

MOTHERS WORK INC  
Form S-3/A  
July 30, 2002

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As filed with the Securities and Exchange Commission on July 30, 2002

Registration No. 333-90108

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## SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

### Amendment No. 3

to

### FORM S-3

Registration Statement

Under

The Securities Act of 1933

### Mothers Work, Inc.

(Exact name of Registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of  
incorporation or organization)

**5621**

(Primary Standard Industrial  
Classification Code Number)

**456 North Fifth Street  
Philadelphia, PA 19123  
(215) 873-2200**

(Address, including zip code, and telephone number, including  
area code, of Registrant's principal executive offices)  
See Table of Additional Registrants

**13-3045573**

(I.R.S. Employer Identification No.)

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**Dan W. Matthias**

**Chairman and Chief Executive Officer**

**456 North Fifth Street  
Philadelphia, PA 19123  
(215) 873-2200**

(Name, address, including zip code, and telephone number, including area code, of agent for service)

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**Approximate date of commencement of proposed sale to the public:** As soon as practicable after this Registration Statement becomes effective.

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If the only securities being registered on this form are being offered pursuant to dividend or interest reinvestment plans, please check the following box. //

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If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box. //

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. //

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. //

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. //

**The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.**

### TABLE OF ADDITIONAL REGISTRANTS

<b>EXACT NAME AND ADDRESS OF ADDITIONAL REGISTRANT AS SPECIFIED IN ITS CHARTER</b>	<b>JURISDICTION OF INCORPORATION/ FORMATION</b>	<b>I.R.S. EMPLOYER IDENTIFICATION NO.</b>	<b>PRIMARY STANDARD INDUSTRY CLASSIFICATION CODE NUMBER</b>
eSpecialty Brands, LLC 456 North Fifth Street Philadelphia, PA 19123	Delaware	52-2222558	5621
Mother's Stores, Inc. 456 North Fifth Street Philadelphia, PA 19123	Delaware	13-2742799	5621
Dan Howard Industries, Inc. 456 North Fifth Street Philadelphia, PA 19123	Illinois	36-2358533	5621
Cave Springs, Inc. 103 Springer Building 3411 Silverside Road Wilmington, DE 19810	Delaware	51-0303603	6794

The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED JULY 30, 2002

\$125,000,000

**% Senior Notes due , 2010**

We are offering \$125,000,000 of our % Senior Notes due , 2010. We will pay interest on the notes every and . The first interest payment will be made on , 2003. The notes will mature on , 2010.

We may redeem some or all of the notes on or after , 2006 at the redemption prices set forth in this prospectus. In addition, we may redeem up to 35% of the aggregate principal amount of the notes before , 2005 with the net proceeds of equity offerings. If we experience a change of control, holders of the notes may require us to repurchase the notes. There is no sinking fund for the notes.

The notes will be senior unsecured obligations of Mothers Work, Inc. and will rank senior to our subordinated indebtedness. Our obligations under the notes will be guaranteed on a senior basis by our domestic restricted subsidiaries. The notes will be effectively subordinated to all of our secured debt, including our credit facility.

Concurrently with this offering, we also are publicly offering 1,100,000 shares of our common stock, which includes 100,000 shares being sold by selling stockholders, by means of a separate prospectus and registration statement. **This offering is contingent on the closing of the concurrent equity offering, but the concurrent equity offering is not contingent on the closing of this offering.**

**Investing in the notes involves risks. See "Risk Factors" beginning on page 13.**

	<u>Price to Public (1)</u>	<u>Underwriting Discounts and Commissions</u>	<u>Proceeds to Mothers Work</u>
Per Note	%	%	%
Total	\$	\$	\$

(1) Plus accrued and unpaid interest, if any, from , 2002.

Delivery of the notes, in book-entry form only, will be made on or about , 2002.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

**Credit Suisse First Boston**

**Fleet Securities, Inc.**

The date of this prospectus is , 2002.

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**You should rely only on the information contained in this document or to which we have referred you. We have not authorized anyone to provide you with information that is different. This document may only be used where it is legal to sell these securities. The information in this document may only be accurate on the date of this document.**

Mothers Work®, A Pea in the Pod®, Mimi Maternity®, Motherhood®, Motherhood Maternity Outlet®, *MaternityMall.com*®, Mothertime , iMaternity , Mimi , TrendTrack and Dan Howard are trademarks and service marks of Mothers Work, Inc. This prospectus also includes trademarks, service marks and trade names owned by other companies. All trademarks, service marks and trade names included in this prospectus are the property of their respective owners.

### FORWARD-LOOKING STATEMENTS

Some of the information in this prospectus, including the information incorporated by reference, contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. The forward-looking statements involve a number of risks and uncertainties. A number of factors could cause our actual results, performance, achievements or industry results to be materially different from any future results, performance or achievements expressed or implied by these forward-looking statements. These factors include, but are not limited to:

- changes in consumer spending patterns;
- raw material price increases;
- consumer preferences and overall economic conditions;
- the impact of competition and pricing;
- changes in weather patterns;
- availability of suitable store locations on appropriate terms;
- continued availability of capital and financing;
- ability to hire and develop sales associates;
- changes in fertility and birth rates;
- political stability;

currency and exchange risks;

changes in existing or potential duties, tariffs or quotas;

postal rate increases and charges;

paper and printing costs;

other factors affecting our business beyond our control; and

other factors referenced in this prospectus, including those set forth under the caption "Risk Factors."

In addition, these forward-looking statements necessarily depend upon assumptions, estimates and dates that may be incorrect or imprecise and involve known and unknown risks, uncertainties and other factors. Accordingly, any forward-looking statements included in this prospectus do not purport to be predictions of future events or circumstances and may not be realized. Forward-looking statements can be identified by, among other things, the use of forward-looking terms such as "believes," "expects," "may," "will," "should," "seeks," "pro forma," "anticipates," "intends," "continues," "could," "estimates," "plans," "potential," "predicts," "goal," "objective," or the negative of any of these terms, or comparable terminology, or by discussions of outlook, plans, goals, strategy or intentions. Given these uncertainties, we caution investors not to place undue reliance on these forward-looking statements. We assume no obligation to update any of these forward-looking statements to reflect actual results, changes in assumptions or changes in other factors affecting these forward-looking statements.

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## PROSPECTUS SUMMARY

*This summary highlights information more fully described elsewhere in this prospectus. Because this is a summary, it is not complete and does not contain all of the information that you should consider before investing in the notes. You should read the entire prospectus carefully, including the SEC filings that we have incorporated by reference into this prospectus, the "Risk Factors" section and our consolidated financial statements and the related notes included elsewhere in this prospectus, before deciding to invest in our notes. When we refer to "notes" in this prospectus, we are referring to our % Senior Notes due , 2010, unless otherwise indicated. When used in this prospectus, the terms "Mothers Work," "we," "our" and "us" refer to Mothers Work, Inc. and its subsidiaries, unless otherwise specified.*

### **Mothers Work, Inc.**

We are the leading designer and retailer of maternity apparel in the United States with 893 stores in all 50 states, Puerto Rico and Canada. We operate our stores under the Motherhood Maternity (Motherhood), Mimi Maternity (Mimi) and A Pea in the Pod brands and also sell our merchandise on the Internet at our *MaternityMall.com* and brand-specific websites. Our strategy is to fulfill all of an expectant mother's clothing needs, including casual and career wear, formal attire, underwear and outerwear in a high-service store environment. 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 segments in maternity apparel, ranging from Motherhood at value prices to A Pea in the Pod at luxury prices. Our stores include 132 leased departments, primarily Motherhood-branded, within department and specialty stores. We have achieved 14.3% compounded annual sales growth over the past five years, resulting in sales of \$388.3 million for the fiscal year ended September 30, 2001.

We were 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. We acquired Motherhood and A Pea in the Pod in 1995 and iMaternity in October 2001 to increase our industry presence, address multiple price points in maternity apparel and improve operating productivity. 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 sales per square foot and better absorption of store overhead.

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We believe that there are approximately \$1 billion of maternity clothes sold each year in the United States. We also 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. In addition, we believe that 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 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. Our competitors in the value-priced maternity apparel business are primarily moderate-priced department stores, discount stores and web-based maternity operations. Competition in mid- and luxury-priced maternity apparel is highly fragmented. We compete primarily with single location retailers and a handful of multi-location maternity operations, with the largest of these competitors having only twelve stores.

**Motherhood.** Motherhood serves the value-priced and highest volume portion of the maternity apparel industry and is our largest chain, with 610 stores as of March 31, 2002. Motherhood is positioned on 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

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expecting. Motherhood stores average approximately 1,400 square feet and are located primarily in enclosed malls, strip and power centers and central city business districts. Motherhood stores include 87 outlet locations that carry predominantly Motherhood-branded product, as well as some closeout merchandise. In addition, we operate 128 Motherhood leased departments in department and specialty stores such as Macy's, Rich's, Lazarus and Babies "R" Us. 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.

**Mimi.** We have 109 Mimi stores, as of March 31, 2002, that serve the middle market price segment of the maternity apparel industry. The brand is positioned as young, 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 1,600 square feet and are located primarily in regional malls, lifestyle centers and central business districts. The stores carry Mimi-branded product, as well as a small selection of maternity merchandise developed by contemporary vendors exclusively for Mimi. We also operate ten Mimi leased departments, six of which have been opened after March 31, 2002, in Marshall Field's, Bloomingdale's and Macy'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, recently repositioned and its merchandise price points now range from just above Motherhood to the lower end of A Pea in the Pod. This repositioning has resulted in an expansion of Mimi's target market, and we believe that we now have the opportunity to significantly increase the number of Mimi stores.

**A Pea in the Pod.** We believe that A Pea in the Pod is the premier maternity brand in the United States. The brand is positioned as exclusive, designer and aspirational. Our 42 stores, as of March 31, 2002, average approximately 2,400 square feet and are located in the most upscale venues, including Madison Avenue, Oak Street, Beverly Hills, South Coast Plaza and Bal Harbour. In addition to offering A Pea in the Pod and Mimi brands, we seek out designer and contemporary manufacturers and help them develop maternity versions of their 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 brand image and maximize profitability.

### Our Competitive Strengths

**We are the leader in maternity apparel.** We are the only nationwide chain of maternity specialty stores in the United States and 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 believe that 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 believe that many of our competitors rely predominantly on the decreasing number of wholesale maternity apparel vendors who often offer more limited assortments.

***We are vertically integrated.*** We design, contract manufacture and distribute approximately 90% of our merchandise. 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, rapid inventory replenishment process and extensive proprietary systems to maximize inventory turnover, sales per square foot and gross profit margins. During the six months ended March 31, 2002, continuous improvements in our international sourcing capabilities have assisted us in improving inventory turnover and increasing gross margins by 3.3 percentage points as compared with the prior year period.

***We utilize a rapid inventory replenishment system.*** Because maternity apparel is a niche industry, store profitability is optimized in smaller store formats. We are able to profitably offer a wide selection of merchandise in stores averaging approximately 1,500 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 distribution center, which sends individually tailored selections to specific store locations between two and six times per week. We believe that most of our competitors do not rapidly replenish all styles in their store inventories and, therefore, cannot continuously offer comparable merchandise availability and assortment.

***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, minimizing manufacturing 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 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 supply packages of stores in multiple malls. As a result, we have been able to locate stores 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 and recently expanded management team.*** Dan Matthias, Chairman and Chief Executive Officer, and Rebecca Matthias, President and Chief Operating Officer, founded the company 20 years ago and are leaders in maternity apparel retailing. David Mangini joined our management team in August 2001 as Executive Vice President - General Merchandise Manager with more than 20 years of apparel merchandising experience, including senior positions at Gap Inc. and Limited Brands, Inc. Mr. Mangini has developed a merchandising and planning organization by brand to further support each concept's future growth.

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## Our Growth Strategy

We intend to continue growing our business primarily by opening new Motherhood and Mimi locations and improving profit margins. We expect to finance our growth principally from internally generated cash flow.

***Continue to grow our Motherhood store base.*** We have grown our Motherhood store base from 217 stores at the time of acquisition in 1995 to 610 stores as of March 31, 2002, excluding leased departments. In fiscal 2000 and 2001, we opened 64 and 43 Motherhood stores, respectively, excluding leased departments and net of store closings. Based on our internal research and the number of suitable malls and outlet centers without a Motherhood store, we believe that the maternity apparel industry can support approximately 450 additional Motherhood stores and 100 additional Motherhood outlet stores in the United States. We expect to open approximately 99 and 67 new Motherhood stores and outlets in fiscal 2002 and 2003, respectively, net of store closings. We expect that the Motherhood stores opened in fiscal 2002 will include 54 conversions from acquired iMaternity locations. We currently have five Motherhood stores in Canada and believe that we can open additional

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stores in Canada, as well as in other international locations. We may also have the opportunity to grow the number of our Motherhood leased departments in the United States.

**Accelerate the growth of our Mimi store base.** We have 109 Mimi stores as of March 31, 2002, excluding leased departments. In fiscal 2000, we did not open any Mimi stores, net of store closings. In fiscal 2001, we opened three Mimi stores, excluding leased departments and net of store closings. We have recently widened the range of price points offered at Mimi to include lower prices and believe that this repositioning has significantly expanded Mimi's potential customer base. As a result, we expect to accelerate the growth of Mimi stores. Based on our internal research and the estimated number of suitable locations, we believe that the maternity apparel industry can support approximately 200 additional Mimi stores in the United States. We plan to open approximately 33 and 28 Mimi stores in fiscal 2002 and 2003, respectively, net of store closings. We expect that the Mimi stores opened in fiscal 2002 will include 25 conversions from acquired iMaternity locations.

**Increase our gross and operating margins.** We expect to increase our gross and operating margins primarily by continuing to develop our international sourcing capabilities. We have been transitioning from domestic to international manufacturing and believe that there are still significant opportunities to continue to lower our cost of goods. These opportunities include: (i) increasing volume purchasing as our business grows; (ii) improving supply chain efficiencies and communication with suppliers; (iii) shifting more of our domestic production to international factories; and (iv) identifying new manufacturers in additional and existing countries to minimize costs. We expect to continue to domestically source a portion of our product in order to quickly respond to changing fashion demands. We also expect that current initiatives to enhance the fashion apparel selection at Motherhood and Mimi will improve margins by increasing product demand and reducing markdowns.

**Expand and remodel our stores.** Approximately 25% of our non-outlet Motherhood stores are too small to carry our full line of merchandise, including plus-sized maternity wear, as well as our entire assortment of nursing apparel and accessories. We plan to expand the size of these stores primarily by relocating them within their current malls as space becomes available. Since the beginning of fiscal 1999, we have expanded 41 stores by increasing their average square footage from approximately 950 square feet to approximately 1,850 square feet. Recent results from completed relocations and expansions indicate that enlarging undersized Motherhood stores has increased their sales and profits. There are also opportunities to expand a portion of our Mimi store base to improve sales and profits. In addition, we plan to accelerate our store remodeling efforts and expect to remodel a substantial portion of our stores over the next several years.

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**Improve new store return on investment.** We have recently redesigned the new store prototypes for each of our concepts to reduce build-out costs and improve returns on investment. The new prototypes are very similar to our current store base, but use more of a location's existing conditions and more prefabrication during construction. As a result, we have substantially reduced the capital expenditures needed for an average new store and expect to significantly increase our returns on new store investments.

**Leverage our unique customer relationships.** We believe that we serve approximately 2.5 million of the approximately 4.0 million women who have babies in the United States each year. We also believe that we serve approximately 1.3 million of the approximately 1.6 million first-time mothers each year. As a result, we have developed an extensive customer file of mothers. We have an opportunity to leverage these relationships by offering, at our customers' election, additional baby-related products and services through new and existing strategic alliances. We are supporting these efforts, as well as improving our customer service and customer relationship management capabilities, with investments in database hardware and software.

### Recent Developments

For the months of April, May and June 2002, we reported comparable store sales increases of 2.1%, 4.5% and 6.3%, respectively.

On July 15, 2002, we issued a press release announcing our unaudited financial results for the third quarter ended June 30, 2002 and providing financial guidance for the fourth quarter of fiscal 2002 and the next three fiscal years.

As of the end of the quarter, we operated 898 locations, including 738 Motherhood locations (including leased departments), 116 Mimi locations (including leased departments) and 44 A Pea in the Pod stores (including leased departments). Net sales for the third quarter were \$122.6 million, a 17.9% increase from \$104.0 million in the third quarter of the prior year. Comparable store sales increased 4.1% for the quarter (based on 717 locations), in contrast to a comparable store sales decrease of 2.0% in the prior year (based on 638 locations). Gross margin was 55.5%, as compared to 52.2% for the third quarter of last year. Earnings before interest, taxes, depreciation and amortization (EBITDA) was \$17.7 million for the third quarter, a 30% increase from \$13.6 million for the third quarter of the prior year. Net income available to common stockholders was \$6.8 million, an increase of 99% from \$3.4 million in the prior year. Earnings per common share (diluted) were \$1.45, a 53% increase from \$0.95 in the third quarter of fiscal 2001. Net income for the quarter was affected by our adoption of Statement of Financial

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Accounting Standards No. 142, "Goodwill and Other Intangible Assets," which requires that goodwill no longer be amortized. We recognized \$0.6 million of goodwill amortization in the third quarter of fiscal 2001, or \$0.16 per common share (diluted).

For the nine months ended June 30, 2002, net sales were \$341.8 million, a 15.6% increase from \$295.7 million in the prior year. Comparable store sales increased 1.0% for the nine month period (based on 665 locations), in contrast to a comparable store sales decrease of 1.0% in the prior year (based on 607 locations). Gross margin was 53.1%, as compared to 49.8% for the nine months ended June 30, 2001. Our EBITDA was \$34.9 million, a 33% increase from \$26.4 million in the prior year. Net income available to common stockholders was \$8.6 million, a 300% increase from \$2.2 million for the same period in fiscal 2001. Earnings per common share (diluted) were \$2.18, an increase of 263% from \$0.60 per common share (diluted) for the nine month period in fiscal 2001. Net income and earnings per common share for the nine month period were affected by the adoption of SFAS No. 142, as we recognized \$1.6 million of goodwill amortization in fiscal 2001, or \$0.45 per common share (diluted).

As of June 30, 2002, our balance sheet reflects cash and cash equivalents of \$2.2 million, credit facility borrowings of \$1.5 million, long term debt of \$98.3 million, and stockholders' equity of

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\$26.3 million. On an adjusted basis, after giving effect to this offering and the concurrent equity offering, as of June 30, 2002, our cash and cash equivalents would have been \$19.6 million, we would have had no credit facility borrowings, our long term debt would have been \$129.7 million and our stockholders' equity would have been \$47.7 million.

For the quarter ending September 30, 2002, we are planning for low single digit comparable store sales increases, an improvement in gross margin of approximately 2.0 percentage points, and an EBITDA margin substantially consistent with that of the same quarter in the prior year. We expect our capital expenditures for the fiscal year ending September 30, 2002 to be in the range of \$10 million to \$12 million, having incurred capital expenditures of \$5.1 million through June 30, 2002. Assuming the completion of this offering and the concurrent equity offering, we expect to incur certain one-time charges, which relate to the early repayment of our existing senior notes and the planned purchase of our Series C preferred stock, of approximately \$3.0 million, including approximately \$2.6 million of non-cash charges, which will reduce earnings per common share (diluted) by approximately \$0.70 for fiscal 2002.

Over the next three fiscal years, our goal is to increase sales by an average of approximately 10% annually, based on our plan to open new Motherhood and Mimi stores and our planned 1% to 2% comparable store sales growth. However, we expect somewhat less than 10% sales growth in fiscal 2003, primarily due to the increased number of new store openings beginning in fiscal 2003 and the impact of iMaternity stores closed during fiscal 2002 which contributed to fiscal 2002 sales but will not contribute to fiscal 2003 sales. We also have a goal to increase our gross margin by the end of the next three years by approximately 2.5 percentage points. If we were able to achieve this gross margin goal, we believe our operating income margin would increase by approximately 0.7 percentage points by the end of this three-year period. The targeted improvement in gross margin for the same period would be partially offset by an expected increase in operating expenses as a percentage of sales resulting from new store openings and our assumed low comparable store sales growth. Consistent with the goals described in the preceding sentences, our goal is to increase our earnings per share by approximately 18% to 20% annually over the next three years.

We plan to fund our capital expenditures over the next three years principally from cash flow from operations, and we plan for the annual expenditures to be higher than fiscal 2002, primarily due to discretionary store remodeling initiatives and a greater number of planned store openings. We are planning our fiscal 2003 capital expenditures to be between \$20 million and \$25 million, with approximately one-third targeted for our store remodeling program.

The goals set forth above, as well as the other forward-looking information contained or incorporated by reference in this prospectus, constitute forward-looking statements that are subject to various risks and uncertainties. A number of factors could cause our actual results, performance, achievements or industry results to be materially different from these forward-looking statements. See "Forward-Looking Statements" and "Risk Factors."

### **Our Principal Executive Offices**

Our principal executive offices are located at 456 North Fifth Street, Philadelphia, Pennsylvania 19123. Our telephone number is (215) 873-2200, and our website address is [www.motherswork.com](http://www.motherswork.com). Information included or referred to on any of our websites is not a part of this prospectus.

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**The Offering**

Issuer	Mothers Work, Inc.
Securities Offered	\$125 million aggregate principal amount of % Senior Notes due , 2010.
Maturity Date	, 2010.
Interest	The notes will bear interest at the rate of % per annum, payable semi-annually in arrears on and of each year, commencing , 2003.
Condition of this Offering	This offering of notes is contingent on the closing of the concurrent equity offering.
Ranking	The notes will be senior, unsecured obligations of Mothers Work. As such, the notes will rank equally in right of payment with all other senior unsecured indebtedness of Mothers Work. See "Description of Notes Ranking." The notes will be effectively subordinated to all of our secured debt and the future and existing liabilities of any of our subsidiaries that are not guarantors of the notes.
Optional Redemption	<p>As of March 31, 2002, on a pro forma basis after giving effect to this debt offering and our concurrent equity offering, we would have approximately \$130.1 million of debt outstanding, including the notes, of which \$5.1 million would be secured debt.</p> <p>We may redeem the notes beginning on , 2006. The initial redemption price is % of their principal amount, plus accrued and unpaid interest. The redemption price will decline each year after 2006 and will be 100% of the principal amount plus accrued and unpaid interest, beginning on , 2009.</p> <p>In addition, on or before , 2005, we may redeem up to 35% of the aggregate principal amount of the notes issued under the indenture at our option with the proceeds of certain equity offerings at % of their principal amount plus accrued and unpaid interest. See "Description of Notes Optional Redemption."</p>
Change of Control	If we experience a change of control, holders of the notes will have the right to require us to repurchase their notes at a price equal to 101% of the principal amount of the notes on the date of the repurchase, plus accrued and unpaid interest, if any, to the date of repurchase. See "Description of Notes Change of Control."
Covenants	We will issue the notes under an indenture. The indenture will, among other things, restrict our ability and the ability of our restricted subsidiaries, to:

incur additional indebtedness;

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pay dividends or make other distributions in respect of our equity securities, or purchase or redeem our capital stock, or make certain investments;

permit any restriction on the ability of our subsidiaries to pay dividends, make loans or transfer assets to us;

sell assets, including the capital stock of our subsidiaries;

enter into any transactions with our affiliates;

transfer any capital stock of any subsidiary or permit any subsidiary to issue capital stock;

create liens;

enter into certain sale/leaseback transactions; and

effect a consolidation or merger or transfer of all or substantially all of our assets.

These limitations will be subject to a number of important qualifications and exceptions. For more details, see "Description of Notes - Certain Covenants."

#### Use of Proceeds

Our net proceeds from this debt offering will be approximately \$120.7 million after deducting underwriting discounts and the estimated offering expenses payable by us. Concurrently with this debt offering, we are offering 1,100,000 shares of our common stock, which includes 100,000 shares being sold by selling stockholders, by means of a separate prospectus and registration statement. The net proceeds that we expect to receive from the concurrent equity offering, based upon a public offering price per share of \$34.30 (the closing common stock price on July 17, 2002), will be approximately \$32.0 million, after deducting underwriting discounts and estimated offering expenses payable by us.

We expect to use the aggregate net proceeds from this debt offering and the concurrent equity offering in the following order: (i) to repay the existing 12<sup>5</sup>/<sub>8</sub>% senior notes, plus accrued and unpaid interest; (ii) to repay our subordinated notes issued to former holders of shares of our Series A Preferred Stock in lieu of accrued and unpaid dividends; (iii) to pay all accrued and unpaid dividends on the outstanding shares of our Series A Preferred Stock and Series C Preferred Stock; (iv) to redeem all of the outstanding shares of our Series A Preferred Stock and to purchase, through an offer to purchase, all of the outstanding shares of our Series C Preferred Stock; (v) to repay the outstanding borrowings under our credit facility and (vi) for general corporate purposes.

For additional information regarding the notes, see the "Description of Notes" section of this prospectus.

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### Risk Factors

Investment in the notes involves certain risks. You should carefully consider the information under "Risk Factors" and all information included in this prospectus before investing in the notes.

### Concurrent Equity Offering

Concurrently with this offering, we also are offering 1,100,000 shares of common stock, which includes 100,000 shares being sold by selling stockholders, by means of a separate prospectus and registration statement. **This offering is contingent on the closing of the concurrent equity offering, but the concurrent equity offering is not contingent on the closing of this offering.**

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### Summary Consolidated Financial and Operating Data

The following tables set forth summary consolidated statement of operations data, pro forma statement of operations data, operating data, cash flow and other data, and balance sheet data as of and for the periods indicated. The summary consolidated statement of operations and balance sheet data for each of the three fiscal years presented below are derived from our audited consolidated financial statements. The summary consolidated statement of operations and balance sheet data set forth below as of March 31, 2002 and 2001 and for the six months then ended are derived from our unaudited consolidated financial statements. You should read this information in conjunction with "Selected Consolidated Financial and Operating Data," "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 prospectus.

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	Fiscal Year Ended September 30,			Six Months Ended March 31,	
	2001	2000	1999	2002	2001

(Unaudited)

(in thousands, except per share amounts)

**Statement of Operations Data:**

Net sales	\$ 388,306	\$ 366,283	\$ 299,735	\$ 219,250	\$ 191,699
Costs of goods sold	194,320	183,300	150,402	105,635	98,730
Gross profit	193,986	182,983	149,333	113,615	92,969
Selling, general and administrative expenses	172,795	157,809	127,390	101,251	86,245
Operating income	21,191	25,174	21,943	12,364	6,724
Interest expense	(14,867)	(15,877)	(15,132)	(7,020)	(7,714)
Other income	594				
Income (loss) before income taxes	6,918	9,297	6,811	5,344	(990)
Income tax provision (benefit)	3,456	4,249	3,424	1,988	(469)
Net income (loss)	3,462	5,048	3,387	3,356	(521)
Dividends on preferred stock	1,491	1,389	1,251	1,533	746
Net income (loss) available to common stockholders	\$ 1,971	\$ 3,659	\$ 2,136	\$ 1,823	\$ (1,267)
Income (loss) per share basic	\$ 0.57	\$ 1.06	\$ 0.60	\$ 0.52	\$ (0.37)
Income (loss) per share diluted	\$ 0.55	\$ 1.01	\$ 0.57	\$ 0.49	\$ (0.37)
Average shares outstanding basic	3,456	3,443	3,538	3,540	3,453
Average shares outstanding diluted	3,605	3,641	3,754	3,764	3,453

**Pro Forma Statement of Operations Data(1):**

Net income (loss) available to common stockholders	\$ 1,971	\$ 3,659	\$ 2,136	\$ 1,823	\$ (1,267)
Goodwill amortization	2,207	2,216	2,216		1,060
Pro forma net income (loss) available to common stockholders	\$ 4,178	\$ 5,875	\$ 4,352	\$ 1,823	\$ (207)
Pro forma income (loss) per share basic	\$ 1.21	\$ 1.71	\$ 1.23	\$ 0.52	\$ (0.06)
Pro forma income (loss) per share diluted	\$ 1.16	\$ 1.61	\$ 1.16	\$ 0.49	\$ (0.06)

(1) 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 reflect an adjustment to exclude goodwill amortization expense recognized in the prior periods as presented.

	Fiscal Year Ended September 30,			Six Months Ended March 31,	
	2001	2000	1999	2002	2001
(Unaudited)					
(in thousands, except ratios and operating data)					
<b>Operating Data:</b>					
Same store sales growth (decrease)(1)	(2.4)%	8.3%	12.9%	0.3%	(0.6)%
Average net sales per gross square foot(2)(3)	\$ 365	\$ 390	\$ 382	\$ 359	\$ 372
Average net sales per store(2)(3)	\$ 520,000	\$ 545,000	\$ 521,000	\$ 509,000	\$ 535,000
Gross square footage at period end(4)	1,100,000	980,000	856,000	1,287,000	1,056,000
Number of stores at period end					
Motherhood	523	480	416	610	505
Mimi	74	71	71	109	73
A Pea in the Pod	42	41	41	42	40
Leased Departments	132	111	97	132	133
<b>Total</b>	<b>771</b>	<b>703</b>	<b>625</b>	<b>893</b>	<b>751</b>

**Cash Flow and Other Data:**

EBITDA(5)	\$ 33,700	\$ 37,125	\$ 32,459	\$ 17,248	\$ 12,647
Cash flows provided by operating activities	19,507	18,623	428	12,341	8,954
Cash flows used in investing activities	(12,127)	(13,828)	(10,306)	(2,741)	(5,820)
Cash flows provided by (used in) financing activities	(98)	(2,859)	7,395	(17,197)	(3,782)
Capital expenditures	12,212	13,619	10,087	3,236	5,717
Ratio of total debt to EBITDA(3)	3.8x	3.4x	4.0x	3.1x	3.8x
Ratio of EBITDA to interest expense(3)	2.3x	2.3x	2.1x	2.7x	2.1x
Ratio of earnings to fixed charges(3)	1.3x	1.4x	1.3x	1.6x	1.1x

- (1) Same store sales figures include stores that have been in operation for at least 12 full months at the beginning of the period for which such data is presented.
- (2) Based on locations in operation during the entire preceding twelve-month period.
- (3) For the six-month periods ended March 31, 2002 and 2001, the data is based on results from the preceding twelve-month period.
- (4) Based on all locations in operation at the end of the period.
- (5) We have presented EBITDA to enhance your understanding of our operating results. EBITDA represents net income (loss) before interest expense, income taxes, depreciation and amortization. EBITDA is provided because 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.

	Fiscal Year Ended September 30,			Actual	As Adjusted for the Concurrent Debt and Equity Offerings(1)
	2001	2000	1999		
(Unaudited)					
(in thousands)					
<b>Balance Sheet Data (at end of period):</b>					
Working capital	\$ 32,509	\$ 29,684	\$ 24,021	\$ 24,768	\$ 49,791
Total assets	185,177	179,586	177,608	208,558	213,460
Total debt	128,842	127,179	128,661	118,983	130,140
Accrued dividends on Series A Preferred Stock	7,055	6,037	4,648	5,652	
Series C Cumulative Redeemable Preferred Stock				18,880	
Stockholders' equity					
Series A Preferred Stock	10,773	11,500	11,500	7,819	
Common stockholders' equity (deficit)	3,968	1,250	(2,432)	9,761	38,617
Total stockholders' equity	\$ 14,741	\$ 12,750	\$ 9,068	\$ 17,580	\$ 38,617

(1)

The balance sheet data, as adjusted for the concurrent debt and equity offerings, is calculated as if the net proceeds from these offerings were used (i) to repay the existing 12<sup>5</sup>/<sub>8</sub>% senior notes, plus accrued and unpaid interest, (ii) to repay our subordinated notes issued to former holders of shares of our Series A Preferred Stock in lieu of accrued and unpaid dividends, (iii) to pay all accrued and unpaid dividends on the outstanding shares of our Series A Preferred Stock and Series C Preferred Stock, (iv) to redeem all of the outstanding shares of our Series A Preferred Stock and to purchase, through an offer to purchase, all of the outstanding shares of our Series C Preferred Stock, (v) to repay the outstanding borrowings under our credit facility and (vi) for general corporate purposes.

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## RISK FACTORS

*Investing in the notes involves a high degree of risk. You should carefully consider the following risks, as well as the other information contained in this prospectus, before purchasing the notes. We may encounter risks in addition to those described below. Additional risks not currently known to us or that we currently deem immaterial may also impair our business operations and your investment in the notes.*

### Risks Relating to the Offering

**Our substantial indebtedness could adversely affect our financial health which would prevent us from fulfilling our obligations under the notes.**

We have now, and after the debt offering will continue to have, a significant amount of indebtedness. As of March 31, 2002, on a pro forma basis after giving effect to this debt offering and our concurrent equity offering, we would have approximately \$130.1 million of debt outstanding, including \$5.1 million of secured debt. See "Use of Proceeds."

Our substantial indebtedness could have important consequences for you. For example, it could:

increase our vulnerability to general adverse economic and industry conditions;

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require us to dedicate a substantial portion of our cash flow from operations to payments on our indebtedness, thereby reducing the availability of our cash flow to implement our growth strategy, or to fund working capital, capital expenditures and other general corporate needs;

limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate;

result in higher interest expense in the event of increases in interest rates as some of our debt is, and will continue to be, at variable rates of interest;

place us at a competitive disadvantage compared to our competitors that have less debt;

limit our ability to borrow additional funds;

make it more difficult for us to open new stores or improve or expand existing stores;

restrict our ability to pay dividends or make distributions to our stockholders;

require us to pledge all or substantially all of our assets as collateral to secure indebtedness; and

make it more difficult for us to pursue strategic acquisitions, alliances and partnerships.

If we are unable to meet our expenses and debt obligations, we may need to refinance all or a portion of our indebtedness before the scheduled maturity dates of such debt, sell assets or raise equity. On such maturity dates, we may need to refinance our indebtedness if our operations do not generate enough cash to pay such indebtedness in full and if we do not raise additional capital. Our ability to refinance will depend on the capital markets and our financial condition at such time. We cannot assure you that we would be able to refinance any of our indebtedness, sell assets or raise equity on commercially reasonable terms or at all, which could cause us to default on our obligations and impair our liquidity. See "Description of Certain Indebtedness and Preferred Stock."

### **Despite our level of indebtedness, we and our subsidiaries will be able to incur substantially more debt.**

We and our subsidiaries will be able to incur substantial additional debt in the future. As of March 31, 2002, on a pro forma basis after giving effect to this debt offering and our concurrent equity offering, we would have \$47.6 million available for additional borrowing under our credit facility. See "Use of Proceeds." In addition, although the indenture governing the notes and the terms of our credit facility will contain restrictions on the incurrence of additional indebtedness, these restrictions are

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subject to a number of qualifications and exceptions, and the indebtedness incurred in compliance with these restrictions could be substantial.

### **Your right to receive payments on the notes is effectively subordinated to the rights of our existing and future secured creditors and the creditors of any of our non-guarantor subsidiaries.**

Holders of our secured indebtedness and the guarantors' secured indebtedness will have claims that are prior to your claims as holders of the notes to the extent of the value of the assets securing that other indebtedness. The notes will be effectively subordinated to all of that indebtedness to the extent of the related security. In the event of any distribution or payment of our assets in any foreclosure, dissolution, winding-up, liquidation, reorganization or other bankruptcy proceeding, holders of secured indebtedness will have a prior claim to those of our assets that constitute their collateral. Holders of the notes will participate ratably in our remaining assets with all holders of our other unsecured indebtedness that is deemed to be of the same class as the notes or which is not expressly subordinated to the notes, and potentially with all of our other general creditors, based upon the respective amounts owed to each holder or creditor. In any of the foregoing events, we cannot assure you that there will be sufficient assets to pay amounts due on the notes. As a result, holders of notes may receive less, ratably, than holders of secured indebtedness. In addition, your claims will be effectively subordinated to the claims of creditors of any subsidiaries that do not guarantee the notes.

As of March 31, 2002, our total secured debt outstanding was approximately \$25.5 million, including current maturities. On a pro forma basis after giving effect to this debt offering and our concurrent equity offering, we would have secured debt outstanding of approximately \$5.1 million. See "Use of Proceeds."

### **The terms of our debt instruments impose financial and operating restrictions.**

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Our credit facility and the indenture governing the notes contain restrictive covenants that will limit our ability to engage in activities that may be in our long-term best interests. These covenants limit or restrict, among other things, our ability to:

- incur additional indebtedness;
- pay dividends or make other distributions in respect of our equity securities, or purchase or redeem capital stock, or make certain investments;
- permit any restriction on the ability of our subsidiaries to pay dividends, make loans or transfer assets to us;
- sell assets, including the capital stock of our subsidiaries;
- enter into any transactions with our affiliates;
- transfer any capital stock of any subsidiary or permit any subsidiary to issue capital stock;
- create liens;
- enter into certain sale/leaseback transactions; and
- effect a consolidation or merger or transfer of all or substantially all of our assets.

These limitations and restrictions may adversely affect our ability to finance our future operations or capital needs or engage in other business activities that may be in our best interests. In addition, our ability to borrow under our credit facility is subject to borrowing base requirements. If we breach any of the covenants in our credit facility or our indenture, we may be in default under our credit facility or our indenture. If we default, the holders of the notes or the lender under our credit facility could declare all borrowings owed to them, including accrued interest and other fees, to be due and payable. If we were unable to repay the borrowings under our credit facility when due, the lender under the

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credit facility could also proceed against the collateral granted to them, which could result in the holders of the notes receiving less, ratably, than those lenders.

### **We may not have the ability to raise the funds necessary to finance the change of control offer required by the indenture.**

Upon the occurrence of "change of control" events specified in "Description of Notes," you may require us to purchase your notes at 101% of their principal amount, plus accrued and unpaid interest. In some circumstances, a change of control could result from events beyond our control. We cannot assure you that we will have the financial resources to purchase your notes, particularly if that change of control event triggers a similar repurchase requirement for, or results in the acceleration of, any of our other indebtedness. Our credit facility provides that certain change of control events, as defined in the credit facility, will constitute a default and could result in the acceleration of our indebtedness under that facility. The indenture governing our existing notes contains a similar provision. Any debt agreements we enter into in the future may contain similar provisions.

### **Your right to require us to redeem the notes is limited.**

The holders of notes have limited rights to require us to purchase or redeem the notes in the event of a takeover, recapitalization or similar restructuring, including an issuer recapitalization or similar transaction with management. Consequently, the change of control provisions of the indenture will not afford any protection in a highly leveraged transaction, including a transaction initiated by us, if the transaction does not result in a change of control or otherwise result in an event of default under the indenture. Accordingly, the change of control provision is likely to be of limited usefulness in such situations.

### **The notes may not have an active market and the price may be volatile, so you may be unable to sell your notes at the price you desire or may not be able to sell them at all.**

The notes are a new issue of securities for which there is currently no active trading market. We cannot ensure that a liquid market will develop for the notes, that you will be able to sell any of the notes at a particular time, if at all, or that the prices you receive, if or when you sell

the notes, will be above their initial offering price. The underwriter has advised us that it intends to make a market in the notes, but it is not obligated to do so and may discontinue any market-making in the notes at any time in its sole discretion and without notice. Future trading prices of the notes in any market that may develop will depend on many factors, including our operating performance and financial condition, prevailing interest rates, the market for similar securities and general economic conditions.

In addition, we do not intend to apply for listing of the notes on any securities exchange or on any automated dealer quotation system. Declines in the market for high yield securities generally may also adversely affect the liquidity of, and trading market for, the notes.

**Federal and state statutes allow courts, under specific circumstances, to void guarantees and require note holders to return payments received from guarantors.**

Under the federal bankruptcy law and comparable provisions of state fraudulent transfer laws, a guarantee could be voided, or claims in respect of a guarantee could be subordinated to all other debts of the guarantor if, among other things, the guarantor, at the time it incurred the indebtedness evidenced by its guarantee:

incurred the guarantee with fraudulent intent; or

received less than reasonably equivalent value or fair consideration for the incurrence of such guarantee and:

was insolvent or rendered insolvent by reason of such incurrence;

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was engaged in a business or transaction for which the guarantor's remaining assets constituted unreasonably small capital; or

intended to incur, or believed that it would incur, debts beyond its ability to pay such debts as they mature.

In addition, any payment by that guarantor pursuant to its guarantee could be voided and required to be returned to the guarantor, or to a fund for the benefit of the creditors of the guarantor.

The measures of insolvency for purposes of these fraudulent transfer laws will vary depending upon the law applied in any proceeding to determine whether a fraudulent transfer has occurred. Generally, however, a guarantor would be considered insolvent if:

the sum of its debts, including contingent liabilities, was greater than the fair saleable value of all of its assets;

the present fair saleable value of its assets was less than the amount that would be required to pay its probable liability on its existing debts, including contingent liabilities, as they become absolute and mature; or

it could not pay its debts as they become due.

**You may not be able to seek remedies against Arthur Andersen LLP, our former independent accountant.**

Our consolidated financial statements for the year ended September 30, 1999 were audited by Arthur Andersen LLP, our former independent auditor. On June 15, 2002, a jury in Houston, Texas found Arthur Andersen LLP guilty of a federal obstruction of justice charge arising from the federal government's investigation of Enron Corp. SEC rules require us to present our audited financial statements in various SEC filings, along with Arthur Andersen LLP's consent to our inclusion of its audit report in those filings. Arthur Andersen LLP has not consented to the use of its audit report on our financial statements in this registration statement, and we do not expect to receive Arthur Andersen LLP's consent in any future SEC filings. Without this consent, it may become more difficult for you to seek remedies against Arthur Andersen LLP. Furthermore, relief in connection with claims which may be available to stockholders under the federal securities laws against auditing firms may not be available as a practical matter against Arthur Andersen LLP should it cease to operate or be financially impaired.

**Risks Relating to Our Business and Industry**

**We may not be successful in expanding our business and opening new stores.**

Our growth depends on our ability to successfully open and operate new stores on a profitable basis. This expansion will place increased demands on our management, operational and administrative resources. These increased demands and operating complexities could cause us to operate our business less effectively, which, in turn, could cause a deterioration in the financial performance of our stores and slow our new store growth. Our planned expansion will also require that we continually monitor and upgrade our management information and other systems, as well as our distribution infrastructure.

Our ability to open and operate new stores successfully depends on many factors, including, among others, our ability to:

- identify and obtain suitable store locations, including mall locations, the availability of which is outside of our control;
- negotiate favorable lease terms, including desired tenant improvement allowances;
- source sufficient levels of inventory to meet the needs of new stores;

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- successfully address competition, merchandising and distribution challenges; and
- hire, train and retain a sufficient number of qualified store personnel.

There can be no assurance that we will be able to achieve our store expansion goals. Even if we succeed in opening new stores as planned, we cannot assure you that our newly-opened stores will achieve revenue or profitability levels comparable to those of our existing stores in the time periods estimated by us, or at all. If our stores fail to achieve or are unable to sustain acceptable revenue and profitability levels, we may incur significant costs associated with operating or closing those stores.

**We are heavily dependent on our management information systems and our ability to improve and upgrade these systems from time to time.**

The efficient operation of our business is heavily dependent on our fully-integrated, internally-developed management information systems. In particular, we rely on point-of-sale terminals, which provide information to our customized TrendTrack merchandise analysis and planning system used to track sales and inventory. The TrendTrack system helps integrate our design, manufacturing, distribution and financial functions, and also provides daily financial and merchandising information. As a result, our business and operations could be materially and adversely affected if our systems were inoperable or inaccessible.

From time to time, we improve and upgrade our management information systems. We have recently begun deploying and upgrading a proprietary Internet-based point-of-sale system and integrating this system with our current systems. If we are unable to maintain and upgrade our systems or to convert to and integrate new and updated systems in an efficient and timely manner, our business and results of operations could be materially and adversely affected.

**Our comparable store sales and quarterly operating results have fluctuated in the past and can be expected to continue to fluctuate in the future.**

Our comparable store sales and quarterly results of operations have fluctuated in the past and can be expected to continue to fluctuate and are affected by a variety of factors, including:

- the opening of new stores, the relative proportion of new stores to mature stores and the expansion of stores;
- the timing of new store openings;
- changes in our merchandise mix;
- the price repositioning of our Mimi brand to the middle market price segment;
- general economic conditions and, in particular, the retail sales environment;

calendar shifts of holiday or seasonal periods;

pregnancy rates;

actions of competitors or mall anchor tenants;

fashion trends; and

weather conditions.

If, at any time, our comparable store sales or quarterly results of operations decline or do not meet the expectations of Wall Street research analysts, the price of our common stock could decline substantially.

**We rely significantly on foreign sources of production.**

We receive apparel and other merchandise from foreign sources, both purchased directly in foreign markets and indirectly through domestic vendors with foreign sources. To the extent that any of our

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vendors are located overseas or rely on overseas sources for a large portion of their products, any event causing a disruption of imports, including the imposition of import restrictions, could harm our ability to source product. This disruption could materially limit the merchandise that we would have available for sale and reduce our revenues and earnings. The flow of merchandise from our vendors could also be adversely affected by financial or political instability, or war, in any of the countries in which the goods we purchase are manufactured. Trade restrictions in the form of tariffs or quotas, or both, applicable to the products that we sell also could affect the import of those products and could increase the cost and reduce the supply of products available to us. In addition, decreases in the value of the U.S. dollar against foreign currencies could increase the cost of products that we purchase from overseas vendors.

**We could be materially and adversely affected if our distribution operations were disrupted.**

To support our retail operations, we operate a distribution facility in Philadelphia, Pennsylvania. Finished garments from contractors and other manufacturers are inspected and stored for distribution to our stores. We do not have other distribution facilities to support our distribution needs. As a result, if this distribution facility were to shut down or otherwise become inoperable or inaccessible for any reason, we could incur significantly higher costs and longer lead times associated with the distribution of our products to our stores during the time it takes to reopen or replace the facility. In light of our strategic emphasis on rapid replenishment as a key competitive advantage, a distribution disruption might have a disproportionately adverse effect on our operations and profitability relative to other retailers. In addition, the loss or material disruption of service from any of our shippers could have a material adverse impact on our business and results of operations.

**Our stores are heavily dependent on the customer traffic generated by shopping malls.**

We depend heavily on locating our stores in prominent locations within successful shopping malls in order to generate customer traffic. We cannot control the development of new shopping malls, the availability or cost of appropriate locations within existing or new shopping malls or the success of existing or new mall stores.

The success of all of our mall stores will depend, in part, on the ability of each mall's anchor tenants, such as large department stores, other tenants and area attractions to generate consumer traffic in the vicinity of our stores, and the continuing popularity of malls as shopping destinations. Sales volume and mall traffic may be adversely affected by economic downturns in a particular area, the closing of anchor tenants or competition from non-mall retailers and other malls where we do not have stores.

**Our success depends on our ability to identify and rapidly respond to fashion trends.**

The apparel industry is subject to rapidly changing fashion trends and shifting consumer demands. Accordingly, our success depends on the priority that our target customers place on fashion and our ability to anticipate, identify and capitalize upon emerging fashion trends. Our failure to anticipate, identify or react appropriately to changes in styles or trends could lead to, among other things, excess inventories and higher markdowns, as well as the decreased appeal of our brands.

**The failure to retain our existing senior management team or to attract and retain highly skilled and qualified personnel could adversely affect our business.**

Our business requires disciplined execution at all levels of our organization in order to timely deliver and display fashionable merchandise in appropriate quantities in our stores. This execution requires experienced and talented management. We currently have a management team with a great deal of experience with us and in apparel retailing. If we were to lose the benefit of this experience and, in particular, if we were to lose the services of Dan Matthias, our Chairman and Chief Executive

Officer, or Rebecca Matthias, our President and Chief Operating Officer, our business could be materially and adversely affected.

In addition, as our business expands, we believe that our success will depend greatly on our continued ability to attract and retain highly skilled and qualified personnel. There is a high level of competition for personnel in the retail industry. The inability to meet our staffing requirements in the future at costs that are favorable to us, or at all, could impair our ability to increase revenue and could otherwise harm our business.

**Our quarterly operating results and inventory levels may fluctuate as a result of seasonality in the maternity clothing industry.**

Our business, like that of other retailers, is seasonal. Results for any quarter are not necessarily indicative of the results that may be achieved for a full fiscal year. A significant portion of our net sales and profits are realized during the first and third fiscal quarters, corresponding to the holiday and spring selling seasons, respectively. Seasonal fluctuations also affect our inventory levels, as we usually order merchandise in advance of peak selling periods and sometimes before new fashion trends are confirmed by customer purchases. We must carry a significant amount of inventory, especially before the holiday and spring selling periods. If we are not successful in selling our inventory during this period, we may be forced to rely on markdowns or promotional sales to dispose of the excess inventory or we may not be able to sell the inventory at all, which could have a material adverse effect on our business and results of operations.

**Our business depends on sustained demand for maternity clothing and is sensitive to economic conditions and consumer spending.**

Our business depends upon sustained demand for maternity clothing. Our future performance will be subject to a number of factors beyond our control, including demographic changes. If demand for maternity clothing were to decline for any reason, such as a decrease in the number of pregnancies, our operating results could be adversely affected.

In addition, the specialty apparel retail business historically has been subject to cyclical variations. Consumer purchases of specialty apparel products, including maternity wear, may decline during recessionary periods and at other times when disposable income is lower. A prolonged economic downturn could have a material adverse impact on our business and results of operations.

**Our market share may be adversely impacted at any time by a significant number of competitors.**

We operate in a highly competitive environment characterized by low barriers to entry. We compete against department stores, specialty retail chains, discount stores, independent retail stores and catalog and Internet-based retailers. Many of our competitors are larger and have substantially greater resources than us. Our market share and results of operations may be adversely affected by this competition.

**Our earnings would decline if we write off goodwill.**

As a result of purchase accounting for our various acquisitions, we have accumulated a substantial amount of goodwill, amounting to \$55.7 million as of March 31, 2002. Following our adoption of new accounting standards effective October 1, 2001, goodwill and other intangible assets with indefinite lives are not amortized, but rather tested for impairment annually. If we determine in the future that impairment has occurred, we would be required to write off the impaired portion of goodwill, which could substantially reduce our earnings and result in a substantial decline in the price of our common stock.

**We may be unable to protect our trademarks and other intellectual property.**

We believe that our trademarks and service marks are important to our continued success and our competitive position due to their recognition with our customers. We devote substantial resources to the establishment and protection of our trademarks and service marks. We are not aware of any pending claims of infringement or challenges to our right to use any of our trademarks and service marks in the United States. Although we actively protect our intellectual property, there can be no assurance that the actions that we have taken to establish and

protect our trademarks, service marks and other intellectual property, including our rights in our management information systems, will be adequate to prevent imitation of our marks, products or services by others or to prevent others from seeking to block sales of our products as a violation of their trademarks, service marks or other proprietary rights. Also, others may assert rights in, or ownership of, our trademarks and other proprietary rights and we may not be able to successfully resolve these types of conflicts. In addition, the laws of certain foreign countries may not protect our trademarks and proprietary rights to the same extent as do the laws of the United States.

**War or acts of terrorism or the threat of either may negatively impact availability of merchandise and otherwise adversely impact our business.**

In the event of war or acts of terrorism, or if either is threatened, our ability to obtain merchandise available for sale in our stores may be negatively affected. A substantial portion of our merchandise is imported from other countries. If goods become difficult or impossible to import into the United States, and if we cannot obtain such merchandise from other sources at similar costs, our sales and profit margins may be adversely affected. In the event that commercial transportation is curtailed or substantially delayed, our business may be adversely impacted, as we may have difficulty shipping merchandise to our distribution facility and stores, as well as fulfilling catalog and website orders.

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**USE OF PROCEEDS**

We will receive net proceeds from this debt offering of approximately \$120.7 million after deducting underwriting discounts and the estimated offering expenses payable by us.

Concurrently with this debt offering, we are offering 1,100,000 shares of our common stock, which includes 100,000 shares being sold by selling stockholders, by means of a separate prospectus and registration statement. The net proceeds that we expect to receive from the concurrent equity offering, based upon a public offering price per share of \$34.30 (the closing share price on July 17, 2002), will be approximately \$32.0 million, after deducting underwriting discounts and the estimated offering expenses payable by us. We will not receive any proceeds from the sale of shares of common stock by the selling stockholders, except for amounts representing the aggregate exercise price for shares issued upon exercise of stock options.

This offering is contingent on the closing of the concurrent equity offering, but the concurrent equity offering is not contingent on the closing of this offering.

We expect to use the aggregate net proceeds from this debt offering and the concurrent equity offering, including any additional proceeds that we receive from the underwriters' exercise of their over-allotment option, in the following order:

to repay the existing 12<sup>5</sup>/<sub>8</sub>% senior notes, plus accrued and unpaid interest, and related fees and expenses (approximately \$94 million);

to repay our subordinated notes issued to former holders of shares of our Series A Preferred Stock in lieu of accrued and unpaid dividends (approximately \$2 million);

to pay all accrued and unpaid dividends on the outstanding shares of our Series A Preferred Stock and Series C Preferred Stock (approximately \$7 million);

to redeem all of the outstanding shares of our Series A Preferred Stock and to purchase, through an offer to purchase, all of the outstanding shares of our Series C Preferred Stock (approximately \$27 million);

to repay the outstanding borrowings under our credit facility; and

for general corporate purposes.

On July 10, 2002, we commenced a cash tender offer to purchase any and all of our outstanding 12<sup>5</sup>/<sub>8</sub>% senior notes. We also commenced a solicitation of consents to reduce the notice period required by the related indenture for the Company to redeem any existing senior notes that remain outstanding after consummation of the tender offer and to amend or eliminate substantially all of the principal restrictive covenants contained in the related indenture. To the extent that any existing senior notes remain outstanding after consummation of the tender offer, the Company intends to redeem these senior notes.

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Until the net proceeds from these offerings are used for such purposes, they will be invested in short-term, investment grade, interest-bearing securities.

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### CAPITALIZATION

The following table sets forth our capitalization as of March 31, 2002:

on an actual basis; and

on an as adjusted basis to reflect the application of (i) the \$120.7 million net proceeds from our sale of % Senior Notes due , 2010 in this offering, as well as (ii) the \$32.0 million net proceeds from our sale of 1,000,000 shares of common stock in the concurrent equity offering.

You should read this table in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Use of Proceeds" and our consolidated financial statements and related notes included elsewhere in this prospectus.

	March 31, 2002	
	Actual	As Adjusted for the Concurrent Debt and Equity Offerings(1)
	(Unaudited) (in thousands, except share and per share amounts)	
Cash and cash equivalents	\$ 2,761	\$ 4,657
Short-term debt		
Line of credit borrowings	\$ 20,367	\$
Current portion of long-term debt	434	434
Long-term debt		
12 <sup>5</sup> / <sub>8</sub> % Senior unsecured exchange notes due 2005 (net of \$910 and no unamortized discount)	91,090	
% Senior Notes Due , 2010		125,000
Capital lease obligations and other long-term debt	4,706	4,706
Subordinated notes	2,386	
Total long-term debt	98,182	129,706
Accrued dividends on Series A preferred stock	5,652	
Series C cumulative redeemable preferred stock, \$.01 par value, 302,619 shares authorized, 302,619 and no shares outstanding	18,880	
Stockholders' equity		
Series A cumulative convertible preferred stock, \$.01 par value, \$280.4878 stated value; 41,000 shares authorized, 27,877 and no shares outstanding (liquidation value of \$13,471 and none)	7,819	
Series B junior participating preferred stock, \$.01 par value; 10,000 shares authorized, none outstanding		
Common stock, \$.01 par value; 10,000,000 shares authorized, 3,740,547 and 4,784,547 shares outstanding	37	47
Additional paid-in-capital	30,917	62,867
Accumulated deficit	(21,193)	(24,297)

March 31, 2002

Total stockholders' equity	17,580	38,618
Total capitalization	\$ 161,095	\$ 168,758

(1)

The balance sheet data, as adjusted for the concurrent debt and equity offerings, is calculated as if the net proceeds from these offerings were used (i) to repay the existing 12<sup>5</sup>/<sub>8</sub>% senior notes, plus accrued and unpaid interest, (ii) to repay our subordinated notes issued to former holders of shares of our Series A Preferred Stock in lieu of accrued and unpaid dividends, (iii) to pay all accrued and unpaid dividends on the outstanding shares of our Series A Preferred Stock and Series C Preferred Stock, (iv) to redeem all of the outstanding shares of our Series A Preferred Stock and to purchase, through an offer to purchase, all of the outstanding shares of our Series C Preferred Stock, (v) to repay the outstanding borrowings under our credit facility and (vi) for general corporate purposes.

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### SELECTED CONSOLIDATED FINANCIAL AND OPERATING DATA

The following tables set forth selected consolidated statement of operations data, pro forma statement of operations data, operating data, cash flow and other data, and balance sheet data 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. The selected consolidated statement of operations and balance sheet data set forth below as of March 31, 2002 and 2001, and for the six months then ended are derived from our unaudited consolidated financial statements. You should read this information in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and the related notes.

	Fiscal Year Ended September 30,					Six Months Ended March 31,	
	2001	2000	1999	1998	1997	2002	2001
	(Unaudited)						
	(in thousands, except per share amounts)						
<b>Statement of Operations Data:</b>							
Net sales	\$ 388,306	\$ 366,283	\$ 299,735	\$ 298,991	\$ 246,934	\$ 219,250	\$ 191,699
Costs of goods sold(1)	194,320	183,300	150,402	158,047	113,886	105,635	98,730
Gross profit	193,986	182,983	149,333	140,944	133,048	113,615	92,969
Selling, general and administrative expenses(1)	172,795	157,809	127,390	139,322	124,495	101,251	86,245
Restructuring and non-recurring charges(2)				10,635	5,617		
Operating income (loss)	21,191	25,174	21,943	(9,013)	2,936	12,364	6,724
Interest expense	(14,867)	(15,877)	(15,132)	(15,181)	(13,252)	(7,020)	(7,714)
Other income	594						
Income (loss) before income taxes	6,918	9,297	6,811	(24,194)	(10,316)	5,344	(990)
Income tax provision (benefit)	3,456	4,249	3,424	(7,477)	(2,677)	1,988	(469)

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	Fiscal Year Ended September 30,					Six Months Ended March 31,	
	2001	2000	1999	1998	1997	2002	2001
Net income (loss)	3,462	5,048	3,387	(16,717)	(7,639)	3,356	(521)
Dividends on preferred stock	1,491	1,389	1,251	1,168	1,088	1,533	746
Net income (loss) available to common stockholders	\$ 1,971	\$ 3,659	\$ 2,136	\$ (17,885)	\$ (8,727)	\$ 1,823	\$ (1,267)
Income (loss) per share basic	\$ 0.57	\$ 1.06	\$ 0.60	\$ (5.00)	\$ (2.45)	\$ 0.52	\$ (0.37)
Income (loss) per share diluted	\$ 0.55	\$ 1.01	\$ 0.57	\$ (5.00)	\$ (2.45)	\$ 0.49	\$ (0.37)
Average shares outstanding basic	3,456	3,443	3,538	3,577	3,563	3,540	3,453
Average shares outstanding diluted	3,605	3,641	3,754	3,577	3,563	3,764	3,453
<b>Pro Forma Statement of Operations Data(3):</b>							
Net income (loss) available to common stockholders	\$ 1,971	\$ 3,659	\$ 2,136	\$ (17,885)	\$ (8,727)	\$ 1,823	\$ (1,267)
Goodwill amortization	2,207	2,216	2,216	2,218	2,222		1,060
Pro forma net income (loss) available to common stockholders	\$ 4,178	\$ 5,875	\$ 4,352	\$ (15,667)	\$ (6,505)	\$ 1,823	\$ (207)
Pro forma income (loss) per share basic	\$ 1.21	\$ 1.71	\$ 1.23	\$ (4.38)	\$ (1.83)	\$ 0.52	\$ (0.06)
Pro forma income (loss) per share diluted	\$ 1.16	\$ 1.61	\$ 1.16	\$ (4.38)	\$ (1.83)	\$ 0.49	\$ (0.06)

- (1) Cost of goods sold includes \$10.3 million of charges recorded in fiscal 1998 associated with inventory purchase commitments and inventory write-downs in connection with the Episode restructuring activities and \$0.8 million of charges recorded in fiscal 1997 associated with inventory reserves recorded in connection with discontinuing overlapping product lines. Selling, general and administrative expense recorded in fiscal 1997 includes \$1.2 million of charges associated with asset impairment and other occupancy related items.
- (2) Restructuring charges include \$10.6 million of charges recorded in fiscal 1998 associated with the Episode restructuring and \$5.6 million of charges recorded in fiscal 1997 associated with the store consolidation restructuring activities.
- (3) 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 reflect an adjustment to exclude goodwill amortization expense recognized in the prior periods as presented.

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Fiscal Year Ended September 30,					Six Months Ended March 31,	
2001	2000	1999	1998	1997	2002	2001
(Unaudited)						

(in thousands, except ratios and operating data)

**Operating Data(1):**

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	Fiscal Year Ended September 30,				Six Months Ended March 31,			
Same store sales increase (decrease)(2)	(2.4)%	8.3%	12.9%	13.4%	4.3%	0.3%	(0.6)%	
Average net sales per gross square foot(3)(4)	\$ 365	\$ 390	\$ 382	\$ 354	\$ 319	\$ 359	\$ 372	
Average net sales per store(3)(4)	\$ 520,000	\$ 545,000	\$ 521,000	\$ 464,000	\$ 508,000	\$ 509,000	\$ 535,000	
Number of stores at period end	771	703	625	583	587	893	751	
Gross square footage at period end(5)	1,100,000	980,000	856,000	741,000	815,000	1,287,000	1,056,000	
<b>Cash Flow and Other Data:</b>								
EBITDA(6)	\$ 33,700	\$ 37,125	\$ 32,459	\$ 2,979	\$ 15,106	\$ 17,248	\$ 12,647	
Adjusted EBITDA(7)	33,106	37,125	32,459	23,904	22,706	17,248	12,647	
Cash flows provided by operating activities	19,507	18,623	428	464	5,177	12,341	8,954	
Cash flows used in investing activities	(12,127)	(13,828)	(10,306)	(9,592)	(12,135)	(2,741)	(5,820)	
Cash flows provided by (used in) financing activities	(98)	(2,859)	7,395	11,086	7,361	(17,197)	(3,782)	
Capital expenditures	12,212	13,619	10,087	9,350	11,700	3,236	5,717	
Ratio of total debt to EBITDA(4)	3.8x	3.4x	4.0x	40.3x	7.2x	3.1x	3.8x	
Ratio of EBITDA to interest expense(4)	2.3x	2.3x	2.1x	0.2x	1.1x	2.7x	2.1x	
Ratio of earnings to fixed charges(4)	1.3x	1.4x	1.3x		0.2x	1.6x	1.1x	
<b>Balance Sheet Data (at end of period):</b>								
Working capital	\$ 32,509	\$ 29,684	\$ 24,021	\$ 23,614	\$ 32,083	\$ 24,768	\$ 29,449	
Total assets	185,177	179,586	177,608	172,469	171,718	208,558	172,065	
Total debt	128,842	127,179	128,661	119,982	108,112	118,983	124,548	
Accrued dividends on Series A Preferred Stock	7,055	6,037	4,648	3,397	2,229	5,652	6,783	
Series C cumulative redeemable preferred stock						18,880		
<b>Stockholders' equity</b>								
Series A Preferred Stock	10,773	11,500	11,500	11,500	11,500	7,819	11,500	
Common stockholders' equity (deficit)	3,968	1,250	(2,432)	(2,750)	14,880	9,761	(5)	
Total stockholders' equity	14,741	12,750	9,068	8,750	26,380	17,580	11,495	

- (1) Information for the fiscal year ended September 30, 1998 excludes 30 Episode stores which, while owned by us, were operated by a liquidator.
- (2) Same store sales figures include stores that have been in operation for at least 12 full months at the beginning of the period for which such data is presented.
- (3) Based on locations in operation during the entire preceding twelve month period.
- (4) For the six-month periods ended March 31, 2002 and 2001, the data are based on results from the preceding twelve-month period. For the fiscal year ended September 30, 1998, earnings were \$26.0 million less than needed to cover our fixed charges.
- (5) Based on all locations in operation at the end of the period.

(6) We have presented EBITDA to enhance your understanding of our operating results. EBITDA represents net income (loss) before interest expense, income taxes, depreciation and amortization. EBITDA is provided because 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) Adjusted EBITDA for fiscal 2001 reflects EBITDA adjusted to eliminate the \$0.6 million of other income. Adjusted EBITDA for fiscal 1998 reflects EBITDA adjusted to eliminate (a) the \$10.6 million Episode restructuring charge and (b) the \$10.3 million of charges recorded to cost of goods sold associated with inventory purchase commitments and inventory write-downs in connection with the Episode restructuring activities. Adjusted EBITDA for fiscal 1997 reflects EBITDA adjusted to eliminate (a) the \$5.6 million store consolidation restructuring charge, (b) the \$0.8 million charge recorded to cost of goods sold associated with inventory reserves recorded in connection with discontinuing overlapping product lines and (c) the \$1.2 million charge recorded to selling, general and administrative expense associated with asset impairment and other occupancy related items.

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## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

### Overview

We are the leading designer and retailer of maternity apparel in the United States with 893 stores in all 50 states, Puerto Rico and Canada. We operate our stores under the Motherhood, Mimi and A Pea in the Pod brands and also sell our merchandise on the Internet at our *MaternityMall.com* and brand-specific websites. Our stores include 132, primarily Motherhood-branded, leased departments within department and specialty stores. We were 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. We acquired Motherhood and A Pea in the Pod in 1995. In October 2001, we acquired iMaternity, which operated a total of 170 stores. We are currently consolidating the iMaternity operation into our own and have closed 71 of the stores. We anticipate closing an additional 21 stores within approximately six months.

### 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 the financial statements and the reported amounts of net sales and expenses during the reporting period. Actual results could differ from those estimates.

Our significant accounting policies are described in note 1 of the notes to consolidated financial statements for the fiscal year ended September 30, 2001. 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 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.

*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 and includes the cost of merchandise and freight. A periodic review of inventory quantities on hand is performed in order to determine if inventory is properly positioned at the lower of cost or market. Factors related to current inventories such as future consumer demand and fashion trends, current aging, current and anticipated retail markdowns or wholesale discounts, and class or type of inventory are analyzed to determine estimated net realizable values. A provision is recorded to reduce the cost of inventories to the estimated net realizable values, if required. 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 included in this prospectus. These long-lived assets are recorded at cost and are amortized using the straight-line method over the lesser of the applicable store lease term or the estimated useful life of the leasehold

improvements. The typical initial lease term for our stores is ten years.

In assessing potential impairment of these assets, we will periodically evaluate the historical and forecasted operating results and cash flows on a store-by-store basis. Newly-opened stores may take

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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 or A Pea in the Pod, (iii) store location, for example, urban area versus suburb, (iv) current marketplace awareness of our brands, (v) local customer demographic data and (vi) current fashion trends are all considered in determining the time frame required for a store to achieve positive financial results. If economic conditions are substantially different from our expectations, the carrying value of certain of our long-lived assets may become impaired.

*Goodwill.* Our goodwill represents the excess of the cost over the fair value of net assets acquired in business combinations and is separately disclosed as "Goodwill" in our consolidated balance sheets included in this prospectus. In June 2001, the Financial Accounting Standards Board, or FASB, issued Statement of Financial Accounting Standards, or 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.

In assessing potential impairment, 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. If any significant unanticipated change in the fair value of our outstanding common stock on a control basis occurs, the carrying value of our goodwill may 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 involves us estimating 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. These differences 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. 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 increase the allowance in a period, we must include an expense within the tax provision in the statement of operations.

We have a valuation allowance of \$1.9 million as of March 31, 2002, due to uncertainties related to our ability to utilize the net operating loss carryforwards of the acquired iMaternity business. In the future, if enough evidence of our ability to utilize the net operating loss carryforwards becomes apparent, we would be required to reverse our valuation allowance, resulting in a decrease in goodwill recorded in connection with our acquisition of iMaternity. On a quarterly basis, management evaluates and assesses the realizability of deferred tax assets and adjusts the valuation allowance if required.

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## Results of Operations

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

Percentage of Net Sales		% Period to Period Increase (Decrease)
Six Months Ended March 31,		Six Months Ended March 31, 2002
2002	2001	

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	Percentage of Net Sales		
Net sales	100.0%	100.0%	14.4%
Cost of goods sold	48.2	51.5	7.0
Gross profit	51.8	48.5	22.2
Selling, general and administrative expenses	46.2	45.0	17.4
Operating income	5.6	3.5	83.9
Interest expense	3.2	4.0	(9.0)
Income (loss) before income taxes	2.4	(0.5)	639.8
Income tax provision (benefit)	0.9	(0.2)	523.9
Net income (loss)	1.5%	(0.3)%	744.1

The following table sets forth certain information concerning the number of our stores and leased departments for the six months ended March 31, 2002 and 2001:

	2002			2001		
	Stores	Leased Departments	Total	Stores	Leased Departments	Total
Beginning of period	639	132	771	592	111	703
Acquired	170		170			
Opened	26	1	27	31	22	53
Closed	(74)	(1)	(75)	(5)		(5)
End of period	761	132	893	618	133	751

**Six Months Ended March 31, 2002 and 2001**

*Net Sales.* Our net sales for the first six months of fiscal 2002 increased 14.4%, a \$27.6 million increase, to \$219.3 million, from \$191.7 million for the first six months of fiscal 2001. The increase in sales resulted primarily from the incremental revenues generated by the new store locations opened in the last twelve months, including the acquired iMaternity stores. Comparable store sales for the six months ended March 31, 2002 increased by 0.3%, based on 679 locations, versus a decrease of 0.6%, based on 609 locations, for the six months ended March 31, 2001.

*Gross Profit.* Our gross profit for the first six months of fiscal 2002 increased 22.2%, a \$20.6 million increase, to \$113.6 million compared to \$93.0 million for the first six months of fiscal 2001, due to increased sales and improved gross margin compared to last year. Gross profit as a percentage of net sales for the first six months of fiscal 2002 improved by 3.3 percentage points to 51.8% from 48.5% in the comparable period of fiscal 2001. The increase in gross margin versus last year primarily reflects the success of our product sourcing and inventory planning initiatives, which have enabled us to reduce our product costs.

*Selling, General and Administrative Expenses.* Our selling, general and administrative expenses for the first six months of fiscal 2002 increased by 17.4%, a \$15.0 million increase, to \$101.3 million, from

\$86.2 million for the first six months of fiscal 2001. Compared to the first six months of fiscal 2001, store wages and related benefit costs increased by \$5.3 million and store rent and related expenses increased by \$6.8 million, primarily resulting from the stores added in the acquisition of iMaternity, as well as our own store openings since the beginning of fiscal 2001. As a percentage of net sales, operating expenses increased to 46.2% for the fiscal 2002 period compared to 45.0% for the fiscal 2001 period, primarily reflecting higher store operating expenses as a percent of net sales, partially offset by the elimination of goodwill amortization in fiscal 2002.

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*Operating Income.* Our operating income increased by \$5.6 million, an 83.9% increase, to \$12.4 million in the first six months of fiscal 2002, compared to \$6.7 million in the first six months of fiscal 2001, due to the higher sales volume and improved gross margin, partially offset by higher operating expenses. Operating income as a percentage of net sales for the first six months of fiscal 2002 increased to 5.6%, from 3.5% in the comparable period of fiscal 2001. The increase in operating income as a percentage of net sales is due to the improved gross margin.

*Interest Expense.* Our interest expense decreased by \$0.7 million for the first six months of fiscal 2002 compared to the same period in fiscal 2001. We reduced our average borrowings under the credit facility by \$2.4 million to \$28.0 million for the six months ended March 31, 2002, from \$30.4 million for the six months ended March 31, 2001. The effective interest rate on our borrowings under the credit facility decreased to 4.5% for the first six months of fiscal 2002, from 8.7% for the first six months of fiscal 2001, reflecting the decrease in the prime rate of interest and in LIBOR interest rates since the beginning of fiscal 2001.

*Income Taxes.* Our effective income tax rate was a provision of 37.2% for the first six months of fiscal 2002 compared to a benefit of 47.4% for the first six months of fiscal 2001. The change in the effective income tax rate was primarily due to the discontinuation of goodwill amortization in fiscal 2002.

### Year Ended September 30, 2001 and 2000

*Net Sales.* Net sales for fiscal 2001 increased 6.0% to \$388.3 million, from \$366.3 million in fiscal 2000. The increase was primarily due to the 68 new stores we opened since September 30, 2000, net of store closings. Comparable store sales decreased by 2.4% during fiscal 2001, based on 600 locations, versus a comparable store sales increase of 8.3% during fiscal 2000, based on 532 locations. The decline in comparable store sales is primarily due to the difficult selling environment and the resulting lower consumer confidence, as further heightened by the tragic events that took place on September 11, 2001. As of September 30, 2001, we operated a total of 771 maternity locations: 523 Motherhood stores, 74 Mimi stores, 42 A Pea in the Pod stores and 132 leased maternity departments. In comparison, at September 30, 2000, we had 703 store locations: 480 Motherhood stores, 71 Mimi stores, 41 A Pea in the Pod stores and 111 leased maternity departments.

*Gross Profit.* Gross profit increased by \$11.0 million, or 6.0%, to \$194.0 million in fiscal 2001, primarily reflective of the higher sales volume. As a percentage of net sales, gross margins remained constant at 50.0%. During fiscal 2001, specific focus on product sourcing resulted in lower product costs. Additionally, we improved our delivery of products to our stores both in terms of time and cost, and reduced manufacturing costs by shifting from in-house cutting of fabric to lower cost outside contractors. Further, the benefits from newly automated warehousing systems served to reduce labor costs included in the overhead allocation pool, while increasing production volumes. The impact of these business changes were negatively affected by the tragic events of September 11th and as sales of our moderately-priced Motherhood products continued to outpace sales of our higher margin product lines.

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*Selling, General and Administrative Expenses.* Selling, general and administrative expenses increased by \$15.0 million or 9.5% in fiscal 2001 compared to fiscal 2000. The increase in operating expenses was primarily due to an increase in wages and benefit related costs of \$7.8 million and store rents of \$3.7 million, which were in line with the new store expansions offset by a slight decrease in depreciation and amortization of \$0.3 million. Operating expenses, as a percentage of net sales, increased from 43.1% to 44.5% principally due to the deleveraging impact of the negative comparable store sales decrease.

*Operating Income.* Operating income in fiscal 2001 was \$21.2 million, 5.5% of net sales, compared to \$25.2 million, 6.9% of net sales, in fiscal 2000. The decrease in operating income, as a percentage of net sales, was primarily due to negative comparable store sales.

*Interest Expense.* We reduced our interest expense by \$1.0 million in fiscal 2001 from fiscal 2000 by maintaining average borrowings under our credit facility at levels below fiscal 2000 coupled with lower interest rates. Average borrowings and the corresponding effective interest rate was \$26.4 million at 7.8% in fiscal 2001 compared to \$33.7 million at 8.6% in fiscal 2000.

*Other Income.* During the fourth quarter of fiscal 2001, we negotiated buy-outs of two lease arrangements in connection with the planned closure of these stores. Due to the level of the rental rates, we recognized income from the proceeds being paid under these buy-out agreements of \$1.2 million and wrote off related leasehold improvements and other costs of \$0.6 million, resulting in a net gain of \$0.6 million.

*Income Taxes.* Our effective tax rate increased to 50.0% in fiscal 2001 from 45.7% in fiscal 2000 primarily due to the relationship of non-deductible goodwill amortization to the lower pre-tax income in fiscal 2001. See note 10 of the notes to consolidated financial statements for the reconciliation of the statutory federal income tax rate to our effective tax rate.

### Year Ended September 30, 2000 and 1999

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*Net Sales.* Our 22.2% sales growth in fiscal 2000 compared to fiscal 1999 was attributable to our continued store expansion program and the 8.3% increase in comparable store sales. For fiscal 2000, comparable store sales increased by \$23.2 million based on 532 locations versus a comparable store sales increase of \$29.6 million, or 12.9%, during fiscal 1999 based on 473 locations. We opened 78 new stores during fiscal 2000, net of store closings. As of September 30, 2000, we operated a total of 703 maternity stores and leased departments: 480 Motherhood stores, 71 Mimi stores, 41 A Pea in the Pod stores and 111 leased maternity departments. In comparison, at September 30, 1999, we had 625 store locations: 416 Motherhood stores, 71 Mimi stores, 41 A Pea in the Pod stores and 97 leased maternity departments. Fiscal 1999 net sales also included the results from 30 Episode stores that were sold or closed by the end of the second quarter of fiscal 1999.

*Gross Profit.* Gross profit increased by \$33.7 million, or 22.5%, to \$183.0 million in fiscal 2000 primarily reflective of the higher sales volume. As a percentage of net sales, margins improved to 50.0% in fiscal 2000 compared to 49.8% in fiscal 1999. Improvements made to reduce vendor costs, tighten controls over managing inventory levels and lower shipping costs served to strengthen margins in fiscal 2000.

*Selling, General and Administrative Expenses.* Selling, general and administrative expenses increased by \$30.4 million, or 23.9%, in fiscal 2000 compared to fiscal 1999. The increase in operating expenses was primarily due to an increase in wages and benefit related costs of \$15.2 million, an increase in store rents of \$5.6 million and an increase in depreciation and amortization of \$1.3 million, all of which were in line with the new store expansions. Operating expenses as a percentage of net sales increased from 42.5% to 43.1% principally due to the higher store wages and related benefits.

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*Operating Income.* Operating income for fiscal 2000 improved to \$25.2 million, or 6.9% of net sales, compared to \$21.9 million, or 7.3% of net sales, in fiscal 1999. The increase of \$3.2 million is primarily reflective of higher sales volume.

*Interest Expense.* Interest expense increased by \$0.7 million in fiscal 2000 compared to fiscal 1999, reflecting higher average borrowings under our credit facility at a higher effective interest rate. Average borrowings and the corresponding effective interest rates were \$33.7 million at 8.6% and \$27.0 million at 7.7% in fiscal 2000 and 1999, respectively.

*Income Taxes.* Our effective tax rate decreased to 45.7% in fiscal 2000, from 50.3% in fiscal 1999. The reduction in the effective tax rate in fiscal 2000 was primarily due to the relationship of non-deductible goodwill amortization to the higher pre-tax income. See note 10 of the notes to consolidated financial statements for the reconciliation of the statutory federal income tax rate to our effective tax rate.

### **New Accounting Pronouncements**

In June 2001, the Financial Accounting Standards Board, or FASB, issued Statement of Financial Accounting Standards No. 141, "Business Combinations," referred to as SFAS No. 141, and SFAS No. 142, "Goodwill and Other Intangible Assets," referred to as SFAS No. 142. SFAS No. 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. SFAS No. 141 also specifies the criteria applicable to intangible assets acquired in a purchase method business combination to be recognized and reported apart from goodwill. SFAS No. 142 requires that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead be tested for impairment at least annually. SFAS No. 142 further requires that intangible assets with definite useful lives be amortized over their respective estimated useful lives to their estimated residual values and be reviewed for impairment. We adopted SFAS Nos. 141 and 142 effective October 1, 2001. In adopting SFAS No. 142, we no longer amortize goodwill.

As of October 1, 2001, management determined that we had one reporting unit for purposes of applying SFAS No. 142, based on our reporting structure. We have made our initial assessment of impairment for the transition period as of October 1, 2001. The fair value of our single reporting unit was determined based on the then fair market value of our outstanding common stock on a control basis. Based on this initial assessment, no impairment loss was recognized. We plan to perform an annual assessment for goodwill impairment at the end of each fiscal year or as impairment indicators arise.

In June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations." SFAS No. 143 is effective for fiscal years beginning after June 15, 2002, and addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. Although early adoption is encouraged, we plan to adopt this statement in fiscal 2003. Adoption of SFAS No. 143 is not expected to have a material impact on our financial position or results of operations.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," which established a single accounting model, based on the framework established in SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and Long-Lived Assets to be Disposed Of," and resolved significant implementation issues related to SFAS No. 121. SFAS No. 144 superceded SFAS No. 121 and Accounting Principles Board Opinion No. 30, "Reporting the Results of Operations Reporting the Effects of a Disposal of a

Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions." SFAS No. 144 is effective for financial statements issued for fiscal years beginning after December 14, 2001, and early adoption of the provision is encouraged. We plan to adopt this statement in fiscal 2003. Management believes that the

adoption of SFAS No. 144 will not have a material impact on our financial position or results of operations.

### **Seasonality**

Our business, like that of certain other retailers, is seasonal. A significant portion of our net sales and profits are realized during the first and third fiscal quarters, corresponding to the holiday and spring selling seasons. 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, and changes in our merchandise mix.

### **Inflation**

We do not believe that the relatively moderate levels of inflation which have been experienced in the United States in recent years have had a significant effect on our net sales or profitability. However, there can be no assurance that our business will not be affected by inflation in the future.

### **Liquidity and Capital Resources**

Our cash needs have been primarily for (i) debt service on our existing senior notes and our credit facility and (ii) capital expenditures, including furniture, new store buildouts, inventories to support additional locations and leasehold improvements, and equipment for our stores and corporate headquarters. We have historically financed these capital requirements from cash flows from operations and borrowings under our credit facility.

Cash flows from operations increased by \$3.4 million, to \$12.3 million, for the first six months of fiscal 2002, from \$9.0 million for the first six months of fiscal 2001. This increase was primarily the result of increased net income and increased cash generated by the reduction of inventory levels compared to the first six months of 2001. During the first six months of fiscal 2002, we utilized our cash flow from operations primarily to reduce our borrowings under the credit facility by \$11.9 million, from \$32.2 million at September 30, 2001, to \$20.4 million at March 31, 2002. In addition, during the first six months of fiscal 2002, and immediately following the October 17, 2001 acquisition of iMaternity, we repaid approximately \$8.9 million of debt assumed in the iMaternity acquisition with excess cash balances as of the acquisition date.

For the first six months of fiscal 2002, we spent approximately \$2.7 million on furniture, fixtures and leasehold improvements for new store facilities and improvements to existing stores and \$0.5 million for corporate facility additions and other assets. In comparison, we spent \$5.7 million on capital expenditures for the first six months of fiscal 2001. The reduction in capital expenditures primarily reflects a reduction in our net build out costs per new store.

In fiscal 2001, our primary sources of cash were the \$19.5 million of cash flows from operations and borrowings under our \$60.0 million credit facility. During fiscal 2001, we spent \$12.2 million in capital expenditures, including \$10.1 million in furniture, fixtures and leasehold improvements for new store facilities, primarily Motherhood stores, and improvements to existing stores, as well as an additional \$2.1 million for corporate additions and other assets. This compares to \$13.6 million in capital expenditure spending for fiscal 2000, of which \$12.1 million was for new and existing store facilities and \$1.5 million was for corporate additions and other assets. As of September 30, 2001, our cash balance included \$8.2 million of cash in the bank held in anticipation of paying down the iMaternity line of credit in conjunction with the acquisition, which was completed on October 17, 2001.

We have a \$60.0 million credit facility, which includes a \$56.0 million borrowing base revolving line of credit and approximately \$4 million to support a special purpose letter of credit facility. In October 2001, the credit facility was amended and restated primarily to

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increase the collateral base to include the assets acquired in our purchase of iMaternity. The credit facility had been amended and restated in April 2000 to increase borrowings to the current level from \$44.0 million, to raise the annual capital expenditure limitation and to extend the maturity of the facility until September 15, 2004. Interest on borrowings outstanding is currently based on the lender's prime rate or, at our election, an alternative rate of LIBOR plus 200 basis points for all or part of the direct borrowings outstanding. The blended rate for all borrowings under the credit facility at March 31, 2002 was approximately 4.0%. Amounts available for direct borrowings, net of letters of credit outstanding, are limited to the lesser of (a) the unused portion of the credit facility or (b) the aggregate adjusted availability as defined in the agreement as a percentage of eligible inventory and receivables. The credit facility is secured by a security interest in our inventory, equipment, fixtures and cash. There are no financial covenant requirements in the agreement unless the aggregate adjusted availability falls below \$10.0 million. In such event, we would have to achieve minimum cash flow, as defined in the agreement, of not less than zero. During the first six months of fiscal 2002 and 2001, we exceeded the aggregate adjusted availability minimum. As of March 31, 2002, outstanding borrowings under the credit facility consisted of \$20.4 million in direct borrowings and \$2.8 million in letters of credit with available borrowings of \$27.2 million, compared to \$28.1 million of direct borrowings and \$2.7 million in letters of credit with available borrowings of \$17.3 million as of March 31, 2001. In addition to the direct borrowings, we have an outstanding \$4.0 million standby letter of credit to collateralize an outstanding industrial revenue bond.

On or about the closing date of the equity and debt offerings, we intend to enter into an amendment of the credit facility. The amendment will, among other things, modify the covenants to increase the annual capital expenditures limit to \$30 million and permit acquisitions, capital stock repurchases and early redemptions of senior notes within specified limits. The amendment will add an unused facility fee of 10 basis points per annum.

In 1995, we sold 12<sup>5</sup>/<sub>8</sub>% Senior Unsecured Exchange Notes Due 2005 with a face amount of \$92 million. The notes were issued at 97.934% of their face amount, resulting in an annual effective interest rate of 13.0%. Interest on the notes is payable semiannually in cash on February 1st and August 1st. The notes were issued by Mothers Work and are unconditionally guaranteed on a senior basis by our wholly-owned subsidiary. See note 6 of the notes to consolidated financial statements for the fiscal year ended September 30, 2001. The notes are redeemable at our option, in whole or in part, at any time after August 1, 2000, at 106.25% of their face amount plus accrued and unpaid interest, declining ratably to 100% of their face amount on and after August 1, 2002, plus accrued and unpaid interest. The notes impose certain limitations on our ability to, among other things, incur additional indebtedness, pay dividends and enter into certain types of transactions. The most restrictive of these covenants limits our ability to repurchase outstanding common stock or pay dividends.

Our net proceeds from this debt offering will be approximately \$120.7 million after deducting underwriting discounts and the estimated offering expenses payable by us. Concurrently with this debt offering, we are offering 1,100,000 shares of our common stock, which includes 100,000 shares being sold by selling stockholders, by means of a separate prospectus and registration statement. As described in "Use of Proceeds" above, we expect to use the proceeds from these offerings (i) to repay the existing 12<sup>5</sup>/<sub>8</sub>% senior notes, plus accrued and unpaid interest, (ii) to repay our subordinated notes issued to former holders of shares of our Series A Preferred Stock in lieu of accrued and unpaid dividends, (iii) to pay all accrued and unpaid dividends on the outstanding shares of our Series A Preferred Stock and Series C Preferred Stock, (iv) to redeem all of the outstanding shares of our Series A Preferred Stock and to purchase, through an offer to purchase, all of the outstanding shares

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of our Series C Preferred Stock, (v) to repay the outstanding borrowings under our credit facility and (vi) for general corporate purposes.

During fiscal 2001 and the six months ended March 31, 2002, certain shares of Series A Preferred Stock were converted at the election of the holders into shares of common stock at an initial conversion rate equal to ten shares of common stock for each share of Series A Preferred Stock, at a stated value of \$3.7 million. Upon conversion, we are required to pay accrued and unpaid interest on the shares of Series A Preferred Stock being converted. However, we were restricted under the terms of our senior notes from paying cash dividends to the holders upon conversion. Accordingly, we issued approximately \$2.4 million of subordinated notes with unpaid interest compounding annually at the prime rate until paid. The subordinated notes are convertible into common stock, in accordance with the note terms, after August 1, 2003. See note 7 of the notes to consolidated financial statements for the fiscal year ended September 30, 2001.

Our management believes that our current cash and working capital positions, expected operating cash flows and available borrowing capacity under the credit facility will be sufficient to fund our working capital, capital expenditure and debt repayment requirements for the foreseeable future.

We have entered into agreements that create contractual obligations and commercial commitments. These obligations and commitments will have an impact on future liquidity and the availability of capital resources. The tables set forth below present a summary of these obligations and commitments as of September 30, 2001.

**Contractual Obligations:**

Description	Payments Due by Period				
	Total Obligations	Less Than One Year	One to Three Years	Four to Five Years	After Five Years
(in thousands)					
Long-term debt(1)	\$ 96,334	\$ 255	\$ 879	\$ 91,570	\$ 3,630
Operating leases(2)	186,440	36,014	60,847	40,733	48,846
Capital lease obligations	279	179	100		
<b>Total contractual cash obligations</b>	<b>\$ 283,053</b>	<b>\$ 36,448</b>	<b>\$ 61,826</b>	<b>\$ 132,303</b>	<b>\$ 52,476</b>

(1) Includes debt discount of approximately \$1.1 million on our existing senior notes.

(2) Includes store operating leases, which generally provide for payment of direct operating costs in addition to rent. These obligation amounts include future minimum lease payments and exclude such direct operating costs.

**Commercial Commitments(1):**

Description	Amount of Commitment Per Period				
	Total Obligations	Less Than One Year	One to Three Years	Four to Five Years	After Five Years
(in thousands)					
Credit facility(2)	\$ 36,329	\$ 36,329	\$	\$	\$
Standby letters of credit	4,400	4,400			
<b>Total commercial commitments</b>	<b>\$ 40,729</b>	<b>\$ 40,729</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>

(1) Excludes purchase orders for merchandise and supplies in the normal course of business which are liquidated within 12 months.

(2) Includes \$4.1 million of outstanding letter of credit commitments.

**Quantitative and Qualitative Disclosures About Market Risk**

The analysis below presents the sensitivity of the market value of our financial instruments to selected changes in market rates. The range of changes chosen reflects our view of changes that are reasonably possible over a one-year period. Our financial instruments consist principally of our debt portfolio. The market value of the debt portfolio is referred to below as the "debt value." We believe that the market risk exposure on other financial instruments is immaterial.

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At March 31, 2002, the principal components of our debt portfolio were the \$92 million of 12<sup>5</sup>/<sub>8</sub>% Senior Unsecured Exchange Notes Due 2005 and the \$60.0 million credit facility, both of which are denominated in U.S. dollars. The notes bear interest at a fixed rate of 12<sup>5</sup>/<sub>8</sub>%, and the credit facility bears interest at a variable rate which, at March 31, 2002, was approximately 4.0%. While a change in interest rates would not affect the interest incurred or cash flow related to the fixed portion of the debt portfolio, the fair value of the debt would be affected. A change in interest rates on the variable portion of the debt portfolio impacts the interest incurred and cash flows, but does not impact the value of the financial instrument.

The sensitivity analysis as it relates to the fixed portion of our debt portfolio assumes an instantaneous 100 basis point move in interest rates from their levels at March 31, 2002 with all other variables held constant. A 100 basis point increase in market interest rates would result in a decrease in the value of the debt by \$0.9 million at March 31, 2002. Conversely, a 100 basis point decline in market interest rates would cause the fair value of the debt to increase by \$0.9 million at March 31, 2002.

Based on the variable rate debt included in our debt portfolio at March 31, 2002, a 100 basis point increase in interest rates would result in an additional \$0.1 million of interest incurred for the six month period. A 100 basis point decrease would correspondingly lower our interest expense for the six month period by \$0.1 million.

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## BUSINESS

### General

We are the leading designer and retailer of maternity apparel in the United States with 893 stores in all 50 states, Puerto Rico and Canada. We operate our stores under the Motherhood Maternity, Mimi Maternity and A Pea in the Pod brands and also sell our merchandise on the Internet at our *MaternityMall.com* and brand-specific websites. Our strategy is to fulfill all of an expectant mother's clothing needs, including casual and career wear, formal attire, underwear and outerwear in a high-service store environment. 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 segments in maternity apparel, ranging from Motherhood at value prices to A Pea in the Pod at luxury prices. Our stores include 132 leased departments, primarily Motherhood-branded, within department and specialty stores. We have achieved 14.3% compounded annual sales growth over the past five years, resulting in sales of \$388.3 million for the fiscal year ended September 30, 2001.

We were 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. We acquired Motherhood and A Pea in the Pod in 1995 and iMaternity in October 2001 to increase our industry presence, address multiple price points in maternity apparel and improve operating productivity. 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 sales per square foot and better absorption of store overhead. In 1996, we acquired the Episode chain of women's apparel stores out of bankruptcy. In an effort to concentrate on our core maternity operations, we liquidated the Episode business in 1998 following two years of poor financial performance.

### Retail Concepts

**Motherhood.** Motherhood serves the value-priced and highest volume portion of the maternity apparel industry and is our largest chain, with 610 stores as of March 31, 2002. Motherhood is positioned on 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 1,400 square feet and are located primarily in enclosed malls, strip and power centers and central city business districts. Motherhood stores include 87 outlet locations that carry predominantly Motherhood-branded product, as well as some closeout merchandise. In addition, we operate 128 Motherhood leased departments in department and specialty stores such as Macy's, Rich's, Lazarus and Babies "R" Us. 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.

**Mimi.** We have 109 Mimi stores, as of March 31, 2002, that serve the middle market price segment of the maternity apparel industry. The brand is positioned as young, 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 1,600 square feet and are located primarily in regional malls, lifestyle centers and central business districts. The stores carry Mimi-branded product, as well as a small selection of maternity merchandise developed by contemporary vendors exclusively for Mimi. We also operate ten Mimi leased departments, six of which have been opened after March 31, 2002, in Marshall Field's, Bloomingdale's and Macy'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, recently repositioned and its merchandise price points now range from just above

Motherhood to the lower end of A Pea in the Pod. This repositioning has resulted in an expansion of Mimi's target market, and we believe that we now have the opportunity to significantly increase the number of Mimi stores.

***A Pea in the Pod.*** We believe that A Pea in the Pod is the premier maternity brand in the United States. The brand is positioned as exclusive, designer and aspirational. Our 42 stores, as of March 31, 2002, average approximately 2,400 square feet and are located in the most upscale venues, including Madison Avenue, Oak Street, Beverly Hills, South Coast Plaza and Bal Harbour. In addition to offering A Pea in the Pod and Mimi brands, we seek out designer and contemporary manufacturers and help them develop maternity versions of their 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 brand image and maximize profitability.

### **Our Competitive Strengths**

***We are the leader in maternity apparel.*** We are the only nationwide chain of maternity specialty stores in the United States and 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 believe that 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 believe that many of our competitors rely predominantly on the decreasing number of wholesale maternity apparel vendors who often offer more limited assortments.

***We are vertically integrated.*** We design, contract manufacture and distribute approximately 90% of our merchandise. 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, rapid inventory replenishment process and extensive proprietary systems to maximize inventory turnover, sales per square foot and gross profit margins. During the six months ended March 31, 2002, continuous improvements in our international sourcing capabilities have assisted us in improving inventory turnover and increasing gross margins by 3.3 percentage points as compared with the prior year period.

***We utilize a rapid inventory replenishment system.*** Because maternity apparel is a niche industry, store profitability is optimized in smaller store formats. We are able to profitably offer a wide selection of merchandise in stores averaging approximately 1,500 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 distribution center, which sends

individually tailored selections to specific store locations between two and six times per week. We believe that most of our competitors do not rapidly replenish all styles in their store inventories and, therefore, cannot continuously offer comparable merchandise availability and assortment.

***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, minimizing manufacturing 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 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 supply packages of stores in multiple malls. As a result, we have been able to locate stores 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 and recently expanded management team.*** Dan Matthias, Chairman and Chief Executive Officer, and Rebecca Matthias, President and Chief Operating Officer, founded the company 20 years ago and are leaders in maternity apparel retailing. David Mangini joined our management team in August 2001 as Executive Vice President - General Merchandise Manager with more than 20 years of apparel merchandising experience, including senior positions at Gap Inc. and Limited Brands, Inc. Mr. Mangini has developed a merchandising and planning organization by brand to further support each concept's future growth.

### **Our Growth Strategy**

We intend to continue growing our business primarily by opening new Motherhood and Mimi locations and improving profit margins. We expect to finance our growth principally from internally generated cash flow.

***Continue to grow our Motherhood store base.*** We have grown our Motherhood store base from 217 stores at the time of acquisition in 1995 to 610 stores as of March 31, 2002, excluding leased departments. In fiscal 2000 and 2001, we opened 64 and 43 Motherhood stores, respectively, excluding leased departments and net of store closings. Based on our internal research and the number of suitable malls and outlet centers without a Motherhood store, we believe that the maternity apparel industry can support approximately 450 additional Motherhood stores and 100 additional Motherhood outlet stores in the United States. We expect to open approximately 99 and 67 new Motherhood stores and outlets in fiscal 2002 and 2003, respectively, net of store closings. We expect that the Motherhood stores opened in fiscal 2002 will include 54 conversions from acquired iMaternity locations. We currently have five Motherhood stores in Canada and believe that we can open additional stores in Canada, as well as in other international locations. We may also have the opportunity to grow the number of our Motherhood leased departments in the United States.

***Accelerate the growth of our Mimi store base.*** We have 109 Mimi stores as of March 31, 2002, excluding leased departments. In fiscal 2000, we did not open any Mimi stores, net of store closings. In fiscal 2001, we opened three Mimi stores, excluding leased departments and net of store closings. We

have recently widened the range of price points offered at Mimi to include lower prices and believe that this repositioning has significantly expanded Mimi's potential customer base. As a result, we expect to accelerate the growth of Mimi stores. Based on our internal research and the estimated number of suitable locations, we believe that the maternity apparel industry can support approximately 200 additional Mimi stores in the United States. We plan to open approximately 33 and 28 Mimi stores in fiscal 2002 and 2003, respectively, excluding leased departments and net of store closings. We expect that the Mimi stores opened in fiscal 2002 will include 25 conversions from acquired iMaternity locations.

***Increase our gross and operating margins.*** We expect to increase our gross and operating margins primarily by continuing to develop our international sourcing capabilities. We have been transitioning from domestic to international manufacturing and believe that there are still significant opportunities to continue to lower our cost of goods. These opportunities include: (i) increasing volume purchasing as our business grows; (ii) improving supply chain efficiencies and communication with suppliers; (iii) shifting more of our domestic production to international factories; and (iv) identifying new manufacturers in additional and existing countries to minimize costs. We expect to continue to domestically source a portion of our product in order to quickly respond to changing fashion demands. We also expect that current initiatives to enhance the fashion apparel selection at Motherhood and Mimi will improve margins by increasing product demand and reducing markdowns.

***Expand and remodel our stores.*** Approximately 25% of our non-outlet Motherhood stores are too small to carry our full line of merchandise, including plus-sized maternity wear, as well as our entire assortment of nursing apparel and accessories. We plan to expand the size of these stores primarily by relocating them within their current malls as space becomes available. Since the beginning of fiscal 1999, we have expanded 41 stores by increasing their average square footage from approximately 950 square feet to approximately 1,850 square feet. Recent results from completed relocations and expansions indicate that enlarging undersized Motherhood stores has increased their sales and

profits. There are also opportunities to expand a portion of our Mimi store base to improve sales and profits. In addition, we plan to accelerate our store remodeling efforts and expect to remodel a substantial portion of our stores over the next several years.

**Improve new store return on investment.** We have recently redesigned the new store prototypes for each of our concepts to reduce build-out costs and improve returns on investment. The new prototypes are very similar to our current store base, but use more of a location's existing conditions and more prefabrication during construction. As a result, we have substantially reduced the capital expenditures needed for an average new store and expect to significantly increase our returns on new store investments.

**Leverage our unique customer relationships.** We believe that we serve approximately 2.5 million of the approximately 4.0 million women who have babies in the United States each year. We also believe that we serve approximately 1.3 million of the approximately 1.6 million first time mothers each year. As a result, we have developed an extensive customer file of mothers. We have an opportunity to leverage these relationships by offering, at our customers' election, additional baby-related products and services through new and existing strategic alliances. We are supporting these efforts, as well as improving our customer service and customer relationship management capabilities, with investments in database hardware and software.

### The Maternity Apparel Industry

We are unaware of any data on the size of the maternity apparel industry. However, based on our own analysis, including estimates of the number of each competitor's locations and volume per location, we believe there are approximately \$1 billion of maternity clothes sold each year in the United States. We also 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. This opportunity is particularly relevant in the value-priced segment where low-priced, fashionable apparel could provide an economical alternative to secondhand maternity wear. In addition, we believe that 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 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 three concepts offering a full range of casual and career wear, formal attire, underwear and outerwear. We have positioned our three 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 March 31, 2002, including each store concept's target location, brand positioning, price range for dresses and average store size:

Brand	Description of Target Location	Brand Positioning	Dress Price Range	Average Store Size (square feet)
Motherhood	Moderate regional malls and department stores	Broad assortment, fashion, quality and everyday low price	\$19-\$49	1,400
Mimi	Mid-priced regional malls and lifestyle centers	Young, contemporary, fun and affordable	\$40-\$168	1,600
A Pea in the Pod	Exclusive, high-end regional malls and affluent residential areas	Exclusive, designer and aspirational	\$150-\$450	2,400

Major regional malls with several department stores and a wide range of price points may be able to accommodate 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 March 31, 2002, we had multiple stores in 62 major regional malls.

### 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 for educating existing and potential customers about our brands and driving traffic to our stores. Our websites profitably 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 is currently featured on *iVillage.com* and sells Motherhood merchandise. The replenishment capabilities of our distribution center enable us to incorporate Internet fulfillment into our existing operations.

## Brand-Specific Operations Teams

We are organized primarily along functional lines, such as merchandising, store operations, design and production, to obtain maximum efficiencies. Since our business consists of three separate brands requiring decisions on a brand-specific basis, we have recently built teams by brand where the functional leaders for 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 the key production manager. These teams also include visual, fabric purchasing and other necessary professionals. All senior members of each brand team are eligible for a bonus based on the cash flow target for that brand.

## Store Operations

We believe that the typical maternity customer, especially the first-time mother, seeks more advice and assistance than the typical non-maternity customer. Therefore, we aim to employ skilled, motivated sales associates 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, particularly from our moderate and discount store competitors. Our centralized merchandising and store operations also enable our store associates to focus primarily on selling and maintaining the appearance of the stores. In addition, visual merchants coordinate with the merchandising department to develop space allocation plans, design store display windows and define and enhance the product presentation.

Each of our three 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 receive incentive-based compensation related to store-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, except for Motherhood, which is led by the division President. The head merchants and the President of Motherhood report to David Mangini, Executive Vice President General Merchandise Manager.

**Design.** Our design department creates and produces samples and patterns for our 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 segment.

**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 close-out and end-of-season merchandise consolidation. Our proprietary capabilities enable us to continually monitor and respond more 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 manage 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 products made to our specifications, typically utilizing our patterns, markers and designs. Fabric, trim and other supplies are obtained from a variety of sources. As we have expanded our stores and increased volumes, we have been able to obtain products at a lower cost per unit, thereby increasing gross margins.

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 world-wide Internet-based contracting and logistics systems, which include advanced features such as measurement specifications and digital photography. We also use a consultant to monitor working conditions at our contractors' facilities on a worldwide basis.

Finished garments from contractors and other manufacturers are received at our distribution facility in Philadelphia, Pennsylvania, where they 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 25,000 SKUs to any of our 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. Shipments from the distribution facility use several automated systems, including our pick-to-light system for flat-packed goods and our hanging garment sortation system, which speed deliveries and reduce costs.

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

### **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 15 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, daily 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 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.

We have recently begun the deployment of a proprietary, upgraded point-of-sale system. This Internet-based system provides real-time access to financial and merchandising information in addition to rapid credit authorization. We believe that this new system will significantly reduce the amount of training required for new sales associates and store managers. In addition, we anticipate that the system will improve our customer relationship management capabilities by allowing the creation of customized promotional and marketing strategies. The rollout of this system to stores is scheduled to continue through fiscal 2003.

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 which can assume full operations. In addition, our

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software programs and data are backed up and stored off-site. Our communications links come from two telephone frame rooms, are delivered through feeds under two streets and are further backed up by microwave links.

### Pricing

Each of our brands targets customers in different price segments 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 use point-of-sale high/low promotional strategies to drive traffic into the stores. Our price reductions are permanent 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 magazines. We advertise in several key prenatal magazines, including *American Baby*, *Pregnancy* and *Shape Fit Pregnancy*. A Pea in the Pod and Mimi are also advertised in fashion magazines, such as *Vogue* and *In Style*. In addition, we produce and distribute maternity brochures quarterly to obstetric and gynecological offices, as well as to customers, doctors' offices and hospitals upon request. Certain initiatives that we began in fiscal 2000 to drive editorial coverage in magazines, TV and newsprint were focused initially on A Pea in the Pod and have recently been expanded to include Motherhood and Mimi.

### Competition

Our business is highly competitive. The following are several important factors in competing successfully in the retail 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; 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. In the value-priced maternity apparel business, we face competition from retailers such as JCPenney, Kmart, Kohl's, Target, Sears and Wal-Mart, as well as web-based maternity operations, including those of Gap and Old Navy which also currently offer a selection of maternity clothes in two stores. Many of these competitors are larger and have significantly greater financial

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resources than us. 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 have more than twelve stores.

### Employees

At June 30, 2002, we had 2,441 full-time and 2,240 part-time employees. None of our employees are covered by a collective bargaining agreement. We consider our employee relations to be good.

### Trademarks

We own trademark and service mark rights that we believe that 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 Outlet®, Steena® and *MaternityMall.com*®. As a result of the iMaternity acquisition, we also own iMaternity, Dan Howard, Mothertime and *imaternity.com* marks. Additionally, we own the marks Real Time Retailing®, What's Showing is Your Style®, Motherhood is Everything Good... and Maternity Redefined®. We are not aware of any pending claims of infringement or other challenges to our rights to use our marks as currently used by us.

### Properties

We own our principal executive offices and distribution facility, which is located at 456 North Fifth Street, Philadelphia, Pennsylvania 19123. This facility consists of approximately 312,000 square feet, of which 32,000 square feet is dedicated to office space and the remaining square footage to warehousing and distribution. Our current lease for fabric facility space located at 10430 Drummond Road, Philadelphia, Pennsylvania 19152 expires on November 30, 2002. We have entered into a letter of intent for a 10-year lease of a facility located at 2001 Kitty

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Hawk Avenue, Philadelphia, Pennsylvania in the Philadelphia Naval Business Center. This facility consists of approximately 64,000 square feet of warehouse and office space. We believe that this facility, together with our existing distribution facility, will be adequate to support our anticipated distribution needs over the next few years. 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 in the event that the applicable store does not achieve a specified sales volume. Some of these leases also provide for contingent payments based on sales volume and other leases contain clauses for escalations of the base rent, as well as increases in operating costs, marketing costs and real estate taxes.

As of September 30, 2001, the following number of store leases, excluding leased departments, are set to expire as listed in the table below. We do not expect the expiration of any leases to have a materially adverse impact on our business or operations.

Fiscal Year Leases Expire	Number of Stores
2002	52
2003	63
2004	103
2005	60
2006 and later	361

In addition, we have arrangements with department and specialty stores, including Bloomingdale's, Lazarus, Marshall Field's, Macy's, Rich's and Babies "R" Us to lease 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. In most of the arrangements, we provide staffing for the leased departments.

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As of March 31, 2002, we have retail stores in the following locations:

Location	Motherhood <sup>(1)</sup>	Mimi	A Pea in the Pod	Leased Departments	Total
Alabama	5	2	0	1	8
Alaska	1	0	0	0	1
Arizona	10	1	1	1	13
Arkansas	2	0	0	0	2
California	71	8	7	0	86
Colorado	9	2	1	2	14
Connecticut	12	4	0	1	17
Delaware	3	1	0	2	6
District of Columbia	0	1	0	0	1
Florida	43	4	5	12	64
Georgia	20	6	1	11	38
Hawaii	2	0	0	0	2
Idaho	2	0	0	0	2
Illinois	29	8	3	5	45
Indiana	14	1	0	3	18
Iowa	4	0	0	0	4
Kansas	5	2	0	1	8
Kentucky	5	1	0	2	8
Louisiana	8	1	0	3	12
Maine	2	0	0	1	3
Maryland	16	3	0	3	22
Massachusetts	19	3	2	7	31
Michigan	19	5	1	1	26
Minnesota	9	0	1	2	12
Mississippi	4	0	0	0	4

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Location	Motherhood <sup>(1)</sup>	Mimi	A Pea in the Pod	Leased Departments	Total
Missouri	10	3	0	1	14
Montana	1	0	0	0	1
Nebraska	3	1	0	0	4
Nevada	6	0	1	0	7
New Hampshire	5	0	0	2	7
New Jersey	21	6	2	17	46
New Mexico	2	0	0	0	2
New York	37	8	3	13	61
North Carolina	17	4	2	2	25
North Dakota	1	0	0	0	1
Ohio	23	4	1	12	40
Oklahoma	5	2	0	1	8
Oregon	6	1	0	0	7
Pennsylvania	31	6	2	6	45
Rhode Island	1	1	0	1	3
South Carolina	6	1	0	1	8
South Dakota	2	0	0	0	2
Tennessee	12	3	0	4	19
Texas	53	10	6	8	77
Utah	7	1	0	0	8
Vermont	1	0	0	0	1
Virginia	18	2	2	5	27
Washington	9	1	1	0	11
West Virginia	1	0	0	1	2
Wisconsin	6	1	0	0	7
Wyoming	1	0	0	0	1
Puerto Rico	6	1	0	0	7
Alberta	1	0	0	0	1
Ontario	3	0	0	0	3
Quebec	1	0	0	0	1
Total	610	109	42	132	893

(1) Includes 87 outlet stores.

### iMaternity Acquisition

On October 17, 2001, we acquired iMaternity. At the time of the acquisition, iMaternity operated a total of 170 Dan Howard and Mothertime maternity clothing stores, including some under the trade name iMaternity, as well as the *iMaternity.com* website. We are currently consolidating iMaternity into our operations. Through March 31, 2002, we closed 71 of the 170 iMaternity stores, consolidated the iMaternity field sales organization with our own and closed the iMaternity headquarters, manufacturing facilities and Internet development center. We have also converted the remaining iMaternity stores to either Motherhood or Mimi locations. As of March 31, 2002, we anticipated closing 21 of these converted stores within approximately the next six months, 19 of which have been closed as of the date of this prospectus. The timing of the store closings depends primarily on our ability to negotiate and complete lease terminations.

### Legal Proceedings

Following the closing of the iMaternity acquisition, iMaternity vendors made claims for amounts owed by iMaternity that had not been disclosed to us by the sellers prior to the closing. We are currently investigating these claims. If we have liability for these undisclosed amounts, we have the right to seek indemnification from the sellers. If we were to prevail in an indemnification claim, we could reduce the number of

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outstanding shares of the Series C Preferred Stock issued to the sellers, or, if the sellers no longer hold shares of our Series C Preferred Stock, receive cash damages. We have recorded \$1.7 million of accounts payable, which we believe represents a reasonable estimate of our potential liability for these vendor claims.

We are currently engaged in negotiations with the sellers to resolve these issues, and, as part of a potential settlement of such issues, we might obtain an option to repurchase a portion of the warrants issued to these iMaternity sellers. There can be no assurance that we will be able to reach an agreement to settle these issues or as to the final terms of any settlement.

On July 17, 2002, a purported class action was filed against us in the Superior Court of California for Los Angeles County. The complaint alleges that, under California law, certain former and current employees should have received overtime compensation, meal breaks and rest breaks. We are currently a party to an action alleging similar claims under Washington law in Spokane County Superior Court. The plaintiffs in these cases are seeking unspecified actual damages, penalties and attorneys' fees. At this stage in these proceedings, we are unable to predict the outcome of these cases, which we are vigorously defending. We understand that similar proceedings have been brought in California against other retail companies.

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 of this nature cannot be accurately predicted, in our opinion, no liability for any pending action will have a material adverse effect on our financial position.

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### MANAGEMENT

#### Directors and Executive Officers

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

<u>Name</u>	<u>Age</u>	<u>Position</u>
Dan W. Matthias	58	Chairman of the Board and Chief Executive Officer
Rebecca C. Matthias	49	President, Chief Operating Officer and Director
David Mangini	57	Executive Vice President    General Merchandise Manager
Edward M. Krell	39	Senior Vice President    Chief Financial Officer
Joseph A. Goldblum	52	Director
Elam M. Hitchner, III	55	Director
David Schlessinger	46	Director
Stanley C. Tuttleman	83	Director
William A. Schwartz, Jr.	63	Director

*Dan W. Matthias* founded Mothers Work in 1982 and has served as Chairman of the Board since our inception. From 1983 to 1993, he 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* founded Mothers Work in 1982 and has served as a director and our President since our inception. Since January 1993, Ms. Matthias has served as our Chief Operating Officer. In 1992, she was chosen as "Regional Entrepreneur of the Year" by Inc. magazine and Merrill Lynch Corporation. Prior to 1982, she was a construction engineer for the Gilbane Building Company. Ms. Matthias also serves as a member of the Board of Trustees of Drexel University.

*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.

*Edward M. Krell* has served as Senior Vice President    Chief Financial Officer since January 2002. Prior to joining Mothers Work, Mr. Krell served as Executive Vice President & 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 at London Fog Industries, Inc., a wholesale and retail distributor

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of rainwear and outerwear. Mr. Krell began his career as an investment banker with Kidder, Peabody & Co. Incorporated.

*Joseph A. Goldblum* has served as a director 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.

*Elam M. Hitchner, III* has served as a director since January 1994. Mr. Hitchner was a partner in the law firm Pepper Hamilton LLP, in Philadelphia, Pennsylvania, which provides legal services to us, from May 1992 to June 1999, and returned to the firm in January 2001. 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.

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*David Schlessinger* has served as a director since 2002. He founded Encore Books, a retail bookstore chain, in 1973 and served as its Chairman and Chief Executive Officer until 1986. Mr. Schlessinger founded Zany Brainy, Inc., a retail children's educational products company, in 1991. He served as Zany Brainy's Chief Executive Officer until 1996 and as its Chairman until 1998. Since 1998, he has been engaged in personal business and investment activities as well as consulting and board services with private companies.

*Stanley C. Tuttleman* has served as a director since January 2000. He has been the President and Chief Executive Officer of Tuttsen Capital Corp., a financial services corporation, since 1983. Mr. Tuttleman also serves as Chief Executive Officer and Chairman of Telepartners, Inc., a wireless program company.

*William A. Schwartz, Jr.* has served as a director 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 which he has held since 1995. Mr. Schwartz currently is a director of U.S. Vision, Inc. and Commerce Bancorp, an affiliate of Commerce Capital Investments, Inc., an underwriter of our concurrent equity offering.

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.

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### PRINCIPAL STOCKHOLDERS

#### Principal Stockholders

The following table sets forth information, as of July 15, 2002, except as otherwise noted, with respect to the beneficial ownership of shares of common stock and Series C Preferred Stock by:

each person who is known by us to be the beneficial owner of more than five percent of the outstanding shares of our common stock and Series C Preferred Stock;

each director and executive officer; and

all directors and executive officers as a group.

Unless otherwise indicated, each person has sole voting power and sole investment power, except to the extent their power may be shared with a spouse.

**Common Stock**

**Series C Cumulative  
Preferred Stock(b)**

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Name and Address of Beneficial Owner(a)	Common Stock		Series C Cumulative Preferred Stock(b)		
	Amount and Nature of Beneficial Ownership	Percent of Class	Amount and Nature of Beneficial Ownership	Percent of Class Outstanding	Percent of Voting Power
Dan W. and Rebecca C. Matthias	911,730(c)	20.9%			19.6%
Joseph A. Goldblum	162,219(d)	4.1%			3.8%
Elam M. Hitchner, III	58,500(e)	1.5%			1.4%
Edward M. Krell	32(f)	*			*
David Mangini	10,000(g)	*			*
David Schlessinger	2,000(h)	*			*
William A. Schwartz, Jr.	8,000(i)	*			*
Stanley C. Tuttleman	31,000(j)	*			*
Centre Capital Investors III, L.P. c/o Centre Partners Management LLC 30 Rockefeller Center Suite 1050 New York, NY 10020	131,128(k)	3.3%	127,912	42.3%	6.1%
Centre Capital Tax-Exempt Investors III, L.P. c/o Centre Partners Management LLC 30 Rockefeller Center Suite 1050 New York, NY 10020	18,172(k)	*	17,726	5.9%	*
James R. Kirsch 133 Laurel Avenue Highland Park, IL 60035	43,886(k)	1.1%	33,080	10.9%	1.8%
William S. Kirsch c/o Kirkland & Ellis 200 East Randolph Drive Chicago, IL 60601	43,886(k)	1.1%	33,080	10.9%	1.8%
Daniel S. Kirsch, as Trustee of The Daniel S. Kirsch Trust, dated October 8, 1996 2225 Tennyson Highland Park, IL 60035	83,729(k)	2.1%	63,113	20.9%	3.5%
Dimensional Fund Advisors, Inc. 1299 Ocean Avenue 11th Floor Santa Monica, CA 90401	278,900(l)	7.1%			6.6%
Foremark Investments, Ltd. c/o Madeline Wong 21 South End Avenue Penthouse 1C New York, NY 10280	217,365(m)	5.5%			5.1%
MVP Distribution Partners 259 Radnor-Chester Rd. Radnor, PA 19087	374,645(n)	9.5%			8.9%
Oakmont Capital, Inc. 112 St. Clair Avenue West Suite 504 Ontario, Canada M4V 2Y3	259,000(o)	6.6%			6.1%
All directors and officers as a group (9 persons)	1,183,475(p)	26.8%			25.1%

\*  
Less than 1% of the outstanding common stock or less than 1% of the voting power.

(a)  
Except as otherwise indicated, the address of each person named in the table is: c/o Mothers Work, Inc., 456 North Fifth Street, Philadelphia, Pennsylvania 19123.

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- (b) Holders of outstanding shares of our Series C Preferred Stock are entitled to one vote per share and vote with the common stock on all matters as to which holders of common stock are entitled to vote.
- (c) Includes 212,905 shares purchasable upon exercise of stock options by each of Dan and Rebecca Matthias (for a total of 425,810 shares). Except for the shares purchasable upon exercise of stock options, Dan and Rebecca Matthias beneficially own the shares indicated jointly as husband and wife.
- (d) Includes 53,010 shares owned by G-II Family Partnership L.P. Mr. Goldblum is general partner of G-II Family Partnership L.P. and may be deemed to be a beneficial owner of such shares. Also includes 18,000 shares purchasable upon exercise of stock options; 15,200 shares held as custodian or in trust for members of Mr. Goldblum's family; 495 shares owned by his wife and 29,670 shares held by Mr. Goldblum as custodian for the benefit of three of the Matthias' children.
- (e) Includes 18,000 shares purchasable upon exercise of stock options.
- (f) Mr. Krell joined us as Senior Vice President Chief Financial Officer on January 28, 2002.
- (g) Includes 10,000 shares purchasable upon exercise of stock options.
- (h) All shares purchasable upon exercise of stock options. Mr. Schlessinger was elected as a director on January 18, 2002.
- (i) All shares purchasable upon exercise of stock options.
- (j) Includes 6,000 shares purchasable upon exercise of stock options.
- (k) Consisting of shares purchasable upon exercise of warrants.
- (l) Information is based on the Schedule 13G filed with the Securities and Exchange Commission on February 12, 2002. Dimensional Fund Advisors Inc., an investment advisor registered under Section 203 of the Investment Advisors Act of 1940, furnishes investment advice to four investment companies registered under the Investment Company Act of 1940, and serves as investment manager to certain other commingled group trusts and separate accounts. These investment companies' trusts and accounts are the "funds." In its role as investment advisor and investment manager, Dimensional possesses voting and/or investment power over 278,900 shares of our common stock. The funds own all securities reported in the Schedule 13G, and Dimensional disclaims beneficial ownership of such securities.
- (m) Information is based on the Schedule 13G filed with the Securities and Exchange Commission on December 2, 1998. Foremark Investments Ltd. is the record owner of all of the shares; Madeline Wong is the owner of all of the voting and equity securities of Foremark. Such shares do not include 42,000 shares owned by John Charlton, the husband of Madeline Wong.
- (n) Information is based on the Schedule 13D filed with the Securities and Exchange Commission on June 10, 2002. According to that filing, Robert Brown, a general partner of MVP Distribution Partners and its affiliates, including Meridian Venture Partners, beneficially owns 127,600 shares of our common stock, which are not included in the above table.
- (o) Based on the Schedule 13D/A filed with the Securities and Exchange Commission on November 19, 1998, all of such shares may be deemed to be beneficially owned by Oakmont Capital Inc. Oakmont is a part of a group which also includes E.J.K. Real Estate Services Limited, Inc. and 1272562 Ontario, Inc., Gregory P. Hannon and Terence M. Kavanagh. Oakmont has sole voting power and sole dispositive power with respect to 173,800 of such shares. E.J.K. Real Estate Services and 127652 Ontario each own 50% of the voting stock of Oakmont and have shared voting power and shared dispositive power with respect to the shares owned by Oakmont.

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Mr. Kavanagh owns all of the capital stock in E.J.K. Real Estate Services, and Mr. Hannon owns all of the capital stock of 1272562 Ontario, E.J.K. Real Estate Services, 1272562 Ontario. Mr. Kavanagh, and Mr. Hannon also have sole voting power and sole dispositive power as to shares not directly owned by Oakmont.

(p)

Includes the following number of shares owned by affiliates of the following directors, which may be deemed to be beneficially owned by the directors: Joseph A. Goldblum 53,010. Also includes the following number of shares purchasable upon the exercise of stock options owned (or which may be deemed to be owned) by the following persons: Joseph A. Goldblum 18,000, Elam M. Hitchner, III 18,000, David Mangini 10,000, Dan W. Matthias 212,905, Rebecca C. Matthias 212,905, William A. Schwartz, Jr. 8,000 and Stanley C. Tuttleman 6,000.

### RELATED PARTY TRANSACTIONS

One of our directors and the Chairman of our Audit Committee, Elam M. Hitchner, III, is a partner in the law firm of Pepper Hamilton LLP, which provides legal services to us. Mr. Hitchner is a selling stockholder in the concurrent equity offering.

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### DESCRIPTION OF CERTAIN INDEBTEDNESS AND PREFERRED STOCK

#### Credit Facility

In April 1998, we obtained a credit facility from Fleet Capital Corporation. We amended this credit facility in April 2000 to increase our available borrowing limit to the current level of \$56.0 million, to raise the annual capital expenditure limitation and to extend the date of maturity until September 15, 2004. In October 2001, we again amended the credit facility, primarily to increase the collateral base in order to include the assets that we acquired in the iMaternity acquisition. The interest rate on direct borrowings outstanding is based on Fleet's prime rate. At any time, we may, at our option, elect an alternative rate, for all or part of any direct borrowings outstanding, based on the LIBOR rate. The blended rate for our borrowings under this facility as of March 31, 2002 was approximately 4.0%. Amounts available to us for direct borrowings, net of letters of credit outstanding, are limited to the lesser of (a) the unused portion of the credit facility or (b) a percentage of eligible inventory and receivables as set forth in the facility.

The credit facility is secured by a security interest in our accounts receivable, inventory, equipment, fixtures, cash and other assets. All of our subsidiaries are jointly and severally liable for the obligations under the facility. We are not bound by any financial covenants in the facility, provided that the amount of eligible inventory and receivables does not fall below \$10.0 million. In the event that this amount falls below \$10.0 million, we must achieve a minimum cash flow of not less than zero. As of March 31, 2002, outstanding borrowings under the credit facility consisted of \$20.4 million in direct borrowings and \$2.8 million in letters of credit, with available borrowings of \$28.0 million. We are in compliance with all covenants in the facility. In fiscal 2001, 2000 and 1999, the weighted average interest rates on the credit facility were 7.5%, 8.6% and 8.1%, respectively. The credit facility contains customary covenants as well as limitations on our ability to incur additional indebtedness, acquire or sell material assets, pay dividends, redeem our capital stock or merge with another company.

We have outstanding a \$3.4 million standby letter of credit that collateralizes an outstanding industrial revenue bond issued by the Philadelphia Authority for Industrial Development. The terms of the agreement relating to the bond require us to use any amounts we borrow pursuant to the agreement to finance a project to build a manufacturing, office and distribution facility in Philadelphia. The interest rate payable on this bond is variable. As of September 30, 2001, there was \$3.4 million outstanding under this bond accruing at an interest rate of 5.0%.

On or about the closing date of the equity and debt offerings, we intend to enter into an amendment of the credit facility. The amendment will, among other things, modify the covenants to increase the annual capital expenditures limit to \$30 million and permit acquisitions, capital stock repurchases and early redemptions of senior notes within specified limits. The amendment will add an unused facility fee of 10 basis points per annum.

#### 12<sup>5</sup>/<sub>8</sub>% Senior Unsecured Exchange Notes Due 2005

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On August 1, 1995, we issued and sold \$92 million aggregate principal amount of 12<sup>5</sup>/<sub>8</sub>% Senior Unsecured Exchange Notes Due 2005 in a private placement under an indenture between us and J.P. Morgan Trust Company, National Association (as successor to Society National Bank), as Trustee. The notes bear interest at 12<sup>5</sup>/<sub>8</sub>% per year, payable semiannually in arrears on each February 1 and August 1, and mature on August 1, 2005. The notes are general, unsecured senior obligations. The notes are guaranteed fully, unconditionally and jointly and severally by our subsidiaries, on a senior subordinated basis. Our notes are redeemable, at our option, in whole or in part, at a redemption price of 103.125% prior to July 31, 2002, and at a redemption price of 100.000% on August 1, 2002 and thereafter.

The provisions of the indenture governing the notes limit our and our subsidiaries' ability, among other things, to: (i) incur additional indebtedness or create contingent liabilities; (ii) create liens;

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(iii) pay dividends or make other equity distributions in respect of our equity securities; (iv) purchase or redeem capital stock or make certain investments; (v) create any restriction on the ability of our subsidiaries to pay dividends, make loans or transfer assets to us; (vi) sell assets, including the capital stock of our subsidiaries; (vii) enter into any transactions with our stockholders or affiliates; (viii) permit any subsidiary to issue capital stock; (ix) enter into certain sale/leaseback transactions; (x) permit any subsidiary to issue guarantees or (xi) effect a consolidation or merger or transfer of all or substantially all of our assets.

The indenture for our notes also provides that upon a change of control, as defined in the indenture, we must make an offer to purchase all outstanding notes and each holder of our notes will have the right to require us to repurchase all or any part of the notes held by such holder at a purchase price in cash equal to 101% of the principal amount plus accrued and unpaid interest.

We expect to use a portion of the net proceeds of this offering to repay our existing notes. On July 10, 2002, we commenced a cash tender offer to purchase any and all outstanding 12<sup>5</sup>/<sub>8</sub>% senior notes. We also commenced a solicitation of consents to reduce the notice period required by the related indenture for the Company to redeem any existing senior notes that remain outstanding after consummation of the tender offer and to amend or eliminate substantially all of the principal restrictive covenants contained in the related indenture. To the extent that any existing senior notes remain outstanding after consummation of the tender offer, the Company intends to redeem any outstanding existing senior notes.

### Other Indebtedness

We have issued subordinated notes to former holders of shares of our Series A Preferred Stock in lieu of accrued and unpaid dividends. We issued these subordinated notes because we were restricted under the terms of our credit facility from paying cash dividends to these former holders of preferred stock when they converted their shares of Series A Preferred Stock into shares of our common stock. As of March 31, 2002, we had issued an aggregate of \$2.4 million of these subordinated notes, and these notes accrue interest at the prime rate. To the extent all or a portion of the subordinated notes are not repaid with the net proceeds, if any, from the concurrent equity offering, we expect to use a portion of the proceeds of this offering to repay the subordinated notes.

As of September 30, 2001, we had approximately \$1.6 million of various government mortgage debt secured by a \$1.0 million letter of credit and certain property and equipment, as well as approximately \$0.3 million of capital lease obligations.

### Preferred Stock

Pursuant to our amended and restated certificate of incorporation, our Board of Directors is authorized, subject to any limitations prescribed by law, without further action by the stockholders, to issue up to 2,000,000 shares of preferred stock in one or more series or classes and to establish the designations, preferences, qualifications, privileges, limitations, restrictions, options, conversion rights and other special or relative rights of any series of preferred stock issued. To the extent that we redeem or repurchase any shares of our outstanding preferred stock, including shares of our Series A Preferred Stock or Series C Preferred Stock, the number of shares of preferred stock that may be issued will be reduced.

The issuance of shares of preferred stock could adversely affect the voting power and other rights of holders of our common stock. Because the Board of Directors without stockholder action may fix the terms of the preferred stock, the preferred stock could be issued quickly with terms designed to defeat a proposed takeover of us or to make the removal of our management more difficult. The authority to issue preferred stock or rights to purchase preferred stock could be used to discourage a change in control of Mothers Work. Our management is not aware of any such threatened transaction to obtain control of Mothers Work, and the Board of Directors has no current plans to designate and issue any additional shares of preferred stock.

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We have designated shares of Series A Preferred Stock, Series B Preferred Stock and Series C Preferred Stock. The terms of each series of preferred stock are described below. We expect to use a portion of the net proceeds from this offering to, among other things, redeem all of the remaining outstanding shares of our Series A Preferred Stock and to purchase, through an offer to purchase, all of the remaining outstanding shares of our Series C Preferred Stock.

### *Series A Preferred Stock*

In connection with the Motherhood acquisition on August 1, 1995, we issued 41,000 shares of Series A Preferred Stock with a stated value of \$11.5 million. The Series A Preferred Stock has a liquidation preference equal to the stated value plus accrued but unpaid dividends. We may redeem, but are under no obligation to do so, the Series A Preferred Stock at any time at a price equal to liquidation preference, subject to limitations imposed by the terms of our credit facility and the existing senior notes.

The holders of outstanding shares of our Series A Preferred Stock are entitled to receive annual cash dividends, which are cumulative and compound annually at 8.5% of the stated value. No dividends may be paid on our common stock, or any other shares of our capital stock ranking junior to our Series A Preferred Stock, other than dividends payable in shares of common stock, until all cumulative and current dividends on the Series A Preferred Stock have been declared and paid in full. As of March 31, 2002, the liquidation value of the Series A Preferred Stock was \$13.5 million, which includes accrued and unpaid dividends of \$5.7 million.

Our Series A Preferred Stock is convertible into shares of common stock (i) between August 1, 2000 and May 1, 2006, at an initial conversion rate, subject to adjustments for stock splits, stock dividends, recapitalizations and similar events, equal to ten shares of common stock for each share of Series A Preferred Stock or (ii) after November 1, 2006, at a conversion rate determined by dividing the aggregate stated value of all shares of Series A Preferred Stock to be converted by 90% of the then-current market price of the common stock, as defined. After a holder's exercise of the conversion right under clause (i) above, we may only redeem the Series A Preferred Stock from the proceeds of an equity offering. The limitation on this redemption right may only be modified with the consent of the holders of a majority of the outstanding principal amount of our existing senior notes and of the lender under our credit facility. Upon conversion, a holder of Series A Preferred Stock is entitled to receive payment of all accrued and unpaid dividends in cash unless we are prohibited by limitations contained in the indenture for our existing senior notes. In the case of a conversion under clause (i) above, if dividends are not paid in cash due to restrictions imposed by the credit facility or the existing senior notes, we will issue a subordinated note in lieu of cash dividends. If the subordinated notes are not paid by August 1, 2003, then all principal and accrued interest may be converted into that number of shares of common stock determined by dividing the amounts due under the subordinated notes by the then-current market price, as defined. In the case of a conversion under clause (ii) above, if accrued dividends are not paid in cash, then such dividends are convertible into common stock on the same basis as the shares of Series A Preferred Stock. As of March 31, 2002, holders of 13,123 shares of Series A Preferred Stock have elected to convert their shares into shares of common stock. In connection with these conversions, we issued an aggregate of \$2.4 million in subordinated notes as payment of accrued dividends.

### *Series B Preferred Stock*

In connection with the rights agreement dated March 17, 1997, and amended June 4, 1997, October 17, 2001 and June 4, 2002 between us and Stock Trans, Inc., as rights agent, we authorized 10,000 shares of Series B Preferred Stock. The Series B Preferred Stock can be purchased in units equal to one one-thousandth of a share under the terms of the rights agreement. The holders of the preferred stock purchase rights are entitled to receive dividends when and if declared on common stock. Preferred stock purchase rights are junior to the common stock and Series A Preferred Stock

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and Series C Preferred Stock for both dividends and liquidations. Each preferred stock purchase right votes as one share of common stock.

### *Series C Preferred Stock*

On October 17, 2001, in connection with our acquisition of iMaternity, we issued 302,619 shares of Series C Preferred Stock, as well as warrants to acquire 350,000 shares of common stock, to the sellers. The holders of the Series C Preferred Stock are entitled to receive dividends, which are cumulative and compound quarterly at the annual rate of 8.625% of the stated value. Dividends accrue for the first year. After the first year, dividends are paid in cash at an annual rate of 2.5% on the stated value and on accrued but unpaid dividends, with the balance accruing. After the second year, dividends are paid in cash at an annual rate of 4.0% on the stated value and on accrued but unpaid dividends, with the balance accruing. Dividends accrue for the first year. As of March 31, 2002, the liquidation value of the Series C Preferred Stock was \$20.3 million, which includes accrued and unpaid dividends.

Each share of Series C Preferred Stock is entitled to one vote and votes together with the holders of the common stock as a single class. The holders of Series C Preferred Stock have the right to receive in a liquidation, dissolution or winding up of the Company, after payment to the

holders of the outstanding shares of our Series A Preferred Stock and before any payments to holders of junior stock, an amount per share equal to the stated value plus the greater of accrued dividends or the "participation amount." The "participation amount" is an amount based on 10% of the increase in the market value of our common stock for the period from the acquisition closing date until the date of a liquidation, dissolution or winding up. In addition, beginning on the earlier of October 18, 2006, upon a "change of control," or upon another "fundamental transaction," the holders of outstanding shares of Series C Preferred Stock have the right to require us to purchase their shares for an amount equal to the stated value per share plus accrued and unpaid dividends, which is referred to as the "put right." If we were to default on our obligations under the put right, the holders of outstanding shares of Series C Preferred Stock would have the right to convert their shares of Series C Preferred Stock into shares of common stock. In no event can the aggregate number of shares of common stock issued upon conversion of the Series C Preferred Stock, plus the 350,000 shares issuable upon exercise of the warrants, exceed an amount equal to 19.9% of the total number of outstanding shares of common stock immediately before October 17, 2001.

Under the terms of the merger agreement in connection with the iMaternity acquisition, we have the right, from October 17, 2001 through April 17, 2004, to make an offer to purchase all outstanding shares of Series C Preferred Stock at a purchase price per share of stated value plus accrued and unpaid dividends. If a majority of the holders of outstanding shares of Series C Preferred Stock fail to accept our offer to purchase, then these holders forfeit their warrants or, if any warrants have been exercised and the underlying shares of common stock have been sold, then such holder forfeits any accrued dividends on the shares of Series C Preferred Stock that he then owns. In addition, upon the failure to accept our offer to purchase, all holders of outstanding shares of Series C Preferred Stock forfeit certain protective provisions under the merger agreement, including, among other things, prohibitions on our issuing senior or parity stock and redeeming junior securities. In addition, beginning on April 18, 2004, we have the right to purchase any outstanding shares of Series C Preferred Stock for cash at a price per share equal to the stated value plus the greater of accrued and unpaid dividends or the participation amount.

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## DESCRIPTION OF NOTES

We will issue the notes under an indenture between us and J.P. Morgan Trust Company, National Association, as Trustee (the "Indenture"). The terms of the notes include those stated in the Indenture and those made part of the Indenture by reference to the Trust Indenture Act.

Certain terms used in this description are defined under the subheading " Certain Definitions." In this description, the word "Company" refers only to Mothers Work, Inc. and not to any of its subsidiaries.

A copy of the Indenture has been filed with the SEC as part of our Registration Statement of which this prospectus is a part. The following description is only a summary of the material provisions of the Indenture. We urge you to read the Indenture because it, not this description, defines your rights as holders of these notes. See "Where You Can Find More Information" for information on how to obtain a copy of the Indenture.

### Brief Description of the Notes

These notes:

are unsecured senior obligations of the Company;

are senior in right of payment to any future Subordinated Obligations of the Company; and

are guaranteed by each Subsidiary Guarantor.

### Principal, Maturity and Interest

The Company will issue the notes initially with a maximum aggregate principal amount of \$125.0 million. The Company will issue the notes in denominations of \$1,000 and any integral multiple of \$1,000. The notes will mature on \_\_\_\_\_, 2010. Subject to our compliance with the covenant described under the subheading " Certain Covenants Limitation on Indebtedness," the Company, without the consent of the holders, is entitled to issue more notes under the Indenture on the same terms and conditions and with the same CUSIP numbers as the notes being offered hereby (the "additional notes"). The notes and the additional notes, if any, will be treated as a single class for all purposes of the Indenture, including waivers, amendments, redemptions and offers to purchase. Unless the context otherwise requires, for all purposes of the

Indenture and this "Description of Notes," references to the notes include any additional notes actually issued.

Interest on these notes will accrue at the rate of % per annum and will be payable semiannually in arrears on and , commencing on , 2003. We will make each interest payment to the holders of record of these notes on the immediately preceding and . We will pay interest on overdue principal at 1% per annum in excess of the above rate and will pay interest on overdue installments of interest at such higher rate to the extent lawful.

Interest on these notes will accrue from the date of original issuance. Interest will be computed on the basis of a 360-day year comprised of twelve 30-day months.

**Optional Redemption**

Except as set forth below, we will not be entitled to redeem the notes (which include additional notes, if any) at our option prior to , 2006.

On and after , 2006, we will be entitled at our option to redeem all or a portion of these notes (which include additional notes, if any) upon not less than 30 nor more than 60 days notice, at the redemption prices (expressed in percentages of principal amount on the redemption date), plus accrued and unpaid interest to the redemption date (subject to the right of holders of record on the

related record date to receive interest due on the relevant interest payment date) if redeemed during the 12-month period commencing on of the years set forth below:

Period	Redemption Price
2006	%
2007	%
2008	%
2009 and thereafter	100.00%

Prior to , 2005, we may at our option on one or more occasions redeem notes (which include additional notes, if any) in an aggregate principal amount not to exceed 35% of the aggregate principal amount of the notes (which include additional notes, if any) originally issued at a redemption price (expressed as a percentage of principal amount) of %, plus accrued and unpaid interest to the redemption date, with the net cash proceeds from one or more Public Equity Offerings; provided that

- (1) at least 65% of such aggregate principal amount of notes (which include additional notes, if any) remains outstanding immediately after the occurrence of each such redemption (other than notes held, directly or indirectly, by the Company or its Affiliates); and
- (2) each such redemption occurs within 60 days after the date of the related Public Equity Offering.

**Selection and Notice of Redemption**

If we are redeeming fewer than all the notes at any time, the Trustee will select notes on a pro rata basis, by lot or by such other method as the Trustee in its sole discretion shall deem to be fair and appropriate.

We will redeem notes of \$1,000 or less in whole and not in part. We will cause notices of redemption to be mailed by first-class mail at least 30 but not more than 60 days before the redemption date to each holder of notes to be redeemed at its registered address.

If any note is to be redeemed in part only, the notice of redemption that relates to that note will state the portion of the principal amount thereof to be redeemed. We will issue a new note in a principal amount equal to the unredeemed portion of the original note in the name of the holder thereof upon cancellation of the original note. Notes called for redemption become due on the date fixed for redemption. On and after the redemption date, interest ceases to accrue on notes or portions of them called for redemption.

**Mandatory Redemption; Offers to Purchase; Open Market Purchases**

We are not required to make any mandatory redemption or sinking fund payments with respect to the notes. However, under certain circumstances, we may be required to offer to purchase notes as described under the captions " Change of Control" and " Certain Covenants Limitation on Sales of Assets and Subsidiary Stock." We may at any time and from time to time purchase notes in the open market or otherwise.

**Guaranties**

The Subsidiary Guarantors will jointly and severally guarantee, on a senior unsecured basis, our obligations under these notes. The obligations of each Subsidiary Guarantor under its Subsidiary Guaranty will be limited as necessary to prevent that Subsidiary Guaranty from constituting a fraudulent conveyance under applicable law. See "Risk Factors Federal and state statutes allow

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courts, under specific circumstances, to void guarantees and require note holders to return payments received from guarantors."

Each Subsidiary Guarantor that makes a payment under its Subsidiary Guaranty will be entitled upon payment in full of all guaranteed obligations under the Indenture to a contribution from each other Subsidiary Guarantor in an amount equal to such other Subsidiary Guarantor's pro rata portion of such payment based on the respective net assets of all the Subsidiary Guarantors at the time of such payment determined in accordance with GAAP.

If a Subsidiary Guaranty were rendered voidable, it could be subordinated by a court to all other indebtedness (including guarantees and other contingent liabilities) of the applicable Subsidiary Guarantor, and, depending on the amount of such indebtedness, a Subsidiary Guarantor's liability on its Subsidiary Guaranty could be reduced to zero. See "Risk Factors Federal and state statutes allow courts, under specific circumstances, to void guarantees and require note holders to return payments received from guarantors."

The Subsidiary Guaranty of a Subsidiary Guarantor will be released:

- (1) upon the sale or other disposition (including by way of consolidation or merger) of a Subsidiary Guarantor;
- (2) upon the sale or disposition of all or substantially all the assets of a Subsidiary Guarantor; or
- (3) upon the designation of such Subsidiary Guarantor as an Unrestricted Subsidiary;

in each case in accordance with the provisions of the Indenture and in each case described in clauses (1) and (2), only if such sale or disposition is to a Person other than the Company or an Affiliate of the Company.

**Ranking**

*Senior Indebtedness versus Notes*

The indebtedness evidenced by these notes and the Subsidiary Guaranties will be unsecured and will rank *pari passu* in right of payment to the Senior Indebtedness of the Company and the Subsidiary Guarantors, as the case may be. The notes will be guaranteed by the Subsidiary Guarantors.

As of March 31, 2002, after giving pro forma effect to this Offering:

- (1) the Company's Senior Indebtedness would have been approximately \$130.1 million, including \$5.1 million of secured indebtedness; and
- (2) there would be no Senior Indebtedness of the Subsidiary Guarantors.

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The notes are unsecured obligations of the Company. Secured debt and other secured obligations of the Company (including obligations with respect to the Credit Agreement) will be effectively senior to the notes to the extent of the value of the assets securing such debt or other obligations.

### *Liabilities of Subsidiaries versus Notes*

A portion of our operations are conducted through our subsidiaries. Some of our subsidiaries are not guaranteeing our obligations with respect to the notes. Claims of creditors of non-guarantor subsidiaries, including trade creditors and creditors holding indebtedness or guarantees issued by such non-guarantor subsidiaries and claims of preferred stockholders of such non-guarantor subsidiaries generally will have priority with respect to the assets and earnings of such non-guarantor subsidiaries over the claims of our creditors, including holders of the notes. Accordingly, the notes will be effectively subordinated to creditors (including trade creditors) and preferred stockholders, if any, of our non-guarantor subsidiaries.

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At March 31, 2002, the total liabilities of our subsidiaries (other than the Subsidiary Guarantors) were less than \$1 million, including trade payables. Although the Indenture limits the incurrence of Indebtedness and Preferred Stock of certain of our subsidiaries, such limitation is subject to a number of significant qualifications. Moreover, the Indenture does not impose any limitation on the incurrence by such subsidiaries of liabilities that are not considered Indebtedness under the Indenture. See " Certain Covenants Limitation on Indebtedness."

### **Book-Entry, Delivery and Form**

Except as described below, the notes sold will initially be issued in the form of one or more global notes (the "Global notes"). The Global notes will be deposited with, or on behalf of, The Depository Trust Company (the "Depository") and registered in the name of the Depository or its nominee. Except as set forth below, the Global notes may be transferred, in whole and not in part, only to the Depository or another nominee of the Depository. Investors may hold their beneficial interests in the Global notes directly through the Depository if they have an account with the Depository or indirectly through organizations which have accounts with the Depository.

The Depository has advised us as follows: The Depository is a limited-purpose trust company organized under the laws of the State of New York, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act. The Depository was created to hold securities of institutions that have accounts with the Depository ("participants") and to facilitate the clearance and settlement of securities transactions among its participants in such securities through electronic book-entry changes in accounts of the participants, thereby eliminating the need for physical movement of securities certificates. The Depository's participants include securities brokers and dealers, including the Underwriters, banks, trust companies, clearing corporations and certain other organizations, some of which (and/or their representatives) own the Depository. Access to the Depository's book-entry system is also available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a participant, either directly or indirectly.

Upon the issuance by the Company of notes represented by the Global notes, the Depository or its nominee will credit, on its book-entry registration and transfer system, the principal amount of the notes represented by such Global notes to the accounts of participants. The accounts to be credited shall be designated by the Underwriters. Ownership of beneficial interests in the notes represented by Global notes will be limited to participants or persons that hold interests through participants. Ownership of such beneficial interests in notes will be shown on, and the transfer of that ownership will be effected only through, records maintained by the Depository (with respect to participants' interests) and such participants (with respect to the owners of beneficial interests in the Global notes other than participants). The laws of some jurisdictions may require that certain purchasers of securities take physical delivery of such securities in definitive form. Such laws may impair the ability to transfer or pledge beneficial interests in notes represented by Global notes.

So long as the Depository, or its nominee, is the registered holder and owner of the Global notes, the Depository or such nominee, as the case may be, will be considered the sole legal owner and holder of the related notes for all purposes of such notes and the Indenture. Except as set forth below, owners of beneficial interests in the Global notes will not be entitled to have the notes represented by the Global notes registered in their names, will not receive or be entitled to receive physical delivery or certificated notes in definitive form and will not be considered to be the owners or holders of any notes under the Indenture. We understand that under existing industry practice, in the event an owner of a beneficial interest in the Global notes desires to take any action that the Depository, as the holder of the Global notes, is entitled to take, the Depository would authorize the participants to take such action, and that the participants would authorize beneficial owners owning through such participants to

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take such action or would otherwise act upon the instructions of beneficial owners owning through them.

Payment of principal of and interest on notes represented by Global notes registered in the name of and held by the Depository or its nominee will be made by the Company through the Paying Agent (as defined in the Indenture) to the Depository or