the Board. Stockholders may contact the Board of Directors by writing to them c/o Mothers Work, Inc., 456 North Fifth Street, Philadelphia, Pennsylvania, 19123.

Compensation of Directors

For the fiscal year ended September 30, 2006, the Company paid each non-employee director a retainer of $5,000 per quarter. In addition, each non-employee director was paid $1,500 for each Board meeting scheduled to be held in person and attended by such non-employee director, and $750 for each committee meeting scheduled to be held in person and attended by such non-employee director. The Chairman of the Audit Committee was paid a retainer of $2,500 per quarter, and the Chairman of the Compensation Committee was paid a retainer of $1,250 per quarter. Non-employee directors were not compensated for attendance at Board or Committee meetings held telephonically. Also, upon the conclusion of the Annual Meeting of Stockholders each year, the Company would grant each non-employee director immediately vested options to purchase a certain pre-determined number of shares of Common Stock, with such number of shares being 5,000 upon conclusion of the 2005 Annual Meeting and 2006 Annual Meeting.

On December 13, 2006, the Board, in accordance with recommendations of the Company s independent compensation consultant, modified the compensation structure for its non-employee directors, effective as of the upcoming Annual Meeting, as follows. The Company shall pay each non-employee director a retainer of $6,250 per quarter. In addition, each non-employee director will be paid $1,500 for each Board meeting scheduled to be held in person and attended by such non-employee director. Each non-employee director who is a member of either the Compensation Committee or the Nominating and Corporate Governance Committee will receive $1,000 for each Compensation Committee or Nominating and Corporate Governance Committee meeting scheduled to be held in person and attended by such non-employee director. Each non-employee director who is a member of the Audit Committee will receive $1,500 for each Audit Committee meeting scheduled to be held in person and attended by such non-employee director. The Chairman of the Audit Committee will be paid a retainer of $2,500 per quarter, and the Chairman of the Compensation Committee will be paid a retainer of $1,250 per quarter. Non-employee directors will not be compensated for attendance at Board or Committee meetings scheduled to be held telephonically. Upon conclusion of the Annual Meeting of Stockholders each year, the Company will grant each non-employee director 2,000 shares of restricted stock pursuant to the Company s 2005 Equity Incentive Plan that will vest one year from the date of grant, subject to acceleration in the event of the non-employee director s death or disability or upon a change in control of the Company.

On September 15, 2006, the Board approved the following supplemental payments to certain directors for their extensive time and assistance in their capacity as members of the Board during fiscal year 2006: $12,500 to Elam M. Hitchner, III, and $6,250 to each of Joseph A. Goldblum and William A. Schwartz, Jr.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934 requires the Company s directors and executive officers, and persons who own more than ten percent of a registered class of the Company s equity securities (collectively, Reporting Persons) to file with the SEC initial reports of ownership (on Form 3) and reports of changes in ownership of the Common Stock and other equity securities of the Company (on Forms 4 and 5). Reporting Persons are additionally required to furnish the Company with copies of all Section 16(a) reports they file.

To the Company s knowledge, based solely upon a review of the copies of such reports furnished to the Company, the following Section 16(a) reports for the fiscal year ended September 30, 2006 were not timely filed: one late report for each of Joseph A. Goldblum, Elam M. Hitchner, III, David Schlessinger, William A. Schwartz, Jr., and Stanley C. Tuttleman relating, in each case, to one grant of stock options under the Company s 2005 Equity Incentive Plan.

AUDIT COMMITTEE REPORT

The Audit Committee of the Board of Directors has:

- Reviewed and discussed the Company s audited consolidated financial statements for fiscal year 2006 with management;

- Discussed with the Company s independent registered public accountants regarding matters required to be discussed by Statement on Auditing Standards (SAS) No. 61, as amended by SAS No. 90, in connection with the audit of the Company s consolidated financial statements for fiscal year 2006; and

- Received the written disclosures and the letter from the independent registered public accountants required by Independence Standards Board Standard No. 1, and has discussed with the independent registered public accountants its independence.

In reliance on the review and discussions referred to above, the Audit Committee recommended to the Board of Directors that the Company s audited consolidated financial statements be included in the Company s Annual Report on Form 10-K for filing with the SEC for fiscal year 2006.

Auditor Fees and Services

The following is a summary of the fees billed to the Company by KPMG for professional services rendered for fiscal years 2006 and 2005:

Fee Category	**Fiscal 2006 Fees ($)**		**Fiscal 2005 Fees ($)**
Audit Fees (1)	734,500		801,500
Audit-Related Fees (2)	10,300		77,281
Tax Fees (3)	140,703	(4)	238,362
Total Fees	885,503		1,117,143

(1) Audit Fees consist of fees billed for professional services rendered for the annual audit of the Company s consolidated financial statements, for reviews of the interim financial statements included in the Company s quarterly reports on Form 10-Q and Sarbanes-Oxley 404 compliance.

(2) Audit-Related Fees consist of fees billed for professional services rendered for audit-related services including consultations on financial accounting and reporting related matters.

(3) Tax Fees consists of fees billed for professional services relating to tax compliance and other tax advice.

(4) The Tax Fees portion of fiscal year 2006 Total Fees includes amounts that are estimated, but have not yet been billed.

The Audit Committee s pre-approval policies and procedures provide for pre-approval of audit, audit-related, tax services and other services. Unless a type of service to be provided by the independent registered public accountants has received general pre-approval, it will require specific pre-approval by the Audit Committee. Any proposed services exceeding pre-approved fee levels require specific pre-approval

by the Audit Committee. The pre-approval fee levels for all services to be provided by the independent registered public accountants are established annually by the Audit Committee. The Audit Committee pre-approved all audit and non-audit services described above rendered to the Company by KPMG during fiscal years 2005 and 2006 and has pre-approved similar services to be rendered during fiscal year 2007. The Audit Committee believes the rendering of these services is not incompatible with the independent registered public accountants maintaining their independence.

The Audit Committee
Elam M. Hitchner, III, *Chairman*
Anne T. Kavanagh
William A. Schwartz, Jr.

The foregoing Audit Committee Report shall not be deemed to be incorporated by reference into any filing made by the Company under the Securities Act of 1933 or the Securities Exchange Act of 1934, notwithstanding any general statement contained in any such filing incorporating this proxy statement by reference, except to the extent the Company incorporates such report by specific reference.

COMPENSATION COMMITTEE REPORT
ON EXECUTIVE COMPENSATION

The Compensation Committee of the Board of Directors has furnished the following report on executive compensation:

General

The Compensation Committee of the Board of Directors consists of Joseph A. Goldblum, David Schlessinger and William A. Schwartz, Jr. Under the supervision of the Compensation Committee, the Company has developed and implemented compensation policies, plans and programs which seek to enhance the profitability of the Company, and thus stockholder value, by aligning the financial interests of the Company s senior management with those of its stockholders. Annual base salary and incentive compensation are designed to attract and retain corporate officers and other key employees and to motivate them to perform to the full extent of their abilities in the best long-term interests of the stockholders.

The Company s executive compensation program consists of two key elements: (1) a cash component, i.e., base salary and annual bonus, and (2) an equity-based component. The Compensation Committee has determined that a compensation package that contains equity-based incentives is appropriate for the Company s goals of sustainable growth and enhanced stockholder value. The Compensation Committee has further concluded that the inclusion of vesting conditions on equity-based incentive encourages the Company s retention goals.

Both the aggregate amount of compensation and the portion of aggregate compensation represented by each component have been determined after a review of compensation levels at comparable publicly-held companies, as well as with reference to the individual capabilities, contributions and strategic importance of each executive officer.

The policies with respect to each element of the compensation package, as well as the basis for determining the compensation of the Chief Executive Officer and the President, Dan and Rebecca Matthias, respectively, are described below.

1. Cash Component: Base Salary and Annual Bonus

Base Salary: Base salaries constitute compensation for discharging job responsibilities and are intended to reflect each executive officer s performance over time. The Compensation Committee sets base salaries for each executive officer with the objective of achieving comparability with the base salaries of senior executives at similar companies, taking into account such factors as position, responsibilities and tenure.

Individual salary adjustments take into account the Company s salary increase guidelines for the year and individual performance contributions for the year, as well as sustained performance contributions over a number of years and significant changes in responsibilities, if any. The assessment of individual performance contributions is subjective and is not intended to correlate to specific corporate performance measures.

Annual Bonus: Annual bonuses are based on the Company s performance and management s performance against specified corporate performance goals established by the Compensation Committee, with input from senior management. The target amounts for executives annual bonuses are generally expressed as a percentage of each executive s base salary. The percentage is based primarily on the executive s level of responsibility. An executive s actual bonus payment may be lower or higher than the target amount, based on actual corporate performance relative to the specified goals. If Proposal 2, described below, is approved, this approach will be continued, subject to the terms of the proposed Management Incentive Program, with respect to fiscal year 2007 and later fiscal years.

In addition to maintaining an annual bonus program with bonus payments tied to the achievement of pre-established corporate performance goals, the Compensation Committee may also authorize the payment of additional bonuses to executive officers on a discretionary basis, with such payments based on financial or non-financial achievements of the Company and/or the individual executives.

2. Equity-Based Component: Stock Options and Restricted Stock

To align stockholder and executive officer interests, the Company has historically granted stock options to our executives with an exercise price equal to 100% of the fair market value of the Common Stock on the date of the grant. The stock options generally vest over a five-year period, although some stock options, including those granted to the Chief Executive Officer and the President pursuant to the terms of their employment agreements, generally vest immediately.

In light of changes in accounting standards governing equity-based compensation and evolution in the equity compensation practices of many of the Company s peer companies, the Compensation Committee recently re-examined the use of stock options as the sole equity-based compensation device of the Company. While the Compensation Committee believes that stock options remain an effective incentive compensation device, in its most recent round of equity incentive grants, the Compensation Committee decided to award restricted stock in lieu of granting stock options.

The Compensation Committee believes at this time that restricted stock has certain advantages relative to stock options. For example, restricted stock maintains its effectiveness as a retention device during all market cycles. In addition, restricted stock has the added potential of reducing share dilution, in that the number of restricted shares needed to provide a particular grant date award value is generally less than the number of shares that would need to be subject to an option to deliver the same grant date award value. The Compensation Committee believes the use of restricted stock in the most recent round of equity incentive awards resulted in the issuance of awards with respect to fewer shares than if the awards had taken the form of stock options.

While all executives are eligible to receive equity incentive awards, participation in any round of grants, as well as the size of any grant made to a participating executive, is generally determined by the Compensation Committee. In making this determination, the Compensation Committee will consider each executive s past and expected future contributions to the Company s success, prior equity grants and current equity ownership, the perceived need to encourage retention of the executive over the long-term and the terms of equity incentives awarded by competitors and peer companies to similarly situated executives.

However, as noted below, the Company has contractual commitments to make certain stock option grants to our Chief Executive Officer and our President upon the achievement of specified levels of corporate performance. The Chief Executive Officer and the President, however, agreed to an amendment to their employment agreements with respect to their fiscal year 2006 equity incentive compensation. The amendment provided that each executive s 2006 equity incentive compensation would take the form of a number of shares of restricted stock equal to one-third the number of shares that would have been subject to the stock options that were otherwise issuable to each of them under the terms of their respective employment agreements.

The restricted stock granted to our Chief Executive Officer and our President vests over two years (longer than the vesting schedule that would have been applicable to the stock options that were otherwise issuable) subject to acceleration upon a change in control of the Company or upon cessation of employment due to (i) a resignation for good reason, (ii) a termination without cause, (iii) death, or (iv) disability (in each case, as defined in the executive s employment agreement). The restricted stock granted to our other employees vests over five years (on the same schedule as has been historically applicable to our option grants).

The Compensation Committee will continue to evaluate the Company s equity incentive compensation approach and may make further changes in this area if it determines that such changes will encourage the creation of sustained shareholder value.

Compensation of Chief Executive Officer and President

In fiscal year 2006, the annual base salaries for each of Dan W. Matthias, Chairman of the Board and Chief Executive Officer, and Rebecca C. Matthias, President and Chief Operating Officer, increased by 3% (from $491,727 to $506,479, in each case). On October 1, 2006, the fiscal year 2007 salaries for the Chief Executive Officer and President were increased by 5% (from $506,479 to $531,803, in each case). In arriving at these salary increases, the Compensation Committee adhered to the general principles described above under the heading Base Salary.

The Matthiases annual bonuses and equity-based compensation for fiscal year 2006 were both paid in accordance with contractual commitments that provided for specified levels of compensation in the event of specified levels of Adjusted EBITDA. In each case, actual performance exceeded the highest target established by the Compensation Committee and, therefore, in each case, the executives received the maximum bonus and equity grant specified under their agreements ($506,479 annual bonus and 20,000 shares of restricted stock, in each case).

The Board ratified the Compensation Committee s recommendations regarding the basis of fiscal year 2006 compensation of each of the Matthiases.

Section 162(m) Limit on Deductibility of Compensation

The Internal Revenue Code precludes the Company from taking a deduction for compensation in any fiscal year in excess of $1 million for any executive officer named in the Summary Compensation Table. Certain performance-based compensation is specifically exempt from this deduction limit.

The Compensation Committee generally structures its executive compensation programs with the objective of permitting full deductibility within the limits of Section 162(m) (including, for example, by submitting the Company s annual bonus program to stockholder approval, as described below in Proposal 2). However, the Compensation Committee believes that stockholder interests are best served by not restricting the Compensation Committee s discretion and flexibility in crafting compensation programs, even though such programs may result in certain non-deductible compensation expenses. Accordingly, the Compensation Committee reserves the right to approve compensation that is not fully deductible.

The Compensation Committee
Joseph A. Goldblum, *Chairman*
David Schlessinger
William A. Schwartz, Jr.

Compensation Committee Interlocks and Insider Participation

None of the members of the Compensation Committee is currently or has been at any time since the Company s incorporation, an officer or employee of the Company. No interlocking relationship exists between any member of the Company s Board of Directors or compensation committee of any other company.

SUMMARY COMPENSATION TABLE

The following table sets forth, for fiscal years 2006, 2005 and 2004, certain compensation information with respect to the Company s Chief Executive Officer and the other Company officers named therein.

Name and Principal Position	Year	Annual Compensation Salary ($)	Bonus ($)(a)	Other Annual Compensation ($)(b)		Long-Term Compensation Awards: Shares Underlying Options/SARs (#)		All Other Compensation ($)	
Dan W. Matthias	2006	506,479	506,479			40,000	(c)	2,680	(f)
Chairman and Chief	2005	491,727				40,000	(d)	2,680	(f)
Executive Officer	2004	477,031	23,870				(e)	2,680	(f)
Rebecca C. Matthias	2006	506,479	506,479			40,000	(c)	1,290	(f)
President and Chief	2005	491,727				40,000	(d)	1,290	(f)
Operating Officer	2004	477,031	23,870				(e)	1,290	(f)
Edward M. Krell	2006	425,000	425,000			10,000	(h)		
Executive Vice President	2005	381,544				100,000	(d)		
Chief Financial Officer	2004	358,655	18,000	8,693	(g)	30,000	(e)		
David Mangini	2006	488,102	488,102			5,000	(i)		
Executive Vice President	2005	474,756				3,000	(d)		
General Merchandise Manager	2004	474,414	23,740			3,000	(e)		

(a) Reflects bonuses paid after the end of the respective fiscal years but earned in the respective fiscal years.

(b) In accordance with the rules of the SEC, other compensation in the form of perquisites and other personal benefits, securities or property has been omitted in those instances where such perquisites and other personal benefits, securities or property, constituted less than the lesser of $50,000 or ten percent of the total of annual salary and bonus for the named executive officer for such year.

(c) Does not reflect the award of 20,000 shares of restricted stock that was granted to each of Mr. and Mrs. Matthias on November 22, 2006 pursuant to the Mothers Work, Inc. 2005 Equity Incentive Plan. These shares, which had a value of $1,017,000 for each of Mr. and Mrs. Matthias as of the date of grant, will vest in two equal annual installments, on the first and second anniversaries of the date of grant. The executive will be entitled to receive dividends with respect to the restricted stock awards, with any dividends paid in respect of the restricted shares while those shares remain subject to forfeiture to be delivered to the executive only if and when the restricted shares giving rise to such dividends become vested.

(d) Does not include stock options granted after September 30, 2005.

(e) Does not include stock options granted after September 30, 2004.

(f) Represents amount paid by the Company for term life insurance premiums.

(g) Represents relocation expenses reimbursed to the executive by the Company in fiscal year 2004, together with a gross-up of associated income taxes.

(h) Does not include the award of 20,000 shares of restricted stock granted to Mr. Krell on November 22, 2006 pursuant to the Mothers Work, Inc. 2005 Equity Incentive Plan. These shares, which had a value of $1,017,000 as of the date of grant, will vest in five equal annual installments, on each of the first through fifth anniversaries of the date of grant. The executive will be entitled to receive dividends with respect to the restricted stock awards, with any dividends paid in respect of the restricted shares while those shares remain subject to forfeiture to be delivered to the executive only if and when the restricted shares giving rise to such dividends become vested.

(i) Does not include the award of 6,000 shares of restricted stock granted to Mr. Mangini on November 22, 2006 pursuant to the Mothers Work, Inc. 2005 Equity Incentive Plan. These shares, which had a value of $305,100 as of the date of grant, will vest in five equal annual installments, on each of the first through fifth anniversaries of the date of grant. The executive will be entitled to receive dividends with respect to the restricted stock awards, with any dividends paid in respect of the restricted shares while those shares remain subject to forfeiture to be delivered to the executive only if and when the restricted shares giving rise to such dividends become vested.

STOCK OPTIONS GRANTED TO CERTAIN EXECUTIVE OFFICERS DURING LAST FISCAL YEAR

The following table sets forth certain information regarding options for the purchase of Common Stock that were awarded and issued to the Company s Chief Executive Officer and the other named Company officers during fiscal year 2006.

Option Grants In Fiscal Year 2006

Name	Number of Shares Underlying Options Granted (#)	Percent of Total Options Granted to Employees in Last Fiscal Year	Exercise or Base Price ($/Sh)	Expiration Date	Potential Realizable Gain at Assumed Annual Rates of Stock Appreciation for Option Terms Compounded Annually ($) 5%	10%
Dan W. Matthias	40,000 (1)	15.6 %	10.01	11/28/15	251,809	638,134
Rebecca C. Matthias	40,000 (1)	15.6 %	10.01			