

MOTHERS WORK INC
Form DEF 14A
December 14, 2007

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

SCHEDULE 14A

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

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

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

MOTHERS WORK, INC.

(Name of Registrant as Specified In Its Charter)

NOT APPLICABLE

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

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

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

January 22, 2008

To the Stockholders of Mothers Work, Inc.:

The Annual Meeting of Stockholders of Mothers Work, Inc., a Delaware corporation (the "Company"), will be held at 9:15 a.m. Eastern Standard Time, on January 22, 2008 at 3000 Two Logan Square, 18th & Arch Streets, Philadelphia, Pennsylvania 19103, for the following purposes:

1. To elect three directors of the Company;
2. To approve the Company's Amendment and Restatement of the Mothers Work, Inc. 2005 Equity Incentive Plan;
3. To ratify the action of the Audit Committee of the Board of Directors in appointing KPMG LLP ("KPMG") as independent registered public accountants to audit the consolidated financial statements of the Company and its subsidiaries for the fiscal year ending September 30, 2008; and
4. To transact such other business as may properly come before the meeting or any adjournments thereof.

Only holders of the Company's Common Stock at the close of business on Monday, December 10, 2007 are entitled to notice of, and to vote at, the Annual Meeting and any adjournments or postponements thereof. Such stockholders may vote in person or by proxy. The stock transfer books of the Company will not be closed. The accompanying form of proxy is solicited by the Board of Directors of the Company.

By Order of the Board of Directors

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

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

December 17, 2007

**456 North Fifth Street
Philadelphia, Pennsylvania 19123**

**PROXY STATEMENT
FOR
ANNUAL MEETING OF STOCKHOLDERS
TO BE HELD ON**

January 22, 2008

This proxy statement, which is first being mailed to stockholders on approximately December 17, 2007, is furnished in connection with the solicitation by the Board of Directors of Mothers Work, Inc. (the "Company") of proxies to be used at the 2008 Annual Meeting of Stockholders of the Company (the "Annual Meeting"), to be held at 9:15 a.m., Eastern Standard Time, on January 22, 2008 at 3000 Two Logan Square, 18th & Arch Streets, Philadelphia, Pennsylvania 19103, and at any adjournments or postponements thereof. If proxies in the accompanying form are properly executed and returned prior to voting at the meeting, the shares of the Company's common stock (the "Common Stock") represented thereby will be voted as instructed on the proxy. If no instructions are given on a properly executed and returned proxy, the shares of the Common Stock represented thereby will be voted for the election of the nominees for director named below, for the approval of the Amendment and Restatement of the Mothers Work, Inc. 2005 Equity Incentive Plan, for the ratification of the appointment of KPMG as independent registered public accountants and in support of management on such other business as may properly come before the Annual Meeting or any adjournments thereof. Any proxy may be revoked by a stockholder prior to its exercise upon written notice to the Secretary of the Company, by delivering a duly executed proxy bearing a later date, or by the vote of a stockholder cast in person at the Annual Meeting. All references herein to the Company's fiscal years refer to the fiscal year ended on September 30 in the year mentioned. For example, the Company's fiscal year 2007 ended on September 30, 2007.

VOTING

Holders of record of the Common Stock on Monday, December 10, 2007 will be entitled to vote at the Annual Meeting or any adjournments or postponements thereof. As of that date, there were 5,968,902 shares of Common Stock outstanding and entitled to vote. The presence, in person or by proxy, of holders of Common Stock entitled to cast at least a majority of the votes which all holders of the Common Stock are entitled to cast will constitute a quorum for purposes of the transaction of business. Each share of Common Stock entitles the holder thereof to one vote on the election of each of the nominees for director and on any other matter that may properly come before the Annual Meeting. Stockholders are not entitled to cumulative voting in the election of directors. Directors are elected by a plurality of the votes cast and votes may be cast in favor of or withheld from each director nominee. Votes that are withheld from a director nominee will be excluded entirely from the vote for such nominee and will have no effect thereon.

Abstentions and broker non-votes (described below) are counted in determining whether a quorum is present. Abstentions with respect to any proposal other than the election of directors will have the same effect as votes against the proposal, because approval requires a vote in favor of the proposal by a majority of the shares entitled to vote, present at the Annual Meeting in person or represented by proxy. A "broker non-vote" occurs when a broker submits a proxy that does not indicate a vote for some of the proposals because the beneficial owners have not instructed the broker on how to vote on such proposals and the broker does not have discretionary authority to vote in the absence of instructions. Broker non-votes are

not considered to be shares "entitled to vote" (other than for quorum purposes), and will therefore have no effect on the outcome of any of the matters to be voted upon at the Annual Meeting.

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

CORPORATE GOVERNANCE

Committees and Meetings of the Board of Directors

During fiscal year 2007, the Board of Directors held eight meetings that were held in person and three meetings that were held telephonically. Each incumbent director attended at least 75% of the aggregate of the total number of meetings of the Board of Directors and committees of the Board of Directors on which he or she served.

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

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

During fiscal year 2007, the Audit Committee, which consists of Mr. Hitchner, Chairman, Ms. Kavanagh and Mr. Schwartz, held eight meetings. Each member of the Audit Committee is considered an "independent director" under Nasdaq rules and the rules of the Securities and Exchange Commission ("SEC"). The function of the Audit Committee is to assist the Board of Directors in preserving the integrity of the financial information published by the Company through the review of financial and accounting controls and policies, financial reporting requirements, alternative accounting principles that could be applied and the quality and effectiveness of the independent registered public accountants. The Board of Directors adopted an Audit Committee Charter which was revised in December 2007 (a copy of which is posted on the Company's corporate website).

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

During fiscal year 2007, the Compensation Committee, which consists of Mr. Goldblum, Chairman, Mr. Schlessinger and Mr. Schwartz, held five meetings, of which one was held telephonically as scheduled. Each member of the Compensation Committee is considered an "independent director" under Nasdaq rules and the rules of the SEC. The Compensation Committee considers recommendations of the Company's management regarding compensation, bonuses and fringe benefits of the executive officers of the Company, and determines whether the recommendations of management are consistent with general policies, practices, and compensation scales established by the Board of Directors. In addition, the

Compensation Committee serves as the Stock Option Committee of the Board of Directors and in that capacity it administers the Company's equity-based compensation plans. The Compensation Committee also reviews, and discusses with the Company's management, the Compensation Discussion and Analysis ("CD&A") to be included in the Company's annual proxy statement, as applicable, and determines whether to recommend to the Board that the CD&A be included in the proxy statement. The Board of Directors adopted a Compensation Committee Charter which was revised in December 2007 (a copy of which is posted on the Company's corporate website).

On November 14, 2007, the Nominating and Corporate Governance Committee met and recommended to the full Board the re-election of each of Ms. Rebecca C. Matthias, Mr. Joseph A. Goldblum and Mr. David Schlessinger, for an additional three-year term as a director of the Company. The Nominating and Corporate Governance Committee held one meeting in fiscal year 2007. The current members of the Nominating and Corporate Governance Committee are Mr. Goldblum, Mr. Hitchner and Mr. Schlessinger. Each member of the Nominating and Corporate Governance Committee is considered an "independent director" under Nasdaq rules and the rules of the SEC. The Nominating and Corporate Governance Committee functions include establishing the criteria for selecting candidates for nomination to the Board of Directors, actively seeking candidates who meet those criteria, and making recommendations to the Board of Directors of nominees to fill vacancies on, or as additions to, the Board of Directors. The Nominating and Corporate Governance Committee will consider director candidates who have relevant business experience, are accomplished in their respective fields, and who possess the skills and expertise to make a significant contribution to the Board of Directors, the Company and its stockholders. Director nominees should have high-leadership business experience, knowledge about issues affecting the Company and the ability and willingness to apply sound and independent business judgment. The Nominating and Corporate Governance Committee applies the same criteria to nominees recommended by stockholders. Such recommendations should be submitted in writing to the attention of the Nominating and Corporate Governance Committee, c/o Mothers Work, Inc., 456 North Fifth Street, Philadelphia, Pennsylvania, 19123, and should not include self-nominations. The Board of Directors adopted a Nominating and Corporate Governance Committee Charter which was revised in December 2007 (a copy of which is posted on the Company's corporate website).

Nominations of Directors by Stockholders

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

A stockholder who proposes to nominate an individual for election to the Board of Directors must deliver a written notice to the Secretary of the Company which includes: (i) a complete description of the proposed nominees' qualifications, experience and background, and any and all other information that is required to be disclosed in solicitations of proxies for election of directors in an election contest, or is otherwise required, in each case pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended, and Rule 14a-11 thereunder; (ii) a description of all relationships between the proposed nominee and such stockholder and any agreements or understandings between such stockholders and the proposed nominee regarding the nomination; (iii) a description of all relationships between the proposed nominee and any of the Company's competitors, customers, suppliers, labor unions (if any) and any other persons with special interests regarding the Company; (iv) a statement signed by the proposed nominee in which he or she consents to being named in the proxy statement as a nominee and to serving as a director if elected; (v) the name and address of the stockholder giving the notice, as it appears on the Company's books; (vi) the name and address of the beneficial owner, if any, on whose behalf the nomination is being made; (vii) the class and number of shares of the Company which are owned beneficially and of record by such stockholder and such beneficial owner and the time period for which such shares

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have been held; (viii) a representation that such stockholder and beneficial owner intend to appear in person or by proxy at the meeting; and (ix) a representation that such stockholder and such beneficial owner intend to continue to hold the reported shares through the date of the meeting. If a recommendation is submitted by a group of two or more stockholders, the information regarding the recommending stockholders and beneficial owners, if any, must be submitted with respect to each stockholder in the group and any beneficial owners. The stockholder's written notice should be sent to the attention of the Secretary, c/o Mothers Work, Inc., 456 North Fifth Street, Philadelphia, Pennsylvania, 19123.

In order for a stockholder's nomination to be considered at any annual meeting of the stockholders, the notice must be delivered not later than the 60th day or earlier than the 90th day prior to the first anniversary of the preceding year's annual meeting. However, if the date of the annual meeting is more than 30 days before or more than 60 days after such anniversary date, notice must be received not earlier than the 90th day prior to the annual meeting and not later than, the later of, the 60th day prior to the annual meeting or the 15th day following the day on which public announcement of the date of the meeting is first made by the Company.

Compensation of Directors

Directors who are also our employees receive no additional compensation for serving as a director or as a member of any Committee of the Board. Under our current arrangements, the Company pays each non-employee director a retainer of \$6,250 per quarter. Upon conclusion of the Annual Meeting of Stockholders each year, the Company will grant each non-employee director 2,000 shares of restricted stock pursuant to the Company's 2005 Equity Incentive Plan that will vest one year from the date of grant, subject to acceleration in the event of the non-employee director's death or disability or upon a change in control of the Company.

Each non-employee director is compensated for his or her service at each meeting of our Board at a rate of \$1,500 for Board meetings scheduled to be held in person and attended by such non-employee director. Non-employee directors are not compensated for attendance at Board or Committee meetings scheduled to be held telephonically. Additionally, the Chairman of each of the Audit Committee and the Compensation Committee is paid a quarterly retainer at the rates reflected in the below table, and each non-employee director who is a member of a Committee is compensated for his or her services at each meeting of a Committee scheduled to be held in person and attended by such non-employee director, at the following rates:

Committee / Position	Quarterly Retainer	Meeting Fee
Audit Committee		
Chair	\$ 2,500	\$ 1,500
Member	n/a	\$ 1,500
Compensation Committee		
Chair	\$ 1,250	\$ 1,000
Member	n/a	\$ 1,000
Nominating and Corporate Governance Committee		
Member	n/a	\$ 1,000

Board members are also reimbursed for their reasonable travel expenses incurred to attend meetings of our Board or Committees of the Board on which they serve.

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In fiscal year 2007, our directors, except for Dan and Rebecca Matthias who do not receive additional compensation for their role as directors, received the following compensation:

Name	Fees earned or paid in cash (\$)	Stock awards (\$)(1)	Total (\$)
Joseph A. Goldblum	44,750	12,774	57,524
Elam M. Hitchner, III	58,250	12,774	71,024
Anne T. Kavanagh	47,500	12,774	60,274
David Schlessinger	38,750	12,774	51,524
William A. Schwartz, Jr.	49,500	12,774	62,274

(1)

Upon conclusion of the Annual Meeting of Stockholders on January 19, 2007, the Company granted each non-employee director 2,000 shares of restricted stock pursuant to the Company's 2005 Equity Incentive Plan which such awards fully vest one year from the date of grant. The amounts in the column under "Stock Awards" reflect the amounts recognized for financial reporting purposes by the Company in relation to such grants for the fiscal year 2007. The full grant fair value of each of such awards was equal to \$102,975 per grant under FAS 123(R). This value is in excess of the aggregate market price on the date of grant of the number of shares awarded because the Company had expected to issue a fully vested option award to purchase 5,000 shares to each of the non-employee directors on January 19, 2007 and had begun to expense such expected awards under FAS 123(R) during fiscal year 2006. On December 13, 2006, the Board decided to alter the equity compensation payable to non-employee directors, including switching from option grants to restricted stock grants starting in fiscal year 2007 (see "Compensation of Directors" in the Company's Proxy Statement for the fiscal year ended September 30, 2006). As a result, on December 13, 2006, the Company determined the award value of the restricted stock grants in accordance with the modified award provisions of FAS 123(R).

Stockholder Communications

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

AUDIT COMMITTEE REPORT

The Audit Committee of the Board of Directors has:

Reviewed and discussed the Company's audited consolidated financial statements for fiscal year 2007 with management;

Discussed with the Company's independent registered public accountants matters required to be discussed by Statement on Auditing Standards ("SAS") No. 61, and its successor, SAS No. 114, in connection with the audit of the Company's consolidated financial statements for fiscal year 2007; and

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

In reliance on the review and discussions referred to above, the Audit Committee recommended to the Board of Directors that the Company's audited consolidated financial statements be included in the Company's Annual Report on Form 10-K for filing with the SEC for fiscal year 2007.

Auditor Fees and Services

The following is a summary of the fees billed to the Company by KPMG for professional services rendered for fiscal years 2007 and 2006:

Fee Category	Fiscal 2007 Fees (\$)	Fiscal 2006 Fees (\$)
Audit Fees (1)	813,000	734,500
Audit-Related Fees (2)		10,300
Tax Fees (3)	199,670 (4)	130,703
Total Fees	1,012,670	875,503

- (1) Audit Fees consist of fees billed for professional services rendered for the annual audit of the Company's consolidated financial statements, for reviews of the interim financial statements included in the Company's quarterly reports on Form 10-Q, Sarbanes-Oxley 404 compliance, and for services provided in connection with certain statutory and regulatory filings.
- (2) Audit-Related Fees consist of fees billed for professional services rendered for audit-related services including consultations on financial accounting and reporting related matters.
- (3) Tax Fees consist of fees billed for professional services relating to tax compliance and other tax advice.
- (4) The Tax Fees portion for fiscal year 2007 includes amounts that are estimated, but have not yet been billed.

The Audit Committee's pre-approval policies and procedures provide for pre-approval of audit, audit-related, tax services and other services. Unless a type of service to be provided by the independent registered public accountants has received general pre-approval, it will require specific pre-approval by the Audit Committee. Any proposed services exceeding pre-approved fee levels require specific pre-approval by the Audit Committee. The pre-approval fee levels for all services to be provided by the independent registered public accountants are established annually by the Audit Committee. The Audit Committee pre-approved all audit and non-audit services described above rendered to the Company by KPMG during fiscal years 2006 and 2007 and has pre-approved similar services to be rendered during fiscal year 2008. The Audit Committee believes the rendering of these services is not incompatible with the independent registered public accountants maintaining their independence.

The Audit Committee

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

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

**SECURITY OWNERSHIP OF CERTAIN
BENEFICIAL OWNERS AND MANAGEMENT**

The following table sets forth information, as of November 30, 2007, except as otherwise noted, with respect to the beneficial ownership of shares of the Common Stock by each person who is known to the Company to be the beneficial owner of more than five percent of the outstanding shares of Common Stock, by each director or nominee for director, by each of the current named executive officers, and by all directors and executive officers as a group. Unless otherwise indicated, each person has sole voting power and sole investment power.

Name and Address of Beneficial Owner (a)	Common Stock	
	Amount and Nature of Beneficial Ownership	Percent of Class
Dan W. and Rebecca C. Matthias	425,420 (b)	6.7%
Edward M. Krell	86,592 (c)	1.4%
Joseph A. Goldblum	127,549 (d)	2.1%
Elam M. Hitchner, III	24,000 (e)	*
Anne T. Kavanagh	4,000 (f)	*
David Schlessinger	7,000 (g)	*
William A. Schwartz, Jr.	21,000 (h)	*
FMR Corp. 82 Devonshire Street Boston, MA 02109	884,661 (i)	14.8%
Stadium Capital Management, LLC 19785 Village Office Court Suite 101 Bend, OR 97702	777,452 (j)	13.0%
Wells Fargo & Company 420 Montgomery Street San Francisco, CA 94163	645,454 (k)	10.8%
Renaissance Technologies Corp. 800 Third Avenue New York, NY 10022	387,600 (l)	6.5%
Tiger Consumer Management, LLC 101 Park Avenue 48th Floor New York, NY 10178	385,743 (m)	6.5%
MVP Distribution Partners 201 King of Prussia Road Suite 240 Radnor, PA 19087	374,645 (n)	6.3%
All directors and officers as a group (8 persons)	695,561 (o)	10.8%

*

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.

(b)

Includes 192,475 shares and 192,475 shares, respectively, purchasable upon exercise of stock options by Mr. and Ms. Matthias (or a total of 384,950 shares). Also includes 17,048 shares of restricted stock (7,048 of which are vested) which were granted to each of Mr. and Ms. Matthias on November 22, 2006 (or a total of 34,096 of which 14,096 are vested). The original November 22, 2006 grant was for 20,000 shares and vests in two equal annual installments on the first and second anniversaries of the

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date of grant. Each of Mr. and Ms. Matthias turned in 2,952 shares of restricted stock to settle the minimum required tax withholding obligations arising from the November 22, 2007 vesting of 10,000 of the shares of restricted stock. Except for the shares of restricted stock and shares purchasable upon exercise of stock options, Dan and Rebecca Matthias are husband and wife and beneficially own the shares indicated jointly.

- (c) Includes 20,000 shares of restricted stock (4,000 of which are vested) granted to Mr. Krell on November 22, 2006, 15,000 shares of restricted stock (none of which are vested) which were granted to Mr. Krell on May 15, 2007, and 51,000 shares purchasable upon exercise of stock options by Mr. Krell. The shares of restricted stock granted on November 22, 2006 vest in five equal annual installments on each of the first through fifth anniversaries of the date of grant, and the shares of restricted stock granted on May 15, 2007 vest in three equal annual installments on each of the first through third anniversaries of the date of grant.
- (d) Includes 43,010 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 24,000 shares purchasable upon exercise of stock options; 2,000 shares of restricted stock granted on January 19, 2007; 2,000 shares of restricted stock expected to be granted upon completion of the Annual Meeting, subject to Mr. Goldblum's re-election as a director; 12,200 shares held as custodian or in trust for members of Mr. Goldblum's family; and 495 shares owned by his wife. The shares of restricted stock vest on the first anniversary of the applicable date of grant.
- (e) Consists of 20,000 shares purchasable upon exercise of stock options; 2,000 shares of restricted stock granted on January 19, 2007; and 2,000 shares of restricted stock expected to be granted upon completion of the Annual Meeting. The shares of restricted stock vest on the first anniversary of the applicable date of grant.
- (f) Consists of 2,000 shares of restricted stock granted on January 19, 2007 and 2,000 shares of restricted stock expected to be granted upon completion of the Annual Meeting. The shares of restricted stock vest on the first anniversary of the applicable date of grant.
- (g) Consists of 3,000 shares purchasable upon exercise of stock options; 2,000 shares of restricted stock granted on January 19, 2007; and 2,000 shares of restricted stock expected to be granted upon completion of the Annual Meeting, subject to Mr. Schlessinger's re-election as a director. The shares of restricted stock vest on the first anniversary of the applicable date of grant.
- (h) Consists of 4,000 shares held jointly by Mr. Schwartz with his wife; 13,000 shares purchasable upon exercise of stock options; 2,000 shares of restricted stock granted on January 19, 2007; and 2,000 shares of restricted stock expected to be granted upon completion of the Annual Meeting. The shares of restricted stock vest on the first anniversary of the applicable date of grant.
- (i) Based on the Schedule 13G/A filed with the Securities and Exchange Commission on May 10, 2007, all of such shares may be deemed to be beneficially owned by FMR Corp. ("FMR"), as a result of acting as investment adviser to various investment companies registered under Section 8 of the Investment Company Act of 1940. The ownership of one investment company, Fidelity Low Priced Stock Fund amounted to 7.031% of the shares then outstanding, and the ownership of one other investment company, Fidelity Small Cap Stock Fund amounted to 5.693% of the shares then outstanding. Edward C. Johnson 3d, FMR, through its control of Fidelity Management & Research Company (a wholly-owned subsidiary of FMR), and the funds each has sole dispositive power with respect to all of the shares. Neither FMR, nor Edward C. Johnson 3d, as Chairman of FMR, has sole voting power with respect to the shares, which power resides with the funds' Boards of Trustees. Pyramis Global Advisors Trust Company ("PGATC"), an indirect wholly-owned subsidiary of FMR, is the beneficial owner of 0.831% of the shares then outstanding as a result of serving as investment manager of institutional accounts owning such shares. Edward C. Johnson 3d and FMR, through its control of PGATC, each has sole dispositive power with respect to all of the shares beneficially owned

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by PGATC. Fidelity International Limited ("FIL") is the beneficial owner of 0.016% of the shares then outstanding. Partnerships controlled predominantly by members of the family of Edward C. Johnson 3d, Chairman of FMR, and FIL, or trusts for their benefit, own shares of FIL voting stock with the right to cast approximately 47% of the total votes which may be cast by all holders of FIL voting stock. FMR and FIL are separate and independent corporate entities, and their Boards of Directors are generally composed of different individuals. FMR and FIL are of the view that they are not acting as a "group" for purposes of Section 13(d) under the Securities Exchange Act of 1934.

- (j) Information is based on the Schedule 13G/A filed with the Securities and Exchange Commission on September 27, 2007. According to that filing, each of Stadium Capital Management, LLC ("SCM"), Alexander M. Seaver ("Seaver"), Bradley R. Kent ("Kent"), and Stadium Capital Partners, L.P. ("SCP") own the aggregate number of shares specified on the above table. SCM, Mr. Seaver, and Mr. Kent each share dispositive power over 777,452 of the shares and SCP shares dispositive power over 641,099 of the shares. Also according to that filing, (i) SCM is an investment adviser whose clients, including SCP, have the right to receive or the power to direct the receipt of dividends from, or the proceeds from the sale of, the stock held, (ii) Mr. Seaver and Mr. Kent are the Managing Members of SCM, which is the general partner of SCP, and (iii) SCP filed the statement jointly with the other filers, but not as a member of a group and expressly disclaimed membership in a group.
- (k) Information is based on the Schedule 13G/A filed with the Securities and Exchange Commission on October 29, 2007. According to that filing, Wells Fargo & Company, an investment advisor, filed on its own behalf and on behalf of the following subsidiaries, Wells Capital Management Incorporated, Wells Fargo Funds Management, LLC, and Wells Fargo Bank, National Association. Also according to that filing, aggregate beneficial ownership reported by Wells Fargo & Company was on a consolidated basis and includes any beneficial ownership separately reported by a subsidiary. Each of Wells Fargo & Company and Wells Capital Management Incorporated hold sole dispositive power over all of the shares.
- (l) Information is based on the Schedule 13G filed with the Securities and Exchange Commission on February 12, 2007. According to that filing, Renaissance Technologies Corp. ("RTC") beneficially owns all of the shares specified on the above table and Dr. James H. Simons beneficially owns the shares beneficially owned by RTC because of Dr. Simons' position as control person of RTC. Also according to that filing, certain funds and accounts managed by RTC have the right to receive dividends and proceeds from the sale of the shares and RIEF Trading LLC holds of record more than 5% of such shares. Each of RTC and Dr. Simons hold sole dispositive power over all of the shares.
- (m) Information is based on the Schedule 13G/A filed with the Securities and Exchange Commission on January 19, 2007. According to that filing, Tiger Consumer Management, LLC serves as the management company of a domestic private investment partnership. Tiger Consumer Management, LLC also serves as the investment manager of an offshore investment vehicle. Patrick F. McCormack is the managing member of Tiger Consumer Management, LLC. In accordance with the foregoing, Tiger Consumer Management, LLC may be deemed to beneficially own the shares owned by the various entities managed by Tiger Consumer Management, LLC and Mr. McCormack may be deemed to beneficially own the shares owned by the various entities managed by Tiger Consumer Management, LLC. Also according to that filing, Tiger Consumer Management, LLC and Mr. McCormack share dispositive power over the shares.
- (n) Information is based on the Schedule 13D/A filed with the Securities and Exchange Commission on June 19, 2006. According to that filing, Robert Brown, a general partner of MVP Distribution Partners and its affiliates, including Meridian Venture Partners, beneficially owns 83,942 shares of the Company's Common Stock, which are not included in the above table. Robert Brown, in his capacity as sole trustee and beneficiary of Venture Investment Management, Inc. Pension Plan, also beneficially owns 19,400 shares of the Company's Company Stock, which are not included in the above

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table. In addition, Robert Brown's spouse, individually, beneficially owns 31,264 shares of the Company's Common Stock, which are not included in the above table.

(o)

Includes the following number of shares purchasable upon exercise of stock options owned (or which may be deemed to be owned) by the following persons: Dan W. Matthias 192,475, Rebecca C. Matthias 192,475, Edward Krell 51,000, Joseph A. Goldblum 24,000, Elam M. Hitchner, III 20,000, David Schlessinger 3,000 and William A. Schwartz, Jr. 13,000. Also, includes the following number of shares of restricted stock owned (or which may be deemed to be owned) by the following persons: Dan W. Matthias 17,048, Rebecca C. Matthias 17,048, Edward Krell 35,000, Joseph A. Goldblum 4,000, Elam M. Hitchner, III 4,000, Anne T. Kavanagh 4,000, David Schlessinger 4,000 and William A. Schwartz, Jr. 4,000.

Section 16(a) Beneficial Ownership Reporting Compliance

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

To the Company's knowledge, based solely upon a review of the copies of such reports furnished to the Company, all Section 16(a) reports for the fiscal year ended September 30, 2007 were timely filed.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

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

ELECTION OF DIRECTORS (PROPOSAL 1)

The Company's Board of Directors is divided into three classes, with staggered three-year terms. Currently, the Board has seven members. Unless otherwise specified in the accompanying proxy, the shares voted pursuant thereto will be cast for Ms. Rebecca C. Matthias, Mr. Joseph A. Goldblum, and Mr. David Schlessinger, for terms expiring at the Annual Meeting of Stockholders to be held following fiscal year 2010 (the "2011 Annual Meeting"). If, for any reason, at the time of election, any of the nominees named should decline or be unable to accept his or her nomination or election, it is intended that such proxy will be voted for the election, in the nominee's place, of a substituted nominee, who would be recommended by the Board of Directors. The Board of Directors, however, has no reason to believe that any of the nominees will be unable to serve as a director.

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

Nominees for Election to the Board of Directors For a Three-Year Term Expiring at the 2011 Annual Meeting

Rebecca C. Matthias, 54, co-founded the Company in 1982 (along with Dan W. Matthias) and has served as a director of the Company and its President since its inception. Ms. Matthias is also currently serving as the Company's Chief Creative Officer and Acting Chief Merchandising Officer. From January 1993 to May 2007, Ms. Matthias also served as the Company's Chief Operating Officer. In 1992, Ms. Matthias was chosen as "Regional Entrepreneur of the Year" by *Inc.* Magazine and Merrill Lynch

Corporation, and in September 2003, Ms. Matthias was recognized as a top woman entrepreneur by the United States Small Business Administration. Prior to co-founding the Company, Ms. Matthias was a construction engineer for the Gilbane Building Company. Additionally, Ms. Matthias serves as a director on the Board of Directors of CSS Industries, Inc.

Joseph A. Goldblum, 58, has served as a director of the Company since 1989. Mr. Goldblum has been President of G-II Equity Investors, Inc., a general partner of G-II Family Partnership L.P., since May 1989. He was also Of Counsel with the law firm of Goldblum & Hess from May 1989 to December 1996.

David Schlessinger, 52, has served as a director of the Company since January 2002. Mr. Schlessinger is the founder and Chairman of the Board of Five Below, Inc., an extreme-value retailer in the teen and pre-teen market, a position that he has held since January 2002. He has been engaged in personal investment activities as well as consulting and board services with private companies since 1998. Mr. Schlessinger founded Zany Brainy, a retail children's educational products company, in 1991 and served as Zany Brainy's Chief Executive Officer until 1996 and as its Chairman until 1998. He founded Encore Books, a retail bookstore chain, in 1973 and served as its Chairman and Chief Executive Officer until 1986.

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

William A. Schwartz, Jr., 68, has served as a director of the Company since August 1998. Mr. Schwartz is President and Chief Executive Officer of U.S. Vision, Inc., a retailer of optical products and services, a position that he has held since 1995. Mr. Schwartz currently is a director of U.S. Vision, Inc. and Commerce Bancorp.

Anne T. Kavanagh, 48, has served as a director of the Company since September 2006. Ms. Kavanagh is the founder and Chief Executive Officer of New York-based Kavanagh Consulting L.L.C., a consulting services company focused on corporate financial and strategic advice. Prior to founding her own consulting services business, Ms. Kavanagh served in a variety of senior executive positions in the investment banking industry, including with PaineWebber, Prudential Securities, Salomon Brothers, NatWest Securities and Drexel Burnham Lambert.

**Members of the Board of Directors Continuing in Office
Term Expiring at the 2010 Annual Meeting**

Dan W. Matthias, 64, co-founded the Company in 1982 (along with Rebecca C. Matthias) and has served as Chairman of the Board since its inception. From 1983 to 1993, he served as the Company's Executive Vice President, and since January 1993, Mr. Matthias has been the Company's Chief Executive Officer. Prior to co-founding the Company, Mr. Matthias had been involved in the computer and electronics industry, serving as a director of Zilog, Inc. and serving as the President of a division of a subsidiary of Exxon Corporation.

Elam M. Hitchner, III, 61, has served as a director since January 1994. Mr. Hitchner was a partner in the law firm of Pepper Hamilton LLP, in Philadelphia, Pennsylvania, which provides legal services to the Company, from May 1992 to June 1999, and returned to the firm in January 2001 as a partner and subsequently as Of Counsel through 2004. Commencing in 2005, Mr. Hitchner began providing consulting services to the firm. Mr. Hitchner does not participate in the provision of legal services to the Company. From July 1999 until December 31, 2000, Mr. Hitchner was a general partner of Meridian Venture Partners and Meridian Venture Partners II, venture capital firms located in Radnor, Pennsylvania. Mr. Hitchner serves as a director and member of the audit, compensation, and governance and nominating committees of eResearchTechnology, Inc.

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

The Board of Directors recommends a vote FOR Proposal 1 to elect all Nominees to the Board of Directors for a Three-Year Term Expiring at the 2011 Annual Meeting.

COMPENSATION DISCUSSION AND ANALYSIS

Overview

The Compensation Committee of our Board of Directors (the "Committee") has developed and implemented compensation policies, plans and programs that seek to enhance our profitability, and thus stockholder value, by aligning the financial interests of our senior management with those of our stockholders. Our compensation arrangements are designed to attract and retain corporate officers and other key employees and to motivate them to perform to the full extent of their abilities, in the best long-term interests of our stockholders.

Composition of Committee

The Committee currently consists of Joseph A. Goldblum, David Schlessinger and William A. Schwartz, Jr. None of these individuals has ever been an officer or employee of the Company. Each member of the Committee is considered an "independent director" under Nasdaq rules and the rules of the SEC. The Report of the Compensation Committee is set forth below after this "Compensation Discussion & Analysis" section.

The Committee meets at least once annually regarding compensation decisions. In the 2007 fiscal year the Committee met five times.

Significant Actions Taken

The Committee took action with respect to the following items either during or since the end of the 2007 fiscal year.

- 1) Approval of annual salary increases upon conclusion of the 2006 and 2007 fiscal years;
- 2) Approval of cash bonuses and equity grants with respect to 2006 fiscal year performance;
- 3) Establishment of targets for cash bonus and equity bonus potentially payable with respect to 2007 fiscal year performance;
- 4) Approval of restated Employment Agreements and Supplemental Retirement Agreements for Mr. and Ms. Matthias; and
- 5) Approval of a restated Employment Agreement and a special, one-time stock grant to Mr. Krell, in each case in connection with his promotion to the additional role of Chief Operating Officer.

The Committee's specific decisions, and the reasoning behind those decisions, are further described below.

Total Compensation and Allocation Between Compensation Elements

Both the total amount of compensation paid to our named executive officers and the portion of total compensation represented by each element of compensation have been determined by the Committee with reference to the individual capabilities, contributions and strategic importance of each executive officer. The Committee members apply their independent judgment and experience in making these subjective determinations.

Other significant factors that may be considered by the Committee include the executive's experience and expertise, the pay levels for peers within the Company, the pay levels in the marketplace for similar positions and our performance as a whole. In evaluating these considerations, the Committee may seek the input of an independent compensation consultant. For example, in connection with the revisions to director compensation for the 2007 fiscal year, as well as in connection with the March 2007 restatement of Mr. and Ms. Matthias' Employment Agreements, the Committee retained The Hay Group.

Benchmarking

As noted above, one reason the Committee may retain an independent consultant is to evaluate compensation decisions in the context of similar decisions made by other companies in our industry. In that case, we look to the consultant to help us identify these "peer" companies. In connection with the March 2007 restatement of Mr. and Ms. Matthias' Employment Agreements, The Hay Group identified the following companies as our current "peers" which were reviewed by The Hay Group in connection with Mr. and Ms. Matthias' Employment Agreements.

Peer Companies used for Mr. and Ms. Matthias' Compensation Comparisons

Aeropostale, Inc.	dELiA's Inc.
BEBE	Dress Barn, Inc.
Cache	Guess, Inc.
Casual Male Retail Group, Inc.	Gymboree
Cato Corporation	J. Crew Group, Inc.
Charlotte Russe Holding, Inc.	Jos. A. Bank Clothiers, Inc.
Chico's FAS	New York & Co., Inc.
Christopher & Banks Corp.	Tween Brands
Coldwater Creek, Inc.	United Retail Group, Inc.
DEB Shops, Inc.	Wet Seal, Inc.

Participation of Management in the Compensation Process

Mr. and Ms. Matthias are regularly consulted by the Committee with respect to compensation decisions regarding, and the individual performance of, named executive officers other than themselves. While Mr. and Ms. Matthias' input in such matters is afforded great weight, the ultimate decision on all named executive officer compensation matters is made only by the Committee or the Board.

The individual performance of Mr. and Ms. Matthias is evaluated by the Committee and the Board, without input from any manager.

At the request of the Committee, management assembles and distributes to the Committee, in advance of its meeting or meetings, such information requested by the Committee to assist the Committee in its compensation decisions. Such information may include corporate financial data, historical compensation data or information regarding the accounting, tax or legal consequences of proposed compensation arrangements, as prepared by internal personnel or external advisors.

Effect of Historical Contractual Arrangements

The Committee's compensation decisions are made in light of our current and foreseeable future circumstances and with an eye toward conformity with perceived "best practices." However, the Committee's approach to compensation is also influenced by our existing contractual commitments to named executive officers, some of which originated many years ago. When appropriate and practicable, the Committee will negotiate with named executive officers to update such "legacy" commitments to reflect changed circumstances or evolving commercial practices. The restatement of Mr. and Ms. Matthias' Employment Agreements (discussed below) was motivated, in part, by the Committee's desire to update contractual commitments that originated more than 12 years ago.

Elements of Compensation

The principal elements of our named executive officers' compensation are: (1) base salary, (2) annual cash bonuses, (3) equity-based incentives, (4) severance and change in control benefits, and (5) in the case of Mr. and Ms. Matthias, supplemental retirement benefits.

Base Salary: Base salaries constitute compensation for discharging job responsibilities and are intended to achieve comparability with the base salaries of senior executives at similar companies, taking into account such factors as the individual executive's experience, tenure and alternative employment opportunities.

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

The Committee's decisions regarding 2007 and 2008 fiscal year salary increases are reflected below:

Executive Officer	Fiscal Year 2006 Base Salary	Fiscal Year 2007 Base Salary	Fiscal Year 2008 Base Salary
Dan W. Matthias Chief Executive Officer	\$ 506,479	\$ 531,803	\$ 542,439
Rebecca C. Matthias President, Chief Creative Officer and Acting Chief Merchandising Officer	\$ 506,479	\$ 531,803	\$ 542,439
Edward M. Krell Chief Operating Officer & Chief Financial Officer	\$ 425,000	\$ 525,000 (1)	\$ 530,998
David Mangini Executive Vice President Merchandising	\$ 488,102	\$ 502,745	N/A (2)

(1) Prior to his promotion on May 15, 2007, Mr. Krell's base salary rate for FY 2007 was \$437,750. The amount shown reflects his base salary rate following that promotion.

(2) Effective October 29, 2007, Mr. Mangini ended his service as an employee and a named executive officer of the Company and began a consulting relationship with the Company. See "Potential Payments upon Termination or Change in Control" below for a discussion of the arrangement with Mr. Mangini.

With respect to Mr. and Ms. Matthias, we are contractually obligated to increase their base salaries by a minimum amount to reflect annual increases in the cost of living, as measured by the federal government. Their 2007 fiscal year increase was 5% and exceeded the minimum required increase, based on the Committee's view that the Company's strong financial results in the preceding fiscal year were attributable in part to particularly effective individual performance by Mr. and Ms. Matthias during that year.

Mr. Krell's base salary increase for the 2007 fiscal year, prior to his promotion to the additional role of Chief Operating Officer, and Mr. Mangini's base salary increase for the 2007 fiscal year were each approximately 3% and were intended to reflect changes in the cost of living. The larger subsequent increase in Mr. Krell's base salary reflected his promotion to the additional role of Chief Operating Officer and the associated increase in his authority and responsibility.

Each named executive officer's base salary increase for the 2008 fiscal year was intended solely to reflect changes in the cost of living since his or her last increase.

Annual Bonus: We pay annual bonuses in cash based on our achievement of corporate performance goals established by the Committee, with input from senior management. The target amount for each executive's annual bonus is expressed as a percentage of the executive's base salary. The percentage is

based primarily on the executive's level of responsibility (and, therefore, his or her ability to influence our business results). For Mr. and Ms. Matthias and Mr. Krell, the target percentages were established contractually in their Employment Agreements. As illustrated below in the table entitled "Grants of Plan-Based Awards" under the heading "Estimated Future Payouts Under Non-Equity Incentive Plan Awards," each executive's actual bonus payment may be lower or higher than the target amount, based on actual corporate performance relative to the specified goals.

The Committee has utilized this same annual bonus approach for several years, although the arrangement was only recently codified as our "Management Incentive Program." The terms of the Management Incentive Program are described in greater detail in the Proxy Statement for our January 19, 2007 Annual Meeting of Stockholders.

For the 2006 and 2007 fiscal years, the Committee selected "Adjusted EBITDA" as the relevant performance metric for annual bonus purposes because it believes that continued profitability will be the key driver to increase stockholder value. For this purpose "Adjusted EBITDA" represents earnings before interest, taxes, depreciation and amortization, adjusted to exclude: (i) loss on impairment of tangible or intangible assets; (ii) gain or loss on disposal of assets; and (iii) stock-based compensation expense.

The Committee established \$39,478,000 as the target level of Adjusted EBITDA for the 2006 fiscal year (an amount representing approximately 116% of actual Adjusted EBITDA for the 2005 fiscal year) and \$60,386,000 as the target level of Adjusted EBITDA for the 2007 fiscal year (an amount representing approximately 117% of actual Adjusted EBITDA for the 2006 fiscal year). Based on our actual Adjusted EBITDA, annual bonuses were paid to named executive officers at maximum levels with respect to the 2006 fiscal year and no annual bonuses were paid to named executive officers with respect to the 2007 fiscal year.

Following consultation with The Hay Group and in connection with the restatement of Mr. and Ms. Matthias' Employment Agreements, the Committee concluded that the target and maximum levels of Mr. and Ms. Matthias' annual bonuses were low relative to the bonus opportunities of the chief executive officers and presidents of our peer companies. Accordingly, beginning with the 2008 fiscal year, Mr. and Ms. Matthias' annual bonus opportunities will therefore increase from 0 - 100% of base salary (with a bonus of 50% of base salary at target levels of performance) to 0 - 200% of base salary (with a bonus of 100% of base salary at target levels of performance).

Similarly, beginning with the 2008 fiscal year, Mr. Krell's annual bonus opportunity will increase from 0 - 100% of base salary (with a bonus of 50% of base salary at target levels of performance) to 0 - 150% of base salary (with a bonus of 75% of base salary at target levels of performance). The Committee approved this increased bonus opportunity in light of Mr. Krell's promotion to the additional role of Chief Operating Officer and the attendant increase in his responsibilities and ability to influence corporate performance.

In addition to maintaining an annual bonus program with payments tied to the achievement of pre-established corporate performance goals, the Committee may also authorize the payment of additional cash bonuses on a discretionary basis, to reward extraordinary corporate and/or individual accomplishments or to accomplish specific recruitment or retention objectives. No such discretionary payments were made to named executive officers during, or with respect to, the 2006 fiscal year or the 2007 fiscal year.

Equity-Based Incentives: The Committee first implemented the use of restricted stock last year, in light of changes in accounting standards governing equity-based compensation, the evolution in the equity compensation practices of several of our peers and the Committee's desire to reduce the usage of shares reserved for issuance under the Company's 2005 Equity Incentive Plan. For those same reasons, restricted stock continues to be the Committee's preferred form of equity-based compensation.

The Committee makes equity incentive awards annually, based on the achievement of specified corporate performance goals in the preceding year. Such goals are established by the Committee, with

input from senior management. For both the 2006 and 2007 fiscal years, the goals relevant for this purpose were the same goals used for purposes of our annual cash bonus program, as discussed above. The shares of restricted stock are issued only after corporate performance has been determined for the applicable year and, once issued, are retained only if specified service-based vesting requirements are also satisfied, subject to accelerated vesting in certain circumstances. So while the Committee's equity incentive approach reinforces the same immediate corporate financial performance objective emphasized by our annual cash bonus program, the service-based vesting condition encourages management retention and the use of stock as the form of payment rewards the creation of only sustained stockholder value.

For the 2006 and 2007 fiscal years, only Mr. and Ms. Matthias had specified equity award targets and ranges. Those target award sizes were established contractually, in an arm's length negotiation between the executives and the Committee.

Other named executives did not have equity award targets or ranges specified in advance of the 2006 or 2007 fiscal years. However, the Committee approached equity awards to other named executives for those years with the same general philosophy that it applied to Mr. and Ms. Matthias. Therefore, the size of other executives' awards for those years was commensurate with corporate performance, as measured by our Adjusted EBITDA, as well as the Committee's subjective perception of each executive's contribution to that performance. As further described below in Proposal 2, the Committee is proposing to codify its equity compensation approach for all named executives in an amendment to the Company's 2005 Equity Incentive Plan. Accordingly, for 2008 and future fiscal years, equity award targets and ranges for all named executive officers may be specified in advance.

Just as described above with respect to discretionary cash bonuses, the Committee may also from time to time issue equity awards on a discretionary basis, in recognition of extraordinary corporate or individual achievements or to accomplish specific recruitment or retention objectives. Two such awards were made in the 2007 fiscal year to a named executive officer. In November 2006 Mr. Krell was granted 20,000 shares of restricted stock in recognition of his performance in the 2006 fiscal year. Also, in recognition of his promotion to the additional role of Chief Operating Officer, Mr. Krell was granted 15,000 shares of restricted stock. Details of these awards, as well as the other awards described above, are shown below in the table entitled "Grants of Plan-Based Awards."

Severance and Change in Control Benefits: The specific terms of our severance and change in control arrangements are discussed below under the heading "Potential Payments Upon Termination or Change in Control."

The Committee has noted the prevalence of severance and change in control arrangements among our peer companies and believes that such arrangements, when properly tailored, are appropriate and necessary. Specifically, the Committee has concluded that such commitments are required to retain the continued service of Mr. and Ms. Matthias and Mr. Krell and, in the case of any potential change in control, to enable those executives to evaluate objectively the benefits to our stockholders of the transaction, notwithstanding its potential effects on their own job security.

The Committee also believes that reasonable severance and change in control benefits (1) should be established with reference to an executive's position and current cash compensation opportunities, not with reference to his or her tenure, (2) should provide the employer with notice and an opportunity to cure any alleged good reason basis for resignation, (3) should be conditioned upon execution of a release of claims against the employer and its affiliates, and (4) should be conditioned on the executive's commitment not to compete for a reasonable period following any cessation of his or her employment.

Recent changes to our named executive officers' severance and change in control arrangements, and the reasoning behind those changes, are discussed below.

Dan W. Matthias and Rebecca C. Matthias: As it has done from time to time in the past, the Committee revisited our severance and change in control commitments to Mr. and Ms. Matthias during

the 2007 fiscal year. This analysis spurred a restatement of Mr. and Ms. Matthias' Employment Agreements and the implementation of Supplemental Retirement Agreements with Mr. and Ms. Matthias in March 2007. The collective impact of these actions on Mr. and Ms. Matthias' severance and change in control arrangements includes the following:

severance amounts are reduced and no longer vary based on changes in our stock price;

we are less likely to be denied tax deductions, or be required to make excise tax "gross-up" payments, as a result of the application of the so-called "golden parachute" rules of Sections 280G and 4999 of the Internal Revenue Code;

in many change in control severance scenarios, before Mr. and Ms. Matthias become fully vested in their supplemental retirement benefits or at times when our stock price is relatively high, our aggregate liability under the restated Employment Agreements and Supplemental Retirement Agreements is substantially reduced in comparison to our severance liabilities under the prior Employment Agreements. However, upon a non-change in control severance at a time when Mr. and Ms. Matthias are fully vested in their supplemental retirement benefits, the reduction in severance payments may be fully offset (or even exceeded) by the liability associated with the supplemental retirement benefits;

other than in connection with a termination "for cause," we will provide lifetime continuation of group health insurance coverage to Mr. and Ms. Matthias. The executives will be required to pay for this coverage if it is triggered by a resignation without good reason before October 1, 2009; and

any severance payments to Mr. and Ms. Matthias are now conditioned on their execution of a general release of claims against us and our affiliates.

The net result of these changes was to exchange a volatile, difficult to predict and potentially very large liability for a still sizable (but in many cases, smaller) obligation that is both stable and predictable. In making these changes, the Committee believes that it has brought Mr. and Ms. Matthias' severance and change in control arrangements in line with current commercial practice.

Edward M. Krell: As noted above, upon his promotion to the additional role of Chief Operating Officer during the 2007 fiscal year, various changes were made to the terms of Mr. Krell's employment to reflect his added duties. Those changes did not materially alter his severance or change in control rights, other than to provide him with a right to resign and receive severance benefits if our Board appoints a new CEO (other than Mr. or Ms. Matthias) without his consent, or if the individual serving as our CEO on April 1, 2010 is unacceptable to him. The cash severance benefits payable to Mr. Krell in that case would be one and one half times the sum of his annual base salary and target cash bonus. That amount is half the cash severance that would be payable to Mr. Krell upon a termination without cause or resignation with good reason. The rationale behind the change was to encourage Mr. Krell's continued commitment to the Company under the widest range of leadership succession possibilities.

Supplemental Retirement Benefits: As discussed above, during the 2007 fiscal year, the Committee approved Supplemental Retirement Agreements with each of Mr. and Ms. Matthias. A more detailed description of these arrangements can be found below, under the heading "Pension Benefits for Fiscal Year 2007." As discussed above, the implementation of these arrangements was related to the renegotiation of Mr. and Ms. Matthias' severance and change in control arrangements.

The Supplemental Retirement Agreements are designed both to reward past service and to encourage future service. One-third of the benefits under the arrangements immediately vested in recognition of Mr. and Ms. Matthias' 25 years of service to us. To become fully vested in these benefits, Mr. and Ms. Matthias will need to complete at least four years of additional service. The vesting of these benefits does not accelerate automatically upon a change in control, but rather only if the executive's employment is terminated by us without cause or if he or she resigns with good reason following the transaction.

Tax and Accounting Considerations Affecting Executive Compensation

The compensation paid to our executives is generally subject to taxation at ordinary rates and no particular attempt is made to alter that result. We do, however, attempt to structure our arrangements so that our executives are not subject to tax penalties (such as additional taxes arising under Section 409A of the Internal Revenue Code), although our efforts in this regard have not materially affected the terms of our compensation arrangements.

We endeavor to design our equity incentive awards conventionally, so that they are accounted for under standards governing equity-based arrangements and, more specifically, so that they are afforded fixed treatment under those standards.

As noted above, we recently altered certain of our named executives' severance and change in control arrangements to reduce the likelihood that our tax deductions with respect to those arrangements will be limited by golden parachute rules of Section 280G of the Internal Revenue Code.

As evidenced by the adoption of our Management Incentive Program last year and the proposed amendment of the Company's 2005 Equity Incentive Plan described below, we generally attempt to structure our compensation arrangements to permit full tax deductibility within the limits of Section 162(m) of the Internal Revenue Code. However, the Committee reserves the right to approve compensation that is not fully deductible.

REPORT OF THE COMPENSATION COMMITTEE

We, the members of the Compensation Committee, have reviewed and discussed the foregoing Compensation Discussion and Analysis with management. Based on our review and discussion with management, we have recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this Proxy Statement and in the Company's Form 10-K for the year ended September 30, 2007.

The Compensation Committee

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

EXECUTIVE COMPENSATION

Summary Compensation Table

The following table provides information about all compensation earned during our fiscal year ended September 30, 2007 by the individuals who served as our Chief Executive Officer, our Chief Financial Officer and our two other most highly compensated executives (collectively referred to as the "named executive officers"):

Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Stock Awards (\$ (1))	Option Awards (\$ (1))	Non-Equity Incentive Plan Compensation (\$)	Change in Pension Value and Nonqualified Deferred Compensation Earnings (\$ (2))	All Other Compensation (\$)	Total (\$)
Dan W. Matthias, Chief Executive Officer	2007	531,803		408,803	48,825		529,217	10,162 (3)	1,528,810
Rebecca C. Matthias, President, Chief Creative Officer and Acting Chief Merchandising Officer	2007	531,803		408,803	48,825		662,580	9,218 (3)	1,661,229
Edward M. Krell, Chief Operating Officer & Chief Financial Officer	2007	470,972 (4)		239,175	196,527			17,444 (5)	924,118
David Mangini, Executive Vice President, Merchandising (6)	2007	502,745		52,121	12,136			1,777 (7)	568,779

(1) The amounts in the columns under "Stock Awards" and "Option Awards" reflect the amounts recognized for financial reporting purposes for the 2007 fiscal year. In accordance with FAS 123(R), these amounts are attributable to awards granted both during and prior to the 2007 fiscal year. Assumptions used in the calculation of these amounts are included in Note 2.u. to our audited financial statements included in our Annual Report on Form 10-K for the 2007 fiscal year.

(2) The values shown for each of Dan and Rebecca Matthias under the heading "Change in Pension Value and Nonqualified Deferred Compensation Earnin