MOTHERS WORK INC
Form 10-K/A
October 04, 2005

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K/A

(Amendment No. 1)

(Mark One)

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

For the fiscal year ended September 30, 2004

or

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

For the transition period from to

Commission file number 0-21196

Mothers Work, Inc.

(Exact name of Registrant as specified in its charter)

Delaware	**13-3045573**
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
456 North Fifth Street, Philadelphia, PA	**19123**
(Address of principal executive offices)	(Zip Code)

(215) 873-2200
(Registrant s telephone number, including area code)

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

Title of each class	**Name of each exchange on which registered**
None	N/A

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

Common Stock, par value $.01 per share
Series B Junior Participating Preferred Stock Purchase Rights
(Title of class)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein and will not be contained, to the best of Registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ý

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes ý No o

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to $26.65, the price at which the common equity was last sold as of March 31, 2004 (the last business day of the Registrant s most recently completed second fiscal quarter), was approximately $124,000,000.

On December 10, 2004, there were 5,225,495 shares of the Registrant s common stock, $.01 par value, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant s Proxy Statement to be filed with the Commission in connection with the Annual Meeting of Stockholders scheduled to be held on January 21, 2005 are incorporated by reference into Part III of this Form 10-K.

EXPLANATORY NOTE

As previously disclosed in our Current Report on Form 8-K dated May 10, 2005, on May 5, 2005, the Audit Committee of our Board of Directors concluded that a restatement of our historical consolidated financial statements was necessary to correct errors resulting from our prior method of accounting for lease transactions. After consultation with our independent registered public accounting firm, KPMG LLP, we determined, like many other publicly-held companies in the retail industry, that we would change our method of accounting for leases, including our method of accounting for tenant improvement allowances, rent holidays and amortization of leasehold improvements. These changes are consistent with the views expressed by the Office of the Chief Accountant of the Securities and Exchange Commission (the SEC) on February 7, 2005 in a letter to the American Institute of Certified Public Accountants and other recent interpretations regarding certain operating lease accounting issues and their application under generally accepted accounting principles. Accordingly, this Amendment No. 1 on Form 10-K/A (the Form 10-K/A) to our Annual Report on Form 10-K for the fiscal year ended September 30, 2004, initially filed with the SEC on December 15, 2004 (the Original Filing), is being filed to reflect restatements of (i) our consolidated balance sheets as of September 30, 2004 and 2003 and (ii) our consolidated statements of operations, stockholders equity and cash flows for the years ended September 30, 2004, 2003 and 2002, and the notes related thereto (the Restatement). The restated consolidated financial statements reflect adjustments that will not have any impact on our previously reported sales, comparable sales or our compliance with any financial covenant under our revolving credit facility or other debt instruments. For a more detailed description of the Restatement, see Note 2, Restatement of Consolidated Financial Statements, of the notes to the accompanying consolidated financial statements in this Form 10-K/A and the section entitled Restatement of Prior Financial Information in Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations in this Form 10-K/A.

For the convenience of the reader, this Form 10-K/A sets forth both the amended and restated items, as well as unchanged information from the Original Filing in its entirety. However, this Form 10-K/A only amends and restates Part II, Items 6, 7, 8 and 9A of the Original Filing to reflect the Restatement. The foregoing items have not been updated to reflect other events occurring after the Original Filing or to modify or update any other disclosures affected by subsequent events. Information not affected by the Restatement is unchanged and reflects the disclosures made at the time of the Original Filing. Accordingly, this Form 10-K/A should be read in conjunction with our filings made with the SEC subsequent to the Original Filing, including any amendments to those filings. In addition, Part IV, Item 15 of the Original Filing has been amended to contain the consent of our independent registered public accounting firm and currently dated certifications from our Chief Executive Officer and Chief Financial Officer, as required by Sections 302 and 906 of the Sarbanes-Oxley Act of 2002. The consent of our independent registered public accounting firm and the certifications of our Chief Executive Officer and Chief Financial Officer are attached to this Form 10-K/A as Exhibits 23, 31.1, 31.2, 32.1 and 32.2, respectively.

We have not amended and do not intend to amend our previously filed Annual Reports on Form 10-K or our Quarterly Reports on Form 10-Q for the periods affected by the Restatement that ended prior to September 30, 2004. For this reason, the consolidated financial statements, report of independent registered public accounting firm and related financial information for the affected periods contained in such reports should no longer be relied upon.

PART I.

Item 1. Business

General

We are the leading designer and retailer of maternity apparel in the United States, operating 1,115 retail locations, including 883 stores in all 50 states, Puerto Rico and Canada, and 232 leased departments. We design and contract manufacture approximately 90% of the merchandise we sell in our retail locations, predominantly under the Motherhood Maternity® (Motherhood), Mimi Maternity® (Mimi) and A Pea in the Pod® brands. We operate stores under four different retail concepts: Motherhood Maternity, Mimi Maternity, A Pea in the Pod and Destination Maternity and also sell our merchandise on the Internet at our MaternityMall.com and our chain-specific websites. Our strategy is to fulfill, in a high-service store environment, all of an expectant mother s clothing needs, including casual and career wear, formal attire, lingerie, sportswear and outerwear. We use a vertically integrated business model to ensure that we offer the broadest assortment of in-stock, fashionable merchandise. Our three retail brands collectively target all of the price points in maternity apparel, ranging from Motherhood at value prices to A Pea in the Pod at luxury prices. In addition to our 883 stores, our retail locations include 232 leased departments located within department and specialty stores, which sell primarily Motherhood and Two Hearts Maternity branded apparel. We have achieved 11.6% compounded annual sales growth over the past five years, resulting in sales of $518.1 million for our fiscal 2004. Our fiscal year ends on September 30. All references in this discussion to our fiscal years refer to the fiscal year ended on September 30 in the year mentioned. For example, our fiscal 2004 ended on September 30, 2004.

We plan to open approximately 30-40 new retail stores during fiscal 2005, of which approximately 15-20 will be new multi-brand stores, including Destination Maternity superstores, with the balance primarily under the Motherhood brand. We plan to close approximately 48-60 stores, with approximately 30-40 of these planned store closings related to the opening of new multi-brand stores.

In addition, based on the success of the initial launch in April 2004 of our Two Hearts Maternity collection, which is available exclusively at selected Sears® locations, we will be expanding the distribution of our Two Hearts Maternity collection from the current 71 Sears locations to a total of approximately 645 Sears locations beginning in March 2005. This proprietary brand will replace the existing maternity apparel lines in those locations and will become the exclusive maternity apparel offering in Sears stores.

In February 2005, we will launch our Oh Baby! by Motherhood collection at Kohl s® stores throughout the United States and on Kohls.com. The Oh Baby! by Motherhood collection, available exclusively at Kohl s under a licensed arrangement, will replace the existing maternity apparel lines at Kohl s and will become their exclusive maternity apparel line. As of October 31, 2004, Kohl s operates approximately 637 stores in 40 states.

Mothers Work was founded by Dan and Rebecca Matthias in 1982 as a mail-order maternity apparel catalog. We began operating retail stores in 1985 and completed our initial public offering in 1993. To address multiple price points in maternity apparel and improve operating productivity, we acquired Motherhood and A Pea in the Pod in 1995 and eSpecialty Brands, LLC (iMaternity) in October 2001. Since the acquisitions of Motherhood and A Pea in the Pod, we have developed and grown these brands along with our Mimi brand. In connection with each of our acquisitions, we have consolidated some overlapping locations and closed under-performing stores, resulting in increased operating efficiency through reductions of acquired store expenses and improved inventory utilization.

Retail Concepts and Product Distribution

Motherhood Maternity. Motherhood Maternity serves the value-priced portion of the maternity apparel industry with the greatest number of customers and is our largest chain with 717 stores as of September 30, 2004. Motherhood is positioned with everyday low prices, broad assortment, fashion and quality. We believe that the Motherhood customer shops at moderate-priced department stores and discount stores when she is not expecting. Motherhood stores average approximately 1,700 square feet and are located primarily in enclosed malls, strip and power centers and central city business districts. Motherhood stores include 106 outlet locations that carry predominantly Motherhood-branded product, including some closeout merchandise. In addition, as of September 30, 2004, we operate 131 Motherhood leased departments in department and specialty stores such as Macy s®, Babies R Us®, Lazarus® and Rich s®. Between 1998 and 2000, we successfully broadened Motherhood s customer base by lowering price points approximately 40% to 45%. This new price position significantly expanded the brand s target market, increased revenues per store and increased unit volumes during this period. In fiscal 2004, we opened 29 new Motherhood stores and outlets, excluding leased departments and net of store closings and store conversions. As of September 30, 2004, we operate 26 Motherhood stores in Canada and believe that market opportunities may permit us to open additional stores in Canada in the future. We may also have the opportunity to grow the number of our Motherhood leased departments in the United States.

Mimi Maternity. As of September 30, 2004, we had 121 Mimi Maternity stores that serve the middle market priced portion of the maternity apparel industry. The brand is positioned as trendy, contemporary, fun and affordable. We believe that the Mimi customer shops at department stores and specialty apparel chains when she is not expecting. Mimi stores average approximately 2,000 square feet and are located primarily in regional malls, lifestyle centers and central business districts.

Single-Brand Mimi Stores. As of September 30, 2004, 91 of our Mimi stores predominantly carry Mimi-branded product, as well as a small selection of maternity merchandise developed by contemporary vendors exclusively for Mimi, and average approximately 1,600 square feet. As of September 30, 2004, we also operate 29 Mimi leased departments in Marshall Field s® and Bloomingdale s®. Mimi was historically price positioned just below A Pea in the Pod. When Motherhood s prices were lowered, there was an opportunity for Mimi to broaden its customer base by including lower price points. Mimi was, therefore, repositioned during fiscal 2002 and its merchandise price points now range from just above Motherhood to the lower end of A Pea in the Pod. This repositioning resulted in an expansion of Mimi s target customer base, and provided us the opportunity to increase the number of Mimi stores over time.

Multi-Brand Mimi Stores. We are continuing to test, develop and expand our multi-brand store concepts. Our current multi-brand store concepts operated under the Mimi name include two-brand stores (which carry both the Mimi and Motherhood brands) and triplex stores (which carry the Mimi, Motherhood and A Pea in the Pod brands). These multi-brand stores are larger (average of approximately 3,000 square feet) and have higher average sales volume than our average store, and provide the opportunity to lower our store operating expense percentage and improve store operating profit margins over time. Opening these multi-brand stores will typically involve closing two smaller stores and consolidating their business into one store, and frequently will involve one-time store closing costs resulting primarily from early lease terminations. As of September 30, 2004, 30 of our stores are multi-brand stores using the Mimi name, consisting of 28 two-brand Mimi combo stores and 2 Mimi triplex stores. We plan to continue to open additional multi-brand stores carrying both Mimi and Motherhood product, using the Mimi store name.

In fiscal 2004, at Mimi Maternity, we opened four single-brand stores, 16 two-brand combo stores, two triplex stores and an additional four stores as a result of net store conversions, excluding leased departments, and closed 24 stores.

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A Pea in the Pod. A Pea in the Pod is the leading luxury maternity brand in the United States, with 41 store locations as of September 30, 2004. The brand is positioned as exclusive, designer and luxury. A Pea in the Pod stores average approximately 2,400 square feet and are located in upscale venues, including Madison Avenue, Oak Street, Beverly Hills, South Coast Plaza and Bal Harbor. We also operate one A Pea in the Pod leased department in Macy s flagship Herald Square store in New York City. During fiscal 2004, we opened two stores and closed five stores. In addition to offering a wide selection of both A Pea in the Pod and Mimi branded products in almost all A Pea in the Pod stores, we seek out designer and contemporary brands and assist them in developing maternity versions of select styles exclusively for our A Pea in the Pod stores. Publicity, including celebrities wearing our clothes, is an important part of the marketing and positioning of the brand. As scarcity is part of the concept s luxury image, we have chosen to further develop the brand primarily by optimizing our customers in-store experience rather than by opening new stores. We therefore continuously upgrade the quality of the locations, our store designs, the product styling and our publicity to enhance our brand image.

Destination Maternity superstores. On March 4, 2004, we opened our first Destination Maternity superstore in Danbury, Connecticut, a nearly 4,000 square foot test store carrying all three of our brands plus a greatly expanded line of nursing accessories, fertility-related products and maternity-related exercise gear, books, and body and nutritional products. This store also has a dedicated learning center area for maternity-related classes, as well as a relax area for husbands and shoppers alike, and an inside play area for the pregnant mom s toddlers and young children. These elements combine to give our Destination Maternity superstore not only by far the largest assortment of maternity apparel and accessories available, but also a new and engaging atmosphere and experience for the maternity customer. Our superstore format is highly differentiated from the stores of our maternity competitors, which do not even carry the breadth of selection we carry in one of our three brands presented in the superstore. Opening these superstores will typically involve closing two or more smaller stores and consolidating their business into one store, and frequently will involve one-time store closing costs resulting primarily from early lease terminations. We believe the superstore model will improve store profitability margins by reducing store operating expense percentages and may increase overall sales in the geographical markets they serve. We are actively working to continue to refine our maternity superstore concept and to find additional suitable new locations for the concept. We opened three additional Destination Maternity superstores during August 2004, for a total of four stores open as of September 30, 2004, with four additional superstores scheduled to open during the first six months of fiscal 2005. We may open additional superstores in fiscal 2005 as we find and evaluate additional potential locations and obtain additional results and insights from our existing superstores. As the only national retailer that is solely focused on maternity, we are further differentiating ourselves as the ultimate maternity destination with these large, well-assorted, must visit superstores.

Two Hearts Maternity. Two Hearts Maternity launched in selected Sears stores in April 2004 and, as of September 30, 2004, is carried in leased departments in 71 Sears stores. Based on the success of the initial launch, the Two Hearts Maternity collection is expanding to a total of approximately 645 Sears stores beginning in March 2005. This proprietary brand will become the exclusive maternity apparel offering in Sears stores. Two Hearts Maternity is a new fashionable collection including career and casual sportswear as well as dresses, lingerie, swimwear and nursing sleepwear, with most items priced under $40. The average Two Hearts Maternity leased department retail space covers approximately 400 square feet.

Oh Baby! by Motherhood. Oh Baby! by Motherhood collection will launch in February 2005 at Kohl s stores throughout the United States and on Kohls.com. Available exclusively at Kohl s under a product and license agreement, the collection will feature a modern and complete assortment of sportswear, intimate apparel and sleepwear, with most items priced under $40.

Our Competitive Strengths

We are the leader in maternity apparel. We are the leading designer and retailer of maternity apparel in the United States and are the only nationwide chain of maternity specialty stores in the United States. We believe that our brands are the most recognized in maternity apparel. We have established a broad distribution network, with stores in a wide range of geographic areas and retailing venues. In addition, we have a leading position at every price point of maternity apparel through our three distinct brands. Our leadership position enables us to gain a unique understanding of the needs of our maternity customers, as well as keep abreast of fashion and product developments. We enhance our leadership position, increase market penetration and further build our brands by operating leased departments in department and baby specialty stores.

We offer a wide product assortment. A primary consideration for expectant mothers shopping for maternity clothes is product assortment, as pregnant women need to replace almost their entire wardrobe. We believe that we offer the widest selection of merchandise in the maternity apparel industry. We also offer product for multiple seasons, as pregnant women s clothing needs vary depending on their due date. Our ability to offer a broad assortment of product is due, in large part, to our vertically integrated business model, which includes our extensive in-house design and contract manufacturing capabilities, as well as our rapid inventory replenishment system.

We are vertically integrated. We design and contract manufacture approximately 90% of the merchandise we sell in our stores. We believe that vertical integration enables us to offer the widest product selection in maternity apparel, to respond quickly to fashion trends and to ensure industry-leading in-stock levels. We combine our in-house design expertise, domestic and international sourcing capabilities, a rapid inventory replenishment process and extensive proprietary systems to enhance operational and financial results.

We utilize a rapid inventory replenishment system. Since maternity apparel is a niche industry, store profitability is usually optimized in smaller store formats. We are able to offer a wide selection of merchandise in our stores, which average approximately 1,800 square feet, due, in large part, to our rapid inventory replenishment system. Our proprietary system enables us to offer more than 3,000 stock keeping units, or SKUs, per store without dedicating retail space to storage. We coordinate the rapid replenishment of inventory for all of our stores through our Philadelphia and Canadian distribution centers, which send individually tailored selections to specific store locations between two and six times per week.

We have proprietary systems that support our business. In order to support our vertically integrated business model, we have developed a fully integrated, proprietary enterprise resource planning (ERP) system. This system includes point-of-sale (POS) systems, our TrendTrack merchandise analysis and planning system, our materials requirement planning (MRP) system and our web-based, global sourcing and logistics systems. These systems also support our automated picking and sorting systems and other aspects of our logistics infrastructure. We believe that our proprietary systems are critical to our competitive strengths of offering a broad product assortment, responding quickly to fashion trends, helping to reduce product costs and rapidly replenishing inventory in our stores.

We are able to obtain prime real estate locations. We believe that we are able to obtain attractive real estate locations due to the brand awareness of our concepts, our multiple price point approach and our sought after maternity customer. We are the only maternity apparel retailer to provide mall operators with the ability to choose from three differently priced concepts, depending on the mall s target demographics. We are also able to provide multiple stores or a multi-brand store for malls that want to offer their maternity customers a range of price alternatives. In addition, in the case of multi-mall operators, we have the flexibility to provide several stores across multiple malls. As a result, we have been able to locate stores

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in many of what we believe are the most desirable shopping malls in the country and are able to obtain attractive locations within these malls.

We have a highly experienced management team. Dan Matthias, our Chairman and Chief Executive Officer, and Rebecca Matthias, our President and Chief Operating Officer, founded the Company over 20 years ago and are leaders in maternity apparel retailing. In recent years, we have added to our management team and have a management team with significant experience in all aspects of the retail and apparel business.

The Maternity Apparel Industry

We are unaware of any data on the size of the maternity apparel industry. However, based on our own analysis, we believe there are approximately $1.2 billion of maternity clothes sold each year in the United States. In addition, we believe that there is an opportunity to grow the market by selling maternity clothes to pregnant women who currently purchase loose-fitting or larger-sized non-maternity clothing as a substitute for maternity wear. We also believe that the market can grow by reducing the amount of hand-me-down and borrowing associated with maternity apparel, particularly in the value-priced market where low-priced, fashionable newly-purchased maternity apparel could provide an economical alternative to secondhand maternity wear. Further, we believe that the demand for maternity apparel is relatively stable when compared to non-maternity apparel. Expectant mothers continue to need to replace their clothes and the current steady rate of approximately four million U.S. births per year has remained stable over the last decade. We believe that maternity apparel is also less fashion sensitive than specialty apparel in general, as demand is driven by the need to replace wardrobe basics as opposed to current fashion trends.

Brands

We operate our maternity stores under four retail concepts offering a full range of casual and career wear, formal attire, lingerie and outerwear under three primary apparel brands. We have positioned our four retail concepts and three primary apparel brands to target the entire spectrum of pregnant women, serving a smaller customer base at the highest price points and broadening the market as the price points are reduced. The following table sets forth certain information regarding our portfolio of stores as of September 30, 2004, including each store concept s target location, brand positioning, price range for dresses and approximate average store size:

Brand	**Description of Target Location**	**Brand Positioning**	**Dress Price Range**	**Average Store Size (square feet)**
Motherhood Maternity	Moderate regional malls, strip centers and power centers	Broad assortment, fashion, quality and everyday low price	$17 - $60	1,700
Mimi Maternity	Mid-priced regional malls and lifestyle centers	Contemporary, fun, trendy and affordable	$48 - $168	2,000(1)
A Pea in the Pod	Exclusive, high-end regional malls and affluent residential areas	Exclusive, designer and luxury	$90 - $450	2,400

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(1) Our single-brand Mimi stores average 1,600 square feet and our multi-brand Mimi stores average 3,000 square feet.

We also have four Destination Maternity superstores open as of September 30, 2004. These superstores are located in or near regional malls and shopping centers, generally include the brands of Motherhood, Mimi and A Pea in the Pod, as well as products unique to the superstore, with dress price ranges indicative of the brands represented. The average size of these four Destination Maternity superstores is approximately 4,500 square feet. We expect future superstores will typically be 6,000 square feet or more.

Major regional malls with several department stores and a wide range of price points may be able to accommodate a multi-brand store, or more than one maternity store. We have the ability to address multiple price alternatives at a given mall, with Motherhood as our value-oriented brand, Mimi as our mid-priced brand and A Pea in the Pod as our luxury brand. As of September 30, 2004, we had at least two of our store concepts in 47 major regional malls. In addition, almost all 41 of our A Pea in the Pod stores and 23 of our Motherhood stores carry Mimi-branded merchandise, and 30 of our Mimi stores carry Motherhood-branded merchandise.

Internet Operations

We believe that many pregnant women turn to the Internet for maternity-related information and products, including on-line purchases of maternity clothes. Our websites are therefore important tools for educating existing and potential customers about our brands and driving traffic to our stores. Our websites sell merchandise and provide store location information. Each of our concepts has its own dedicated website that is reached primarily through the brand name, for example Motherhood.com. Our content site and portal, MaternityMall.com, is another likely way for a consumer to reach one of our brand-specific websites. In addition to providing links to all of our websites, MaternityMall.com contains maternity advice and information, related baby product information and editorial content. We also operate the iMaternity.com website, which sells Motherhood merchandise. Our marketing and technology capabilities, and the replenishment capabilities of our distribution center and stores enable us to incorporate Internet design, operations and fulfillment into our existing operations.

Marketing Partnerships

We expand and leverage the relationship we have with our customers and earn incremental revenues through a variety of marketing partnership programs utilizing our extensive opt-in customer database and various in-store marketing initiatives, focused on baby and parent-related products and services.

Brand-Specific Operations Teams

To obtain maximum efficiencies, we are organized primarily along functional lines, such as merchandising, store operations, design and production. Since our business consists of three separate brands requiring decisions on a brand-specific basis, we have built business teams by brand where the functional leaders within each brand work together. Each brand team is led by the head merchant and includes the director of stores for that brand, the head designer, the head planner and distributor and the key production manager. These teams also include visual, fabric purchasing and other necessary professionals.

Store Operations

The typical maternity customer, especially the first-time mother, seeks more advice and assistance than the typical non-maternity customer does. Therefore, we aim to employ skilled, motivated store team members who are trained to provide the high level of service and reassurance needed by our customers. We attempt to provide a boutique level of attentive service that differentiates us from our competitors, particularly so from moderate and discount stores. Our centralized merchandising and store operations also enable our store team members to focus primarily on selling and maintaining the appearance of the stores. In addition, visual merchants coordinate with the merchandising department to develop floor-sets, design store display windows and define and enhance the product presentation.

Each of our three primary store brands has a director of stores. At Motherhood and Mimi, the management reporting chain consists of regional managers, district managers and store managers. At A Pea in the Pod, due to its smaller number of stores, the district managers report to the director of stores. Our store, district and regional managers are eligible to receive incentive-based compensation related to store, district and regional-level performance.

Merchandising, Design and Inventory Planning

Merchandising. We strive to maintain an appropriate balance between new merchandise and proven styles, as well as between basic and fashion items. Our merchandising decisions are based on current fashion trends, as well as input from our designers and outside vendors. This information is used in conjunction with the item-specific sales data provided by our proprietary merchandising and replenishment system. Each brand has its own team of merchants, designers and planners. These teams are led by the head merchant of the brand.

Design. Our design department creates and produces samples and patterns for our contract-manufactured products under the guidance of the merchandising department. This capability differentiates us from many of our competitors, who source their products from a limited number of maternity wear vendors. The design of our products begins with a review of European and New York runway trends, current non-maternity retail trends, fashion reporting service slides and fabric samples. The designers review our best selling items from prior seasons and integrate current fashion ideas from the non-maternity apparel market.

Inventory Planning and Allocation. Our planning and allocation department is responsible for planning future inventory purchases and markdowns, as well as targeting overall inventory levels and turnover. We establish target inventories for each store using our inventory planning system with the goals of optimizing our merchandise assortment and turnover, maintaining adequate depth of merchandise by style and managing closeout and end-of-season merchandise consolidation. Our proprietary capabilities enable us to continually monitor and respond quickly to consumer demand and are integral to our inventory management program. These capabilities are facilitated by our TrendTrack system, which provides daily product sell-through data and merchandising information.

Production and Distribution

We design and contract for the production for approximately 90% of our merchandise. We contract our sewing to factories throughout the world, including domestic facilities, and we continue to seek additional contractors for our sourcing needs. No individual contractor represents a material portion of our sewing. A majority of our merchandise is purchased full package as finished product made to our specifications, typically utilizing our designs. Fabric, trim and other supplies are obtained from a variety of sources. As we have expanded our stores and increased volumes over the past several years, we have generally been able to reduce our product costs, thereby increasing gross margins. However, our most recent fiscal year s gross margin decreased by about one-half percent, primarily driven by increased markdowns recognized.

Our production and quality assurance personnel monitor production at contractor facilities in the United States and work with our agents abroad to ensure quality control, compliance with our design specifications and timely delivery of finished goods. This quality control effort is enhanced by our worldwide Internet-based contracting and logistics systems, which include advanced features such as measurement specifications and digital photography. We also use a third party consulting firm to help monitor working conditions at our contractors facilities on a worldwide basis.

Finished garments from contractors and other manufacturers are received at our United States distribution facility in Philadelphia, Pennsylvania, and our Canadian distribution center. Garments are inspected using statistical sampling methods and stored for picking. Our distribution facility utilizes the latest fulfillment technology to serve as a replenishment center, as opposed to solely a distribution center. The facility sends an individually tailored selection from our approximately 24,000 SKUs to our store locations two to six times per week. Store replenishment decisions are made automatically based upon target inventories established by the allocation department and individual store sales data. The distribution facility uses several automated systems, including our pick-to-light system for flat-packed goods and our hanging garment sortation system, which speed up deliveries to our stores and reduce costs.

Shipments to stores are tracked by our proprietary delivery tracking software. Freight is routed through zone-skipping, over-the-road carriers running 24 hours per day and delivered locally by a variety of carriers, and is supplemented by a small percentage of second-day air, providing one to three-day delivery to our store locations.

In November 2003, we were certified to participate in Customs-Trade Partnership Against Terrorism, or C-TPAT, a United States Department of Homeland Security sponsored program that enhances our standing with United States Customs and Border Protection through our implementation and monitoring of procedures to manage the security of our supply chain as part of the effort to protect the United States against potential acts of terrorism.

Management Information and Control Systems

We believe that our proprietary systems are instrumental to our ability to offer the broadest assortment of maternity merchandise and accomplish rapid replenishment of inventory. We continuously develop, maintain and upgrade our systems and currently employ an in-house team of programmers. Our stores have point-of-sale terminals that provide information used in our customized TrendTrack merchandise analysis and planning system. This system provides daily financial and merchandising information that is integral to monitoring trends and making merchandising decisions. The TrendTrack system has numerous features designed to integrate our retail operations with our design, manufacturing and financial functions. These features include custom merchandise profiles for each store, rapid inventory replenishment, item-tracking providing daily updated selling information for every style, classification open-to-buy and inventory control, as well as the daily collection of customer payment data, including cash, check and credit card sales data.

As part of our proprietary ERP system, we employ a comprehensive MRP system to manage our production inventories, documentation, work orders and scheduling. This system provides a perpetual inventory of raw materials, actual job costing, scheduling and bill of materials capabilities. The foundation of our ERP system is a perpetual inventory of finished goods by location across all of our retail stores, which interfaces directly with our distribution facility.

In fiscal 2003, we rolled out a proprietary, upgraded point-of-sale system to our stores and integrated this system with our existing systems. This Internet-based system provides real-time access to financial and merchandising information in addition to rapid credit authorization. This upgraded point-of-sale system has significantly reduced the amount of training required for new sales associates and store managers. In addition, we plan to continue to add new features and functionality to the system, and anticipate that the system will improve our customer relationship management capabilities by allowing the creation of customized promotional and marketing strategies.

Given the importance of our management information systems, we have taken extensive measures to ensure their responsiveness and security. Our hardware and communications systems are based on a redundant and multiprocessing architecture, which allows their continued operation on a parallel system in the event that there is a disruption within the primary system. Our main computer system, located in our Philadelphia facility, is duplicated by a fully mirrored system in a separate part of the building with a separate power source that is designed to assume full operations should disruption in the primary system occur. In addition, our software programs and data are backed up and stored off-site. Our communications links come from two telephone frame rooms and are delivered through underground and aboveground feeds.

Pricing

Each of our brands targets customers at different price points of the maternity apparel industry. Our Motherhood brand is positioned primarily on everyday low prices, Mimi employs middle-market pricing and A Pea in the Pod employs luxury pricing. None of our concepts relies on point-of-sale high/low promotional strategies to drive traffic into the stores. Our price reductions are done at the individual style level and are used to accelerate the sale of slower selling merchandise. Merchandise that is selling slowly is quickly marked down, moved to another store where the item is selling faster, or moved to a Motherhood Outlet store.

Advertising and Marketing

We believe that the power of our brands, customer referrals and our convenient mall locations drive traffic into our stores. Therefore, we have modest advertising and marketing expenditures. Our advertising and publicity efforts include in-store marketing, prenatal consumer-targeted advertising and our Internet websites. We also run full-page ads for all of our brands in pregnancy-targeted publications, as well as prenatal issues of leading baby and parenting magazines. We advertise in several key prenatal magazines, including *American Baby, Pregnancy, ePregnancy, Healthy Pregnancy* and *Shape Fit Pregnancy*. A Pea in the

Pod, Mimi and Motherhood are also advertised in fashion and broad-reach magazines, such as *Vogue*, *In Style, Lucky, People* and *Glamour*. We also utilize our publicity efforts to generate free editorial coverage in broadcast television, magazines, radio and selected newspapers for all of our brands.

Competition

Our business is highly competitive, characterized by low barriers to entry. The following are several important factors in competing successfully in the retail apparel industry: breadth of selection in sizes; colors and styles of merchandise; product procurement and pricing; ability to anticipate fashion trends and customer preferences; inventory control; reputation; quality of merchandise; store design and location; visual presentation and advertising and customer service. We face competition in our maternity apparel lines from various sources, including department stores, specialty retail chains, discount stores, independent retail stores and catalog and Internet-based retailers, from both new and existing competitors. Many of our competitors are larger and have substantially greater financial and other resources than us. Further, we do not typically advertise using television and radio media and thus do not reach customers through means our competitors may use. Our mid- and luxury-priced merchandise faces a highly fragmented competitive landscape that includes locally based, single unit retailers, as well as a handful of multi-unit maternity operations, none of which we believe has more than 15 stores nationwide. In the value-priced maternity apparel business, we currently face competition on a nationwide basis from retailers such as Fashion Bug®, GAP®, JC Penney®, Kmart®, Kohl s®, Old Navy®, Target®, Sears® and Wal-Mart®. Several of these competitors, including Gap® and Old Navy®, also sell maternity apparel on their websites. We believe there has been increased competition in the maternity apparel industry, from both new and existing competitors. We currently face maternity competition in over 1,000 more competitive locations than a year ago. Our market share and results of operations may be materially and adversely affected by this competition, including the potential for increased competition in the future. While we have competed with both Sears and Kohl s in the past, our relationship with both of them is now changing. We will be expanding our Two Hearts Maternity collection to a total of approximately 645 Sears stores in March 2005 under a leased department arrangement. In February 2005, we will launch our Oh Baby! by Motherhood collection at Kohl s stores throughout the United States and on Kohls.com, available exclusively at Kohl s under a product and license agreement.

Employees

As of September 30, 2004, we had 2,624 full-time and 2,401 part-time employees. None of our employees are covered by a collective bargaining agreement. We consider our employee relations to be good.

Executive Officers of the Company

The following table sets forth the name, age and position of each of our executive officers:

Name	**Age**	**Position**
Dan W. Matthias	61	Chairman of the Board and Chief Executive Officer
Rebecca C. Matthias	51	President, Chief Operating Officer and Director
Edward M. Krell	42	Executive Vice President Chief Financial Officer
David Mangini	60	Executive Vice President General Merchandise Manager

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

Rebecca C. Matthias co-founded Mothers Work in 1982 (along with Dan W. Matthias) and has served as a director and our President since our inception. Since January 1993, Ms. Matthias has also served as our 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 1982, Ms. Matthias was a construction engineer for the Gilbane Building Company. Ms. Matthias also serves as a member of the Board of Trustees of Drexel University, a director on the Board of Directors of CSS Industries, Inc., and a director on the Board of Directors of Russell Corporation.

Edward M. Krell has served as Executive Vice President-Chief Financial Officer since November 2003, having served as Senior Vice President-Chief Financial Officer from the time he joined Mothers Work in January 2002 until November 2003. Prior to joining Mothers Work, Mr. Krell served as Executive Vice President and Chief Financial Officer of Mammoth Sports Group, Inc., an Internet and catalog retailer of golf equipment and accessories, from December 1999 to July 2000 and as an independent financial consultant from July 2000 to January 2002. From 1995 to 1999, Mr. Krell served as Executive Vice President and Chief Financial Officer of London Fog Industries, Inc., a wholesale and retail distributor of rainwear and outerwear. Mr. Krell began his career as an investment banker with Kidder, Peabody & Co. Incorporated.

David Mangini has served as Executive Vice President-General Merchandise Manager since August 2001. Prior to joining Mothers Work, Mr. Mangini served as Today s Man s Chief Merchandising Officer from 1999 to 2000. From 1998 to 1999, Mr. Mangini served as Chief Operating Officer of Gadzooks. From 1987 to 1997, Mr. Mangini was an officer at Limited, Inc., including President and Chief Executive Officer of its Structure brand.

Our executive officers are elected annually by the Board of Directors and serve at the discretion of the Board. Other than the husband and wife relationship between Dan and Rebecca Matthias, there are no family relationships among any of our other executive officers.

Trademarks

We own trademark and service mark rights that we believe are sufficient to conduct our business as currently operated. We own several trademarks, including Mothers Work®, A Pea in the Pod®, Mimi Maternity®, Motherhood®, Motherhood Maternity®, Destination Maternity , Two Hearts Maternity , Oh Baby! , Oh Baby! by Motherhood , Motherhood Maternity Outlet®, Steena® and MaternityMall.com®. As a result of the iMaternity acquisition, we also own the iMaternity®, Dan Howard® and iMaternity.com marks. Additionally, we own the marks futuretrust , Real Time Retailing®, What s Showing is Your Style®, Motherhood: It s Hot! , Motherhood is Everything Good , Motherhood Baby® and Maternity Redefined®. We are not aware of any material pending claims of infringement or other challenges to our rights or to the use of our marks in the United States or Canada.

Seasonality

Our business, like that of many other retailers, is seasonal. Our quarterly net sales have historically been highest in our third fiscal quarter, corresponding to the Spring selling season, followed by our first fiscal quarter, corresponding to the Fall/holiday selling season. Given the typically higher gross margin we experience in the third fiscal quarter compared to other quarters, the relatively fixed nature of most of our operating expenses and interest expense, and the historically higher sales level in the third quarter, we have typically generated a very significant percentage of our full year operating income and net income during the third quarter. Results for any quarter are not necessarily indicative of the results that may be achieved for a full fiscal year. Quarterly results may fluctuate materially depending upon, among other things, the timing of new store openings, net sales and profitability contributed by new stores, increases or decreases in comparable store sales, adverse weather conditions, shifts in the timing of certain holidays and promotions, changes in inventory and production levels and the timing of deliveries of inventory, and changes in our merchandise mix.

Securities and Exchange Commission Filings

Securities and Exchange Commission (SEC) filings are available free of charge on our website, www.motherswork.com. Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports are posted on our website as soon as practicable after we furnish such materials to the SEC.

Item 2. Properties

We own our principal executive offices and distribution facility, which is located at 456 North Fifth Street, Philadelphia, Pennsylvania, subject to a mortgage under the terms of which we owe approximately $3.1 million as of September 30, 2004. This facility consists of approximately 318,000 square feet, of which 45,000 square feet is dedicated to office space and the remaining square footage to finished goods warehousing and distribution. On August 26, 2002, we entered into a 10-year lease for a facility located at 2001 Kitty Hawk Avenue, Philadelphia, Pennsylvania in the Philadelphia Naval Business Center. The area leased at this facility, which we use for raw material cutting and warehousing, consists of 64,000 square feet of space. To facilitate our store growth in Canada, we entered into a three-year lease commencing November 1, 2002 for 12,000 square feet of finished goods warehouse and distribution space in Mississauga, Ontario in Canada. We believe that these facilities will be adequate to support our anticipated distribution needs for the near term and, potentially, longer. In the event we need additional space to meet our future distribution needs, we believe that such space would be readily available. Our facilities are subject to state and local regulations that range from building codes to health and safety.

We lease our store premises for terms averaging from seven to ten years. Certain leases allow us to terminate our obligations at specified points in time in the event that the applicable store does not achieve a specified sales volume. Some of our store leases also provide for contingent payments based on sales volume, escalations of the base rent, as well as increases in operating costs, marketing costs and real estate taxes.

As of September 30, 2004, the following number of store leases are set to expire as listed in the table below. We do not expect the expiration of any leases to have a material adverse impact on our business or operations.

Fiscal Year Leases Expire	**Number of Stores**
2005	113
2006	79
2007	88
2008	73
2009	128
2010 and later	402
Total	883

In addition, we have arrangements with department and specialty stores, including Babies R Us®, Bloomingdale s®, Burdine s®, Lazarus®, Macy s®, Marshall Field s®, Rich s® and Sears® to operate maternity departments in their stores. These leased departments typically involve the lease partner collecting all of the revenue from the leased department and remitting all but a fixed percentage to us. We provide at least some amount of staffing for each of the leased departments, with the amount varying depending on the specific arrangement.

Item 3. Legal Proceedings

We were a party to an action filed against us alleging that certain former and current employees should have received overtime compensation under Washington law in Spokane County Superior Court. The plaintiffs in this action sought unspecified actual damages, penalties and attorneys fees. On or about April 23, 2003, one purported subclass of the plaintiffs accepted a settlement arrangement in the amount of $50,000, plus attorney s fees and costs incurred through such date. After a trial with the remaining purported subclass, in May 2003, the jury found for us on all but one claim, for which it awarded the remaining plaintiffs damages in the amount of $106,000. The parties are currently contesting fees, costs and expenses being sought by the plaintiffs in the amount of approximately $390,000. We recorded expenses during fiscal 2004 and 2003 of $78,000 and $546,000, respectively, for the estimated legal fees and settlement costs of this case, including the contested costs and expenses noted above.

In addition, from time to time, we are named as a defendant in legal actions arising from our normal business activities. Although the amount of any liability that could arise with respect to currently pending actions cannot be accurately predicted, we do not believe that the resolution of any pending action will have a material adverse effect on our financial position, results of operations or liquidity.

Item 4. Submission of Matters to a Vote of Security Holders

Not applicable.

PART II.

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

Our common stock is traded on the Nasdaq National Market under the symbol MWRK. The following table sets forth for the periods indicated below the reported high and low sales prices of our common stock as reported on the Nasdaq National Market:

	High	Low
Fiscal Year Ended September 30, 2003:		
Quarter ended December 31, 2002	$ 43.00	$ 29.50
Quarter ended March 31, 2003	38.00	18.60
Quarter ended June 30, 2003	28.00	19.72
Quarter ended September 30, 2003	37.87	25.81
Fiscal Year Ended September 30, 2004:		
Quarter ended December 31, 2003	$ 30.76	$ 22.30
Quarter ended March 31, 2004	28.07	22.70
Quarter ended June 30, 2004	27.57	20.00
Quarter ended September 30, 2004	20.74	14.34

As of December 1, 2004, there were 837 holders of record and 2,030 estimated beneficial holders of our common stock.

We have not paid any cash dividends on our common stock since our initial public offering and do not anticipate paying cash dividends on our common stock in the foreseeable future. In addition, the terms of our senior notes and our credit facility significantly restrict our ability to declare or pay dividends on our common stock. Even if we were not restricted under the terms of our $125.0 million of 11 1⁄4% senior notes due 2010 (the New Senior Notes) or our credit facility from being able to pay dividends, any future payment of dividends would still be at the discretion of our Board of Directors and would be based upon certain restrictive financial covenants, earnings, capital requirements and our financial condition, among other factors, at the time any such dividend is considered.

Up to a total of 1,975,000 options may be issued under our 1987 Stock Option Plan and up to a total of 200,000 options may be issued under our separate Director Stock Option Plan.

In March 2003, our Board of Directors approved a share repurchase program under which we may repurchase up to $10.0 million of our outstanding common stock from time to time in private transactions or on the open market until March 2005. As of September 30, 2004, we have repurchased and retired 142,269 shares in the aggregate at a total cost of $3.2 million, for an average cost of $22.79 per share. The indenture governing our New Senior Notes and the terms of our credit facility contain restrictions that place limits on certain payments by us, including payments to repurchase shares of our common stock. Our repurchases of common stock have been made in compliance with all restrictions under the indenture governing the New Senior Notes and the terms of our credit facility.

The following table provides information about purchases by us during the quarter ended September 30, 2004 of equity securities that are registered by us pursuant to Section 12 of the Securities Exchange Act of 1934:

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of a Publicly Announced Program (2)	Maximum Approximate Dollar Value of Shares that May Yet Be Purchased Under the Program (1)
July 1 to July 30, 2004				$ 6,756,983
August 1 to August 31, 2004				$ 6,756,983
September 1 to September 30, 2004				$ 6,756,983
Total				$ 6,756,983

(1) On March 6, 2003, the Board of Directors approved a share repurchase program under which we may buy up to $10.0 million of our outstanding common stock from time to time in open market purchases or through private transactions until March 2005.

(2) As of September 30, 2004, we had repurchased an aggregate of 142,269 shares at a total cost of approximately $3.2 million pursuant to the repurchase program that we publicly announced in March 2003, of which 75,715 shares were repurchased during fiscal 2004, at an average cost of $23.44 per share.

Item 6. Selected Consolidated Financial and Operating Data (Restated-see Note 2 of the Notes to Consolidated Financial Statements)

The following tables set forth selected data pertaining to the consolidated statement of operations, pro forma statement of operations, operating, cash flow and other, and balance sheet as of and for the periods indicated. The selected consolidated statement of operations and balance sheet data for each of the five fiscal years presented below are derived from our audited consolidated financial statements. You should read this information in conjunction with the Management s Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and the related notes included elsewhere in this report.

	Year Ended September 30,				
	2004	2003	2002 (2)	2001	2000
	(in thousands, except per share amounts)				
	(Restated)	(Restated)	(Restated)	(Restated)	(Restated)
Statement of Operations Data (1):					
Net sales	$ 518,051	$ 492,447	$ 453,159	$ 388,306	$ 366,283
Cost of goods sold	239,613	225,191	211,689	194,320	183,300
Gross profit	278,438	267,256	241,470	193,986	182,983
Selling, general and administrative expenses	255,168	231,236	208,325	173,390	158,154
Operating income	23,270	36,020	33,145	20,596	24,829
Interest expense, net (3)	14,765	14,469	16,476	14,867	15,877
Other income				594	
Income before income taxes	8,505	21,551	16,669	6,323	8,952
Income tax provision (3)	3,466	8,337	6,269	3,248	4,128
Net income	5,039	13,214	10,400	3,075	4,824
Dividends on preferred stock			3,942	1,491	1,389
Net income available to common stockholders (2)	$ 5,039	$ 13,214	$ 6,458	$ 1,584	$ 3,435
Net income per share Basic (2)	$ 0.97	$ 2.52	$ 1.65	$ 0.46	$ 1.00
Average shares outstanding Basic	5,212	5,236	3,914	3,456	3,443
Net income per share Diluted (2)	$ 0.92	$ 2.34	$ 1.52	$ 0.44	$ 0.94
Average shares outstanding Diluted	5,501	5,646	4,261	3,605	3,641

	Year Ended September 30, 2004 (Restated)		2003 (Restated)		2002 (2) (Restated)		2001 (Restated)		2000 (Restated)
	(in thousands, except per share amounts)								
Pro Forma Statement of Operations Data (1)(4):									
Net income available to common stockholders	$	5,039	$	13,214	$	6,458	$	1,584	$ 3,435
Add back goodwill amortization								2,207	2,216
Pro forma net income available to common stockholders, excluding goodwill amortization	$	5,039	$	13,214	$	6,458	$	3,791	$ 5,651
Pro forma net income per share Basic	$	0.97	$	2.52	$	1.65	$	1.10	$ 1.64
Pro forma net income per share Diluted	$	0.92	$	2.34	$	1.52	$	1.05	$ 1.55

(1) Fiscal years 2000 through 2004 have been restated from amounts previously reported to reflect certain lease accounting adjustments as discussed in Note 2 of the Notes to Consolidated Financial Statements.

(2) In August 2002, as part of a refinancing, we repurchased our existing 12 5⁄8% senior notes and Series A and Series C Preferred Stock and, in connection therewith, incurred $3.0 million of one-time charges, including approximately $2.6 million of non-cash charges. Excluding the impact of the $3.0 million of one-time charges, fiscal 2002 net income available to common stockholders would have been approximately $9.5 million, or $2.23 per share (diluted). We have presented this adjusted earnings figure because management believes it enhances the reader s understanding of our operating results by adjusting for the one-time charges related to the refinancing. See Management s Discussion and Analysis of Financial Condition and Results of Operations.

(3) In fiscal 2003, we adopted the provisions of Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards (SFAS) No. 145. The provisions of this statement require, effective in fiscal years beginning after May 15, 2002, the reclassification of certain gains or losses on extinguishment of debt that were previously classified as an extraordinary item in prior periods. Accordingly, we have reclassified the $1.6 million extraordinary loss on early extinguishment of debt, net of tax, as reported for fiscal 2002 related to our fourth quarter fiscal 2002 refinancing, to a $2.5 million increase in interest expense and a related $0.9 million reduction in our income tax provision, which had no impact on reported net income. In fiscal 2002, prior to the adoption of SFAS No. 145, we had reported interest expense for fiscal 2002 of $14.0 million.

(4) As a result of our adoption of SFAS No. 142 on October 1, 2001, we no longer amortize goodwill. The pro forma statement of operations data reflects an adjustment to exclude amortization expense recognized in the prior periods as presented.

	Year Ended September 30, 2004	2003	2002	2001	2000
	(unaudited; in thousands, except operating data and ratios)				
	(Restated)	(Restated)	(Restated)	(Restated)	(Restated)
Operating Data:					
Same store sales increase (decrease) (1)	(4.9)%	0.3%	2.2%	(2.4)%	8.3%
Average net sales per gross square foot (2)	$ 309	$ 343	$ 363	$ 365	$ 390
Average net sales per store (3)	$ 537,000	$ 572,000	$ 589,000	$ 583,000	$ 609,000
Gross retail location square footage at period end (4)	1,693,000	1,541,000	1,313,000	1,100,000	980,000
Number of retail locations at period end:					
Motherhood Maternity stores	717	688	616	523	480
Mimi Maternity stores	121	119	104	74	71
A Pea in the Pod stores	41	44	43	42	41
Destination Maternity superstores	4				
Total stores	883	851	763	639	592
Leased departments	232	155	146	132	111
Total retail locations	1,115	1,006	909	771	703
Cash Flow and Other Data (5):					
EBITDA (6)	$ 37,540	$ 48,950	$ 44,934	$ 34,840	$ 38,043
Cash flows provided by operating activities	18,256	36,139	31,056	23,467	22,763
Cash flows used in investing activities	(23,020)	(22,169)	(20,219)	(16,087)	(17,968)
Cash flows used in financing activities	(2,500)	(4,648)	(14,786)	(98)	(2,859)
Capital expenditures	21,540	25,344	12,242	15,533	17,759
Ratio of total debt to EBITDA	3.4x	2.6x	2.9x	3.7x	3.3x
Ratio of EBITDA to interest expense (7)	2.5x	3.4x	2.7x	2.3x	2.4x
Balance Sheet Data (at end of period) (5):					
Working capital	$ 67,833	$ 62,708	$ 55,214	$ 30,223	$ 27,869
Total assets	271,370	263,536	247,139	197,382	189,963
Total debt	127,917	128,047	128,282	128,842	127,179
Accrued dividends on Series A Preferred Stock				7,055	6,037
Stockholders equity:					
Series A Preferred Stock (8)	$	$	$	$ 10,773	$ 11,500
Common stockholders equity	62,903	58,858	45,708	2,559	229
Total stockholders equity	$ 62,903	$ 58,858	$ 45,708	$ 13,332	$ 11,729

(1) Same store sales figures represent sales at retail locations that have been in operation by Mothers Work for at least twelve full months at the beginning of the period for which such data is presented. As used in this Form 10-K, retail locations include stores and leased departments.

(2) Based on retail locations in operation by Mothers Work during the entire twelve-month period.

(3) Based on stores in operation by Mothers Work during the entire twelve-month period.

(4) Based on all retail locations in operation at the end of the period.

(5) Fiscal years 2000 through 2004 have been restated from amounts previously reported to reflect certain lease accounting adjustments as discussed in Note 2 of the Notes to Consolidated Financial Statements.

(6) EBITDA represents income before interest expense, income tax provision, and depreciation and amortization expense. We have presented EBITDA to enhance your understanding of our operating results. EBITDA is provided because management believes it is an important measure of financial

performance commonly used in the retail industry to determine the value of companies within the industry and to define standards for borrowing from institutional lenders. You should not construe EBITDA as an alternative to operating income as an indicator of our operating performance, or as an alternative to cash flows from operating activities as a measure of our liquidity, as determined in accordance with generally accepted accounting principles. We may calculate EBITDA differently than other companies.

(7) Ratio of EBITDA to interest expense for fiscal 2002 reflects the inclusion in interest expense of an approximately $2.5 million loss on early extinguishment of debt related to our fiscal 2002 refinancing.

(8) We have redeemed all of the outstanding Series A Preferred Stock for $13.4 million, including accrued and unpaid dividends, of which $12.4 million has been paid as of September 30, 2004 and $1.0 million will be paid out upon submission of proper documentation from the remaining holders of the Series A Preferred Stock. The $1.0 million is reflected in our consolidated balance sheet as of September 30, 2004 in accrued expenses and other current liabilities.

Reconciliation of Operating Income to EBITDA
(in thousands)
(unaudited)

	Year Ended September 30,				
	2004 (Restated)	2003 (Restated)	2002 (Restated)	2001 (Restated)	2000 (Restated)
Operating income	$ 23,270	$ 36,020	$ 33,145	$ 20,596	$ 24,829
Add: depreciation and amortization expense	14,270	12,930	11,789	13,650	13,214
Add: other income				594	
EBITDA	$ 37,540	$ 48,950	$ 44,934	$ 34,840	$ 38,043

Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations

Overview

The following discussion should be read in conjunction with the consolidated financial statements and their related notes included elsewhere in this report.

We are the leading designer and retailer of maternity apparel in the United States with 1,115 retail locations, including 883 stores in all 50 states, Puerto Rico and Canada and 232 leased departments. We operate our stores under the Motherhood Maternity, Mimi Maternity, A Pea in the Pod and Destination Maternity brands and also sell our merchandise on the Internet at our MaternityMall.com and our brand-specific websites. In addition to our 883 stores, our retail locations include 232 leased departments, primarily Motherhood-branded, within department and specialty stores. We design and contract manufacture approximately 90% of the merchandise we sell in our retail locations.

Restatement of Prior Financial Information

In May 2005, we completed a review of our historical lease accounting methods to determine whether these methods were in accordance with the views expressed by the Office of the Chief Accountant of the SEC on February 7, 2005 in a letter to the American Institute of Certified Public Accountants and other recent interpretations regarding certain operating lease accounting issues and their application under accounting principles generally accepted in the United States of America (GAAP). As a result of our review, we determined that, with regard to our method of accounting for leases, our historical methods of accounting for rent holidays and tenant improvement allowances, and of determining the amortization period for leasehold improvements for certain leased properties, were not in accordance with GAAP. As a result, on May 10, 2005, we filed a Current Report on Form 8-K with the SEC announcing our decision to restate the previously issued consolidated financial statements contained in our Annual Report on Form 10-K for the year ended September 30, 2004 and our Quarterly Report on Form 10-Q for the quarterly period ended December 31, 2004 (the Restatement).

A discussion of each of the aforementioned lease accounting matters is presented below:

Rent Holiday. We historically have recognized rent holiday periods and scheduled rent increases on a straight-line basis over the lease term beginning with the commencement date of the lease, which is typically the store opening date. We have determined that the lease term should commence on the date we take possession of the leased property, which is generally four to six weeks prior to a store s opening date.

Tenant Improvement Allowances. We historically accounted for tenant improvement allowances as reductions to the related leasehold improvements in our consolidated balance sheets and as reductions of capital expenditures in investing activities in our consolidated statements of cash flows. We have now determined that allowances should be recorded as deferred rent liabilities in our consolidated balance sheets and as a component of operating activities in our consolidated statements of cash flows.

Amortization of Leasehold Improvements. Historically, the life used for certain leasehold improvements by us in some instances was longer than the straight-line rent expense period for such related leases. As part of our review associated with lease matters, we have determined that the amortization period for leasehold improvements should be consistent with the straight-line rent expense period for each of our leases. The lives for all leasehold improvements have been reviewed to ensure that the amortization is now recorded based on the lesser of the estimated useful life of the asset or the lease term.

The primary effects of the corrections are: (i) to accelerate the rent expense on properties we occupied before payment of rents was required (rent holidays); (ii) to increase depreciation and amortization expense and decrease store occupancy expense (both of which are components of selling, general and administrative expenses) to reflect the proper accounting for tenant improvement allowances; and (iii) to accelerate the amortization of leasehold improvements on those leased properties where the lease term is shorter than the estimated useful economic life of those assets. The cumulative effect of these accounting changes is a reduction to retained earnings of $1.4 million as of the beginning of fiscal 2002 and incremental decreases to retained earnings of $0.8 million, $0.7 million and $0.4 million for fiscal 2004, fiscal 2003 and fiscal 2002, respectively. The Restatement decreased reported diluted earnings per share by $0.15, $0.13 and $0.09 for fiscal 2004, fiscal 2003 and fiscal 2002, respectively. The restated consolidated financial statements reflect adjustments that will not have any impact on our previously reported sales, comparable sales or our compliance with any financial covenant under our revolving credit facility or other debt instruments.

The consolidated financial statements included in this Form 10-K/A have been restated to reflect the adjustments described above. See Note 2 of the Notes to Consolidated Financial Statements included in this Form 10-K/A for a summary of the impact of the Restatement on (i) the consolidated balance sheets as of September 30, 2004 and 2003, (ii) the consolidated statements of operations for the three years ended September 30, 2004, (iii) the consolidated statements of stockholders equity, and (iv) the consolidated statements of cash flows for the three years ended September 30, 2004.

Critical Accounting Policies and Estimates

Our consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States. These generally accepted accounting principles require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of our consolidated financial statements and the reported amounts of net sales and expenses during the reporting period.

Our significant accounting policies are described in Note 2 of Notes to Consolidated Financial Statements. We believe that the following discussion addresses our critical accounting policies, which are those that are most important to the portrayal of our financial condition and results of operations and require management s most difficult, subjective and complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. If actual results were to differ significantly from estimates made, future reported results could be materially affected. However, we are not currently aware of any reasonably likely events or circumstances that would result in materially different results.

Our senior management has reviewed these critical accounting policies and estimates and the related Management s Discussion and Analysis of Financial Condition and Results of Operations with the Audit Committee of our Board of Directors.

Inventories. We value our inventories, which consist primarily of maternity apparel, at the lower of cost or market. Cost is determined on the first-in, first-out method (FIFO) and includes the cost of merchandise, freight, duty and broker fees. A periodic review of inventory quantities on hand is performed in order to determine if inventory is properly valued at the lower of cost or market. Factors related to current inventories such as future consumer demand and fashion trends, current aging, current analysis of merchandise based on receipt date, current and anticipated retail markdowns or wholesale discounts, and class or type of inventory are analyzed to determine estimated net realizable values. Criteria utilized by us to quantify aging trends include factors such as the amount of merchandise received within the past twelve months, merchandise received more than one year before with quantities on-hand in excess of 12 months of sales, and merchandise currently selling below cost. A provision is recorded to reduce the cost of inventories to the estimated net realizable values, if required. Inventories as of September 30, 2004 and 2003 totaled $92.7 million and $84.5 million, respectively, representing approximately 34.2% and 32.1% of total assets, respectively. Given the significance of inventories to our consolidated financial statements, the determination of net realizable values is considered to be a critical accounting estimate. Any significant unanticipated changes in the factors noted above could have a significant impact on the value of our inventories and our reported operating results.

Long-Lived Assets. Our long-lived assets consist principally of store leasehold improvements and are included in the Property, Plant and Equipment, net line item in our consolidated balance sheets. These long-lived assets are recorded at cost and are amortized using the straight-line method over the shorter of the lease term or their useful life, generally ten years. Net property, plant and equipment as of September 30, 2004 and 2003 totaled $78.5 million and $73.4 million, respectively, representing approximately 28.9% and 27.8% of total assets, respectively.

In assessing potential impairment of these assets, we periodically evaluate the historical and forecasted operating results and cash flows on a store-by-store basis. Newly opened stores may take time to generate positive operating and cash flow results. Factors such as (i) store type, that is, company store or leased department, (ii) store concept, that is, Motherhood, Mimi, A Pea in the Pod or Destination Maternity (iii) store location, for example, urban area versus suburb, (iv) current marketplace awareness of our brands, (v) local customer demographic data, (vi) anchor stores within the mall in which our store is located and (vii) current fashion trends are all considered in determining the time frame required for a store to achieve positive financial results, which is assumed to be within two years from the date a store location is opened. If economic conditions are substantially different from our expectations, the carrying value of certain of our long-lived assets may become impaired. As a result of our impairment assessment, we recorded write-downs of long-lived assets of $1.8 million and $0.6 million during fiscal 2004 and fiscal 2003, respectively.

Goodwill. The purchase method of accounting for business combinations requires the use of estimates and judgments to allocate the purchase price paid for acquisitions to the fair value of the net tangible and identifiable intangible assets. Goodwill represents the excess of the aggregate purchase price over the fair value of net assets acquired in business combinations and is separately disclosed in our consolidated balance sheets. As of both September 30, 2004 and 2003, goodwill totaled $50.4 million, representing 18.6% and 19.1% of total assets, respectively. In June 2001, the FASB issued SFAS No. 142, Goodwill and Other Intangible Assets. SFAS No. 142 requires that goodwill no longer be amortized, but instead be tested for impairment at least annually or as impairment indicators arise. Prior to our adoption of SFAS No. 142 on October 1, 2001, goodwill was amortized using the straight-line method over a period of 20 years.

The impairment test requires us to compare the fair value of business reporting units to their carrying value, including assigned goodwill. In assessing potential impairment of goodwill, we have determined that we have one reporting unit for purposes of applying SFAS No. 142 based on our reporting structure. The fair value of our single reporting unit is determined based on the fair market value of our outstanding common stock on a control basis. The factors taken into account in determining the fair market value of our outstanding common stock on a control basis are: (i) the trading value of our outstanding common stock on an established public market, and (ii) the premium over the trading price of our outstanding common stock that an investor would pay for a control ownership interest in the company, as determined through a third party evaluation. The carrying value of our single reporting unit, expressed on a per share basis, is represented by our book value per share of outstanding common stock. We performed the initial adoption impairment test in early fiscal 2002. The results of the initial impairment test and the annual impairment test performed as of September 30, 2004, 2003 and 2002 indicated the fair value of the reporting unit exceeded its carrying value. At September 30, 2004, our book value was $12.08 per share of

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outstanding common stock and the closing trading price of our common stock was $14.50 per share. If the fair value of our outstanding common stock on a control basis were less than $12.08 per share on September 30, 2004, our goodwill would have become impaired.

Accounting for Income Taxes. As part of the process of preparing our consolidated financial statements, we are required to estimate our income taxes in each of the jurisdictions in which we operate. This process requires us to estimate our actual current tax exposure together with assessing temporary differences resulting from differing treatment of items, such as depreciation of property and equipment and valuation of inventories, for tax and accounting purposes. We determine our provision for income taxes based on federal and state tax laws and regulations currently in effect, some of which have been recently revised. Legislation changes currently proposed by certain of the states in which we operate, if enacted, could increase our transactions or activities subject to tax. Any such legislation that becomes law could result in an increase in our state income tax expense and our state income taxes paid, which could have a material and adverse effect on our net income.

The temporary differences between the book and tax treatment of income and expenses result in deferred tax assets and liabilities, which are included within our consolidated balance sheets. We must then assess the likelihood that our deferred tax assets will be recovered from future taxable income. Actual results could differ from this assessment if adequate taxable income is not generated in future periods. Net deferred tax assets as of September 30, 2004 and 2003 totaled $18.0 million and $19.6 million, respectively, representing approximately 6.6% and 7.4% of total assets, respectively. To the extent we believe that recovery is not more likely than not, we must establish a valuation allowance. To the extent we establish a valuation allowance or change the allowance in a future period, income tax expense will be impacted.

Accounting for Contingencies. From time to time, we are named as a defendant in legal actions arising from our normal business activities. We account for contingencies such as these in accordance with SFAS No. 5, Accounting for Contingencies. SFAS No. 5 requires us to record an estimated loss contingency when information available prior to issuance of our financial statements indicates that it is probable that an asset has been impaired or a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. An interpretation of SFAS No. 5 further states that when there is a range of loss and no amount within that range is a better estimate than any other, then the minimum amount of the range shall be accrued. Accounting for contingencies arising from contractual or legal proceedings requires company management, after consultation with outside legal counsel, to use its best judgment when estimating an accrual related to such contingencies. As additional information becomes known, our accrual for a loss contingency could fluctuate, thereby creating variability in our results of operations from period to period. Likewise, an actual loss arising from a loss contingency which significantly exceeds the amount accrued for in our financial statements could have a material adverse impact on our operating results for the period in which such actual loss becomes known.

Results of Operations

The following table sets forth certain operating data from our consolidated statements of operations as a percentage of net sales and as a percentage change for the periods indicated:

	% of Net Sales (1) Year ended September 30,			% Increase (Decrease) Year ended September 30,	
	2004	2003 (Restated)	2002	2004 vs. 2003	2003 vs. 2002 (Restated)
Net sales	100.0%	100.0%	100.0%	5.2%	8.7%
Cost of goods sold	46.3	45.7	46.7	6.4	6.4
Gross profit	53.7	54.3	53.3	4.2	10.7
Selling, general and administrative expenses	49.3	47.0	46.0	10.3	11.0
Operating income	4.5	7.3	7.3	(35.4)	8.7
Interest expense, net	2.9	2.9	3.6	2.0	(12.2)
Income before income taxes	1.6	4.4	3.7	(60.5)	29.3
Income tax provision	0.7	1.7	1.4	(58.4)	33.0
Net income	1.0	2.7	2.3	(61.9)	27.1
Dividends on preferred stock			0.9		(100.0)
Net income available to common stockholders	1.0%	2.7%	1.4%	(61.9)%	104.6%

(1) Components may not add to total due to rounding.

The following table sets forth certain information regarding the number of our retail locations, including stores and leased maternity departments for the fiscal years indicated:

Year Ended September 30,	
2004	2003