United States
Securities and Exchange Commission
Washington, D.C. 20549

Form 10-Q

(Mark One)

X Quarterly Report Pursuant to Section 13 of 15(d) of the Securities Exchange Act of 1934

For the quarterly report ended June 30, 1996

or

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from ______________ to ______________

Commission file number 0-21196

Mothers Work, Inc.

(Exact name of registrant as specified in its charter)

Delaware	133045573
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

456 North 5th Street, Philadelphia, Pennsylvania	19123
(Address of principal executive offices)	(Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No ____

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Common Stock, $.01 par value - 3,559,027 shares outstanding as of August 1, 1996

MOTHERS WORK, INC. AND SUBSIDIARIES

INDEX

MOTHERS WORK, INC. & SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(Unaudited)

ASSETS	September 30, 1995	June 30, 1996
CURRENT ASSETS		
Cash and cash equivalents	$ 9,130,480	$ 1,023,243
Receivables		
Trade	2,318,614	2,541,476
Income taxes	2,808,109	--
Other	147,314	131,346
Inventories	38,421,186	58,167,000
Deferred income taxes	3,169,720	4,049,913
Prepaid expenses and other	1,807,117	1,871,417
Total current assets	57,802,540	67,784,395
PROPERTY, PLANT AND EQUIPMENT, net	38,443,200	42,662,998
OTHER ASSETS:		
Deferred income taxes	5,707,729	3,311,298
Goodwill, net	40,842,586	43,059,386
Other intangible assets, net	1,441,843	1,345,826
Deferred financing costs, net	3,849,744	3,824,232
Other assets	474,533	613,452

Total other assets	52,316,435	52,154,194
	$ 148,562,175	$162,601,587

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES		
Line of Credit	$ --	$ 1,500,000
Current portion of long-term debt	770,133	709,441
Accounts payable	9,985,319	7,283,381
Accrued expenses	10,540,578	16,666,757
Accrued store closings	5,058,199	--
Total current liabilities	26,354,229	26,159,579
LONG-TERM DEBT	94,602,679	96,888,389
DEFERRED RENT	2,068,448	2,546,400
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY:		
Series A Cumulative convertible preferred stock, $.01 par value, $280.4878 stated value, 2,000,000 shares authorized, 41,000 shares issued and outstanding (liquidation value of $11,500,000)	11,500,000	11,500,000
Common stock, $.01 par value, 10,000,000 shares authorized, 3,122,197 and 3,546,082 shares issued and outstanding	31,222	35,461
Additional paid-in capital	18,101,425	27,560,268
Accumulated deficit	(4,095,828)	(2,088,510)
Total stockholders' equity	25,536,819	37,007,219
	$ 148,562,175	$162,601,587

The accompanying notes are an integral part of these statements.

MOTHERS WORK, INC. & SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	Three Months Ended June 30,		Nine Months Ended June 30,	
	1995	1996	1995	1996
NET SALES	$ 29,486,360	$ 51,552,000	$ 67,216,030	$146,616,883
COST OF GOODS SOLD	12,278,802	22,830,973	28,932,373	62,898,164
Gross profit	17,207,558	28,721,027	38,283,657	83,718,719
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	14,747,553	23,178,633	34,414,361	69,168,116
NONRECURRING CHARGES	--	--	4,526,779	--
Operating income (loss)	2,460,005	5,542,394	(657,483)	14,550,603

INTEREST EXPENSE, NET	1,349,214	3,194,813	1,915,842	9,337,137
Income (loss) before income taxes	1,110,791	2,347,581	(2,573,325)	5,213,466
INCOME TAXES (BENEFIT)	461,507	1,108,862	(864,775)	2,473,023
NET INCOME (LOSS)	$ 649,284	$ 1,238,719	$ (1,708,550)	$ 2,740,443
NET INCOME (LOSS) PER COMMON SHARE	$ 0.20	$ 0.28	$ (0.55)	$ 0.58
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING	3,304,602	3,578,953	3,120,161	3,441,233

The accompanying notes are an integral part of these statements.

MOTHERS WORK, INC. & SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Nine Months Ended June 30,	
	1995	1996
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$ (1,708,550)	$ 2,740,443
Adjustments to reconcile net income (loss) to net cash used in operating activities-		
Depreciation and amortization	3,634,449	7,392,699
Non-cash portion of nonrecurring charges	2,107,773	--
Imputed interest on debt	22,014	76,085
Deferred tax expense (benefit)	(658,347)	2,189,438
Amortization of deferred financing costs	--	313,703
Compensation expense on options granted	9,621	--
Provision for deferred rent	547,390	477,952
Changes in assets and liabilities, net of effects from purchase of businesses--		
Decrease (increase) in--		
Receivables	(8,873)	2,601,215
Inventories	(4,613,277)	(16,365,148)
Prepaid expenses and other	944,087	320,721
Increase (decrease) in--		
Accounts payable and accrued expense	(2,330,620)	3,134,664
Accrued store closings	(146,426)	(3,084,311)
Accrued income taxes	(547,377)	--
Net cash used in operating activities	(2,748,136)	(202,539)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of businesses, net of cash acquired	(25,487,394)	(6,251,513)
Purchases of property, plant and equipment	(3,078,074)	(9,190,851)
Increase in intangibles and other assets	(277,785)	(286,762)
Net cash used in investing activities	(28,843,253)	(15,729,126)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net borrowings under line of credit	--	1,500,000
Proceeds from issuance of long-term debt	42,524,121	2,340,000
Repayments of long-term debt	(12,024,389)	(191,068)
Debt issuance costs	--	(288,191)
Net proceeds from sale of common stock	--	4,392,002
Issuance of warrants	1,000,000	--
Proceeds from exercise of options	5,200	71,685
Net cash provided by financing activities	31,504,932	7,824,428
NET DECREASE IN CASH AND CASH EQUIVALENTS	(86,457)	(8,107,237)

CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	284,357	9,130,480
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 197,900	$ 1,023,243
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during period for:		
Interest	$ 549,250	$ 6,174,218
Income taxes	$ 340,949	$ --

The accompanying notes are an integral part of these financial statements.

MOTHERS WORK, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 1996

(Unaudited)

1. BASIS OF FINANCIAL STATEMENT PRESENTATION

The accompanying unaudited consolidated financial statements are presented in accordance with the requirements for Form 10-Q and do not include all the disclosures required by generally accepted accounting principles for complete financial statements. Reference should be made to the Form 10-K as of and for the year ended September 30, 1995 for Mothers Work, Inc. and subsidiaries (the "Company") for additional disclosures including a summary of the Company's accounting policies.

In the opinion of management, the consolidated financial statements contain all adjustments, consisting of normal recurring accruals, necessary to present fairly the consolidated financial position of the Company for the periods presented. The interim operating results of the Company may not be indicative of operating results for the full year. Certain reclassifications were made to the prior years' financial statements to conform to the current year presentation.

2. NET INCOME PER COMMON SHARE

For the quarter and nine months ended June 30, 1996 primary and fully diluted earnings (loss) per common share is calculated using the modified treasury stock method because the Company's outstanding options and warrants exceed 20% of the number of common shares outstanding at the end of the period. Presently, per share computations under the modified treasury stock method are the same as the treasury stock method. All per share amounts are based upon the weighted average common shares and dilutive common share equivalents outstanding during the period, except where anti-dilutive.

Primary and fully diluted earnings per common share for the quarter and nine months ended June 30, 1996 has been computed after deducting dividends accrued on preferred stock of $244,375 and $733,125, respectively. Primary and fully diluted earnings per share are the same. Fully diluted earnings per share excludes the effect of the preferred stock conversion as this would be anti-dilutive.

3. ACQUISITIONS

On June 1, 1996, the Company acquired leases, associated assets and inventory of 21 stores of Episode USA Inc. (Episode) for $7.3 million, including transaction costs. Approximately $2.3 million was paid in cash and $5.0 million was paid through the issuance of 217,365 shares of Mothers Work common stock. The purchase price was allocated to the fair value of the net assets acquired under the purchase method of accounting. Simultaneously, with the purchase of the aforementioned assets, the Company entered into a licensing agreement and distribution agreement to operate the Episode stores in their

current format and under their current name. The Company will license the Episode trademark, payable through a royalty of 5% of sales, not to exceed $4.5 million. Concurrent with the above transaction, the working capital facility was increased from $15 million to $20 million.

If the Episode acquisition would have occurred on October 1, 1995, net sales would have been approximately $158,000,000, net income from continuing operations would have been approximately $530,000 and pro forma net loss per share would have been approximately $0.06, after deducting the preferred dividends, for the nine months ended June 30, 1996.

On April 5, 1995, the Company acquired A Pea in the Pod, Inc. (Pea) and on August 1, 1995, the Company acquired Motherhood Maternity Shops, Inc. (Motherhood). The purchase price of each acquisition was allocated to the fair value of the net assets acquired under the purchase method of accounting.

If the Pea and Motherhood acquisitions would have occurred on October 1, 1994, net sales would have been approximately $122,462,000 net loss from continuing operations would have been approximately $5,114,000 and pro forma net loss per share would have been approximately $1.64 for the nine months ended June 30, 1995.

4. STOCKHOLDERS' EQUITY AND STOCK OPTIONS

On May 31, 1996 the Company consummated a private placement of an aggregate of 200,000 shares of its common stock to an institutional investor. The purchase price for the shares was $22.25 per share, and the net proceeds to the Company, after deducting expenses, were approximately $4.4 million. The Company is using the proceeds of the offering to pay the cash portion of the purchase price for the Episode assets referenced above, to finance the opening of additional stores and for general working capital purposes.

During the nine months ended June 30, 1996, 222,000 options were granted to certain directors, officers and employees for the purchase of the Company's common stock at prices at least equal to the fair market value on the date of the grant. In fiscal 1996, the 1987 Stock Option Plan was amended to provide for the grant of up to 725,000 shares of common stock.

5. STORE CLOSINGS

On March 31, 1995, the Company implemented a one-year plan, due to excess capacity in certain markets, to close 38 Mothers Work stores and, in conjunction with the Pea acquisition, to close 15 Pea stores. Under the terms of the plan, stores were closed, leases terminated and inventory shipped to other store locations. As a result of further negotiations and changes in the market place, the Company will actually close 42 Mothers Work stores and 11 Pea stores. As of June 30, 1996 all stores have been closed. The net sales and store operating income before corporate overhead allocations for the stores closed in fiscal 1996 that are included in the accompanying statement of operations for the nine months ended June 30, 1996 are $3,273,678 and $295,123, respectively.

6. CONTINGENCIES

From time to time, the Company is named as a defendant in legal actions arising from its normal business activities. Although the amount of any liability that could arise with respect to currently pending actions cannot be accurately predicted, in the opinion of the Company, any such liability will not have a material adverse effect on the financial position or operating results of the Company.

In connection with the Pea acquisition, Mothers Work (R.E.), Inc., a subsidiary of Mothers Work, Inc., assumed Pea's outstanding litigation and potential claims. On February 7, 1994, a civil complaint was filed in a United States District Court against Pea and its then officers and Board of Directors, and its former preferred shareholders. The complaint alleges omissions by the defendants in connection with Pea's initial public offering and seeks recision or damages and attorney's fees. The complaint has been certified as a class action for certain claims and denied class action status for one claim. While the ultimate outcome of this matter cannot be determined at this time, management and legal counsel believe the Company's potential liability, if any, has been adequately reserved.

In August 1995, Pea's founders, formerly members of its management, filed a lawsuit claiming damages for wrongful termination, breach of employment agreement, mental anguish, emotional distress and punitive damages. The Company vigorously denies any liability under the employment agreement or for wrongful termination. In April 1996, in order to avoid the costs and uncertainties of further litigation, the Company settled this lawsuit. This settlement has been accounted for in conjunction with the purchase method of accounting for the Pea acquisition.

7. SUBSIDIARY GUARANTORS

Pursuant to the terms of an indenture relating to the 12 5/8% Senior Unsecured Notes due 2005 (the Notes) with a face amount of $92,000,000, the direct subsidiaries of Mothers Work, Inc., consisting of Cave Springs, Inc., The Page Boy Company, Inc., Mothers Work (R.E.), Inc. (d/b/a A Pea in the Pod, Inc.), and Motherhood Maternity Shops, Inc. (collectively, the "Guarantors") have, jointly and severally, unconditionally guaranteed the obligations of Mothers Work, Inc. with respect to the Notes. The only subsidiary of the Company that is not a Guarantor is Motherhood International, Inc. ("International"). International is an indirect, wholly-owned subsidiary of the Company which is inconsequential to the assets and operations of the Company and to the Guarantors in that it has no assets or operations and, accordingly, does not contribute to the revenue or profits of the Company or any of the Guarantors. There are no restrictions on the ability of any of the Guarantors to transfer funds to Mothers Work, Inc. in the form of loans, advances, or dividends, except as provided by applicable law.

Accordingly, set forth below is certain summarized financial information (within the meaning of Section 1-02(bb) of Regulation S-X) for the Guarantors, as at and for the nine months ended June 30, 1996.

	June 30, 1996
Current assets	$ 21,383,000
Noncurrent assets	43,762,000
Current liabilities	5,634,000
Noncurrent liabilities	31,130,000

	Nine Months Ended June 30, 1996
Net sales	$ 89,787,000
Costs and expenses	79,262,000
Net income	5,533,000

This summarized financial information for the subsidiary guarantors has been prepared from the books and records maintained by the subsidiary guarantors and the Company. The summarized financial information may not necessarily be indicative of the results of operation or financial position had the subsidiary guarantors operated as an independent entity. Certain intercompany sales included in the subsidiary records are eliminated in consolidation. The subsidiary guarantors receive all inventory from and transfer all cash to Mothers Work, Inc. who in turn pays all expenditures on behalf of the subsidiary guarantors. An amount due to/due from parent will exist at any time as a result of this activity. The summarized financial information includes the allocation of material amounts of expenses such as corporate services, administration, and taxes on income. The allocations are generally based on proportional amounts of sales or assets, and taxes on income are allocated consistent with the asset and liability approach used for consolidated financial statement purposes. Management believes these allocation methods are reasonable.

The Company does not believe that separate financial statements for the subsidiaries are material to investors. Prior to the Pea and Motherhood acquisitions, activity of the subsidiaries of Mothers Work, Inc. consisted solely of inter-company transactions and thirteen retail leases. All inventory, employees and operating expenses related to these retail locations were paid by Mothers Work, Inc.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

RESULTS OF OPERATIONS

The following tables set forth certain operating data as a percentage of sales and as a percentage change for the periods indicated:

	Percentage of Net Sales				% Period to Period Increase (Decrease)	
	Three Months Ended June 30,		Nine Months Ended June 30,		Three Months Ended June 30, 1996 Compared to Three Months Ended June 30, 1995	Nine Months Ended June 30, 1996 Compared to Nine Months Ended June 30, 1995
	1995	1996	1995	1996		
Net sales	100.0%	100.0%	100.0%	100.0%	74.8%	118.1%
Cost of goods sold	41.6	44.3	43.0	42.9	85.9	117.4
Gross profit	58.4	55.7	57.0	57.1	66.9	118.7
Selling, general and administrative expenses	50.0	45.0	51.2	47.2	57.2	101.0
Loss on store closings	--	--	6.7	--	--	(100.0)
Operating income (loss)	8.4	10.7	(0.9)	9.9	125.3	2,313.1
Interest expense, net	4.6	6.2	2.9	6.4	136.8	387.4
Income (loss) before income taxes	3.8	4.5	(3.8)	3.5	111.3	302.6
Income taxes (benefit)	1.6	2.2	(1.3)	1.7	140.3	386.0
Net income (loss)	2.2%	2.3%	(2.5)%	1.8%	90.8%	260.4%

The following table sets forth certain information representing growth in the number of Company-owned stores for the periods indicated:

	Three Months Ended June 30, 1995	Three Months Ended June 30, 1996	Nine Months Ended June 30, 1995	Nine Months Ended June 30, 1996

Beginning of period	192	431	168	451
Opened	2	8	29	28
Acquired	66	21	66	21
Closed	(25)	(5)	(28)	(45)
End of period	235	455	235	455

Three Months Ended June 30, 1996 and 1995

Net Sales

Net sales in the third quarter of fiscal 1996 increased by $22.1 million or 74.8%, as compared to the third quarter of fiscal 1995. This increase was generated primarily by a $16.9 million increase in sales from stores acquired in the Motherhood Acquisition. In addition, the 14.7% same store sales increase in the third quarter of fiscal 1996, based on 193 stores in their current format which have been opened since April 1, 1995, contributed $3.7 million. The Company had 455 Company-owned stores (225 Motherhood stores, 78 Mothers Work stores, 51 Mimi Maternity stores, 40 Maternity Works outlet stores, 40 Pea stores and 21 Episode upscale "bridge" women's apparel stores) at June 30, 1996 compared to 235 (82 Mothers Work stores, 56 Mimi Maternity stores, 37 Maternity Works outlet stores and 60 Peas stores) at June 30, 1995. The Company added 21 stores as a result of the Episode acquisition, opened 8 stores, closed 5 stores and converted 2 stores in the third quarter of fiscal 1996.

Gross Profit

Gross profit in the third quarter of fiscal 1996 increased $11.5 million or 66.9%, as compared to the third quarter of fiscal 1995. This increase was generated by the increase in sales noted above. Gross profit as a percentage of net sales decreased to 55.7% in the third quarter of fiscal 1996 as compared to 58.4% in the comparable period of the prior year. This third quarter decline was primarily due to the lower gross margins generated by the Motherhood and Episode sales, absent in the third quarter of fiscal 1995. Absent significant changes, the Company anticipates that its gross margins will decrease due to further growth and integration of the Motherhood and Episode operations into the consolidated results.

Selling, General & Administrative Expenses

Selling, general and administrative expenses increased by $8.4 million or 57.2% in the third quarter of fiscal 1996 as compared to the third quarter of fiscal 1995 and, as a percentage of net sales, decreased from 50.0% to 45.0%.

The decrease as a percentage of sales was primarily due to the increase in sales and the economies of scale realized through the acquisitions. The dollar increase during the third quarter of fiscal 1996 as compared to the third quarter of fiscal 1995 was primarily due to increases in (i) wages and benefits and (ii) rents at the store level, which accounted for $3.2 million and $2.3 million of the increase, respectively. The increases in wages and benefits and rents at the store level were due to the increases in the number of stores acquired and additional employees required to operate these stores. In addition, higher advertising, marketing, depreciation and amortization, and shipping costs contributed to the increase in selling, general and administrative expenses.

Operating Income

The operating income in the third quarter of fiscal 1996 was $5.5 million or

10.7% of net sales, compared to $2.5 million or 8.4% of net sales, in the third quarter of fiscal 1995. The dollar increase of $3.0 million is primarily a result of the increased sales volume and the percentage of sales improvement is primarily due to the increase in sales exceeding the increase in selling, general and administrative expenses necessary to support the acquisitions.

Interest Expense, Net

Net interest expense increased by $1.8 million from the third quarter of fiscal 1996 compared with the third quarter of fiscal 1995, and as a percentage of sales, increased from 4.6% to 6.2%. The increase was due to higher outstanding borrowings resulting primarily from the Company's issuance of the 12 5/8% Senior Unsecured Notes due 2005 (the "Notes") to fund the Motherhood Acquisition and repay the debt incurred in the Pea Acquisition.

Income Taxes

The effective income tax rate was 47.2% in the third quarter of fiscal 1996 as compared to 41.5% in the third quarter of fiscal 1995. The increase in the effective income tax rate was primarily due to the impact of increased non-deductible amortization of goodwill.

Nine Months Ended June 30, 1996 and 1995

Net Sales

Net sales in the nine months ended June 30, 1996 increased by $79.4 million or 118.1%, as compared to the nine months ended June 30, 1995. This increase was generated primarily by a $47.8 million increase in sales from stores acquired in the Motherhood Acquisition and a $23.0 million increase in sales from stores acquired in the Pea Acquisition. In addition, the 9.7% same store sales increase for the nine months ended June 30, 1996, based on 118 stores which have been opened since October 1, 1994, contributed $4.0 million. The Company had 455 Company-owned stores (225 Motherhood stores, 78 Mothers Work stores, 51 Mimi Maternity stores, 40 Maternity Works outlet stores, 40 Pea stores and 21 Episode upscale "bridge" women's apparel stores) at June 30, 1996 compared to 235 (82 Mothers Work stores, 56 Mimi Maternity stores, 37 Maternity Works

outlet stores and 60 Peas stores) at June 30, 1995. The Company added 21 stores as a result of the Episode acquisition, opened 28 stores, closed 45 stores and converted 11 stores in the nine months ended June 30, 1996

Gross Profit

Gross profit in the nine months ended June 30, 1996 increased $45.4 million or 118.7%, as compared to the comparable period of the prior year. This increase was generated by the increase in sales noted above. Gross profit as a percentage of net sales increased slightly to 57.1% in the nine months ended June 30, 1996 as compared to 57.0% in the prior year period. This slight improvement was due to factory overhead increasing at a slower rate than the increase in manufacturing volume, primarily as a result of the increase in the number of stores the Company operates, and through efficiencies gained as a result of the relocation of the Company's manufacturing and distribution facilities. Partially offsetting these favorable items was an increase in lower margin sales from Motherhood and Episode. Absent significant changes, the Company anticipates that its gross margins will decrease due to further growth and integration of the Motherhood and Episode operations into the consolidated results.

Selling, General & Administrative Expenses

Selling, general and administrative expenses increased by $34.8 million or 101.0% in the first nine months of fiscal 1996 as compared to the first nine months of fiscal 1995 and, as a percentage of net sales, decreased from 51.2% to 47.2%. The decrease as a percentage of sales was primarily due to the increase in sales and the economies of scale realized through the acquisitions. The dollar increase through the third quarter of fiscal 1996 as compared to the comparable period of the prior year was primarily due to increases in (i) wages and benefits and (ii) rents at the store level, which accounted for $12.5 million and $9.9 million of the increase, respectively. The increases in wages and benefits and rents at the store level were due to the increases in the number of stores acquired and additional employees required to operate these stores. In addition, higher advertising, marketing, depreciation and amortization contributed to the increase in selling, general and administrative expenses.

Operating Income

The operating income in the nine months ended June 30, 1996 was $14.6 million or 9.9% of net sales compared to operating income, excluding the prior years' loss on store closings, of $3.8 million, or 5.8% of net sales. The dollar increase of $10.8 million is primarily a result of the increased sales volume and the percentage of sales improvement is primarily due to the increase in sales exceeding the increase in selling, general and administrative expenses necessary to support the acquisitions. In fiscal 1995 the Company took a pre-tax charge of $4.5 million related to a one-year plan to close 38 Mothers Work stores due to excess capacity in certain markets, as a result of the Pea acquisition.

Interest Expense, Net

Net interest expense increased by $7.4 million for the nine months ended June 30, 1996 compared with the comparable period of fiscal 1995, and as a percentage of sales, increased from 2.9% to 6.4%. The increase was due to higher outstanding borrowings resulting primarily from the Company's issuance of the 12 5/8% Senior Unsecured Notes due 2005 (the "Notes") to fund the Motherhood Acquisition and repay the debt incurred in the Pea Acquisition.

Income Taxes

The effective income tax rate was 47.4% in the nine months ended June 30, 1996 as compared to 33.6% in the comparable period of fiscal 1995. The increase in the effective income tax rate was primarily due to the impact of increased non-deductible amortization of goodwill.

LIQUIDITY AND CAPITAL RESOURCES

The Company's primary cash needs during the nine months ended June 30, 1996 have been for working capital (primarily for increased inventories) and renovations of a new Company headquarters, manufacturing and distribution facility. Since the Company is vertically integrated, it must maintain inventories of fabric and other raw materials which other retailers without manufacturing capabilities do not maintain. The Company's cash sources have primarily been from operations, vendor credit and the sale of common stock. At June 30, 1996 the Company had available cash and cash equivalents of $1.0 million, compared to $9.1 million at September 30, 1995.

Net cash used in operating activities decreased from $2.7 million in the nine months ended June 30, 1995 to $0.2 million in the same period for fiscal 1996. The decrease in cash used of $2.5 million was due to the increase in cash provided by operations of $9.2 million, after excluding non-cash charges, partially offset by the cash used to support working capital needs of $6.7 million. The increase in cash provided by operations is primarily due to significantly higher sales and gross profit, partially offset by increased cash expenses for selling, general, administrative and interest. The increase in cash used to support working capital needs primarily resulted from a significant increase in inventories and payments related to planned store closings, partially offset by a decrease in receivables and an increase in accounts payable and accrued expenses.

Net cash used in investing activities decreased from $28.8 million in the nine months ended June 30, 1995 to $15.7 million in the nine months ended June 30, 1996. The cash used in investing activities for the first nine months of fiscal 1996 included $2.3 million used in connection with the Episode acquisition, $3.9 million in additional acquisition costs for Pea and Motherhood, $3.9 million used for building improvements to the new Company headquarters, manufacturing and distribution facility, $4.4 million used for capital expenditures for new store facilities and $1.2 million for other corporate capital expenditures and intangible assets. This compares with

$25.5 million used in connection with the Pea Acquisition, $3.1 million used for capital expenditures for new store facilities, and a $0.2 million increase in intangible and other assets.

Net cash provided by financing activities decreased $23.7 million, from $31.5 million provided by financing activities in the nine months ended June 30, 1995 to $7.8 million provided by financing activities for the nine months ended June 30, 1996. The $7.8 million provided by financing activities resulted primarily from $4.4 million of net proceeds from the sale of common stock, $1.5 million in short-term borrowings under the line of credit agreement, $2.3 million of proceeds from the issuance of long-term debt, and $0.1 million of proceeds from the exercise of options, partially offset by $0.2 million in repayments of long-term debt and $0.3 million in debt issuance costs. This compares with $31.5 million provided by financing activities for the nine months ended June 30, 1995, primarily from the proceeds from the issuance of long-term debt and warrants of $43.5 million, partially offset by repayments of long-term debt of $12.0 million.

In April 1996, the Company received $2.0 million from the Pennsylvania Industrial Development Authority ("PIDA"). The proceeds from this loan were used to pay a portion of the improvements to the newly acquired headquarters. A portion of the PIDA loan is secured by a bank letter of credit.

In connection with the financing of the Episode acquisition, to finance the opening of additional stores and for general working capital purposes, the Company consummated a private placement of an aggregate of 200,000 shares of its common stock to an institutional investor. The purchase price for the shares was $22.25 per share, and the net proceeds to the Company, after deducting expenses, were approximately $4.4 million.

Concurrent with the Episode acquisition, and in order to provide the Company with additional borrowing capacity under its working capital revolving line of credit facility ("Working Capital Facility"), the Working Capital Facility was increased from $15.0 million to $20.0 million. The Working Capital Facility expires in August 1998 and provides for a revolving credit and letter of credit facility and for an additional $4.0 million letter of credit to collateralize an Industrial Revenue Bond. The Company had $1.5 million in borrowings and $6.8 million in additional letters of credit issued under the Working Capital Facility at June 30, 1996.

The Company's consolidated balance sheet at June 30, 1996 includes a net deferred tax asset of $7.4 million. The Company believes it is more likely than not that future taxable income will be at a sufficient level to utilize the net operating loss carryforwards and the deductions that will be created upon the reversal of existing temporary differences that comprise the deferred tax asset. The Company's conclusion that it is "more likely than not" that the net deferred tax asset will be realized is based on its history of earnings, forecasted earnings for fiscal 1996 and the prospects of continued earnings after 1996.

However, there can be no assurance that the Company's actual earnings for 1996 and thereafter will be as currently projected, and, consequently, there can be no assurance that the Company's deferred tax asset

will be realized. The inability of the Company to realize the deferred tax asset could have a material adverse effect on the Company's financial position and results of operations. The Company will continue to periodically review the tax criteria related to the recognition of the deferred tax asset.

The Company intends to focus on integrating and consolidating the Motherhood and Pea businesses throughout the remainder of fiscal 1996. The near-term strategy for the acquisition of Episode is to stabilize the operations, broaden the product line and add approximately three stores in major metropolitan areas. The Company plans to apply its proven Real Time RetailingTM concept to this chain. The Company's entry into bridge fashion with the Episode acquisition could result in the incurrence of additional indebtedness, which in turn could result in an increase in the degree of financial leverage of the Company and a decrease in the Company's financial flexibility.

The Company believes that its current cash and working capital positions, available borrowing capacity and net cash expected to be generated from operations will be sufficient to fund the Company's anticipated capital expenditures, working capital requirements and semi-annual interest payments on the Notes through fiscal 1996. There are currently no restrictions on the ability of the Guarantors to transfer funds to the Company in the form of cash dividends, loans or advances other than restrictions imposed by applicable law.

PART II. OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

(a) 10.1 Third Amendment to Credit Agreement dated May 31, 1996 between the Company, its subsidiaries and Meridian Bank.

11 Statement re: Computation of per share earnings.

27 Financial Data Schedule (schedule submitted in electronic format only)

(b) Reports on Form 8-K.

During the quarter ended June 30, 1996, the Company filed a Current Report on Form 8-K dated June 17, 1996 ("Form 8-K"), as later amended by Amendment No. 1 thereto ("Amendment No. 1") dated June 18, 1996, relating to the Company's acquisition of Episode USA ("Episode") and the sale of 200,000 shares of common stock. The audited financial statements and pro forma financial information relating to the acquisition will be filed as soon as practicable, but not later than August 16, 1996.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

MOTHERS WORK, INC.

Date: August 14, 1996 By: /s/ Dan W. Matthias

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

Date: August 14, 1996 By: /s/ Thomas Frank

Thomas Frank
Chief Financial Officer
and
Vice President -- Finance

EXHIBIT INDEX

Exhibit No.	Description	Page No.
10.1	Third Amendment to Credit Agreement dated May 31, 1996 between the Company, its subsidiaries and Meridian Bank	19
11	Statement re: Computation of per share earnings	26
27	Financial Data Schedule (schedule submitted in electronic format only)	27

THIRD AMENDMENT TO CREDIT AGREEMENT dated as of May 31, 1996 by and among Mothers Work, Inc., a Delaware corporation ("MWI"), Cave Springs, Inc., a Delaware corporation ("Cave"), The Page Boy Company, Inc., a Delaware corporation ("Page Boy"), Mothers Work (R.E.), Inc., a Pennsylvania corporation ("MW-RE"), Motherhood Maternity Shops, Inc., a Delaware corporation ("Motherhood") (each, a "Borrower", and collectively, jointly and severally, the "Borrowers"), and Meridian Bank ("Bank").

BACKGROUND

The Borrowers and the Bank are parties to a Credit Agreement dated as of August 1, 1995, as first amended September 1, 1995, and as second amended January 25, 1996 (the "Credit Agreement") pursuant to which the Bank established, in favor of the Borrowers, a credit facility in an aggregate principal amount of $19,094,684.93, subject to the terms and conditions set forth therein. Borrowers have requested the Bank to increase the amount of the Revolving Credit Commitment to $20,000,000, to increase the sublimit with respect to the issuance of Letters of Credit, and to effect certain other changes to the Credit Agreement, which Bank is willing to do, all on the terms and conditions set forth herein. Capitalized terms used herein, and not otherwise defined, shall have the meanings ascribed to them in the Credit Agreement.

AGREEMENTS

The parties hereto, intending to be legally bound, hereby agree:

1. Section 1.01 of the Credit Agreement shall be modified by adding the following defined terms (to the extent such terms are not currently defined in the Credit Agreement) and by deleting the definition of each of the following terms (to the extent those terms are defined in the Credit Agreement), and substituting therefor the language set forth below:

> "Domestic Lending Office" shall mean 1345 Chestnut Street, FC 1-8-8-14, Philadelphia, PA 19101, or such other office of the Bank as the Bank may from time to time specify to the Borrowers.
>
> "Episode Transaction" shall have the meaning assigned to such term in Section 7.06 hereof.
>
> "Eurodollar Lending Office" shall mean 1345 Chestnut Street, FC 1-8-8-14, Philadelphia, PA 19101, or such other office of the Bank as the Bank may from time to time specify to the Borrowers.

> "Revolving Credit Commitment" shall mean $20,000,000, as the same may be reduced from time to time pursuant to Section 2.07 hereof."

2. Section 2.03 of the Credit Agreement shall be amended by deleting the first sentence thereof in its entirety, and by substituting therefor the following:

"The Borrowers shall, through a Responsible Officer of the Borrowers, give the Bank an irrevocable telephonic voice notification (promptly thereafter confirmed in writing) of each borrowing (including, without limitation, a conversion as permitted by Section 2.02(e) hereof) not later than 10:00 a.m. Philadelphia time, (i) three Business Days before a proposed Eurodollar Loan borrowing or conversion, and (ii) on the date of an Alternate Base Loan borrowing or conversion."

3. Section 2.04(a) of the Credit Agreement shall be amended by deleting the first sentence thereof in its entirety, and by substituting therefor the following:

"All Revolving Credit Loans made by the Bank to the Borrower shall be evidenced by a single Revolving Credit Note, duly executed on behalf of each of the Borrowers, dated the date of this Third Amendment, in substantially the form of Exhibit "A" annexed hereto, delivered and payable to the Bank in a principal amount equal to $20,000,000."

From and after the date hereof, all references to the Revolving Credit Note in the Credit Agreement and all other Loan Documents shall be deemed to be references to such new Revolving Credit Note. Exhibit "A" to the Credit Agreement is hereby replaced with Exhibit "A" attached hereto. The indebtedness evidenced by the previous Revolving Credit Note remains outstanding as of the date hereof and continues to be secured by the Collateral. The parties hereby expressly acknowledge and agree that the new Revolving Credit Note merely re-evidences the indebtedness evidenced by the previous Revolving Credit Note while increasing the principal amount thereof, shall not extinguish the Obligations evidenced thereby or constitute a novation thereof, and is given in substitution of, and not as payment of, the previous Revolving Credit Note.

4. Section 2.15 of the Credit Agreement shall be amended by deleting the amount "$8,000,000", as found at the end of the first sentence in Section 2.15, and by substituting therefor the amount "$12,000,000".

5. Section 2.18 of the Credit Agreement shall be amended by deleting the first sentence thereof in its entirety, and by substituting therefor the following:

"The Borrower agrees to pay the Bank (i) with respect to each commercial Letter of Credit, a letter of credit fee equal to one and one-half percent (1 1/2%) of the face amount thereof per annum, and (ii) with respect to each standby Letter of Credit, a letter of credit fee equal to two percent (2%) of the face amount thereof per annum plus, in each case, an issuance fee charged by the Bank for transactions of this nature (but in no event less than $100), all of which amounts shall be payable to the Bank in advance at its Domestic Lending Office on the date of issuance of such Letter of Credit in immediately available funds."

6. Section 5.01(d) of the Credit Agreement shall be amended by deleting the language found therein in its entirety, and by substituting therefor the following:

"The Bank shall have received, either on the date on which a Credit Event is to occur, or within seven (7) business days thereafter, a certificate signed by the Financial Officer of the Borrowers (i) as to the compliance with (b) and (c) above, and (ii) with respect to each Revolving Credit Loan and each Letter of Credit, demonstrating that after giving effect thereto, the Borrowers are in compliance with the Availability requirement."

7. Section 7.06 of the Credit Agreement shall be amended by deleting the word "and", at the end of subsection (h), and by deleting the "." at the end of subsection (i), and by substituting therefor "; and", and by adding a new section (j), as follows:

"(j) The purchase of certain assets of Episode USA, Inc., all as more fully described in, and pursuant to, that certain Asset Purchase Agreement dated April 25, 1996, between Episode USA, Inc., Mothers Work, Inc. and T3 Acquisition, Inc. (the "Episode Transaction"), copies of which heretofore have been furnished to the Bank."

8. Section 7.11 of the Credit Agreement shall be amended by changing the "." found at the end of such section to a ";", and by adding the following at the end of such section:

"provided, however, that the Borrowers may effect the Episode Transaction as described in Section 7.06(j)

hereof and may conduct the business acquired in such transaction."

9. As a condition to the execution and delivery of this Third Amendment to Credit Agreement, the Borrowers shall deliver to the Bank, in form and content satisfactory to the Bank and its counsel, the following documents, instruments or payments:

(a) A certified copy of resolutions adopted by the Board of Directors of each of the Borrowers authorizing the execution, delivery and performance of this Third Amendment, and all of the documents and instruments required by the Bank for the implementation of this Third Amendment, including, but not limited to, the replacement Revolving Credit Note;

(b) Copies of all the Asset Purchase Agreement executed in connection with the Episode Transaction, together with all related documents, which shall be certified to the Bank by the Borrowers' Financial Officer as being complete and correct copies of the original documents, in full force and effect, and the Bank shall be satisfied with its review, and the review of its counsel, of all such documents, and the completion of the Episode Transaction;

(c) Evidence acceptable to it, and to its counsel, that all Liens attaching to, or otherwise affecting, the assets acquired in the Episode Transaction have been satisfied, terminated or discharged, and that all consents, filings and approvals required by applicable law in connection with the Episode Transaction shall have been obtained and made;

(d) A copy of the "Sale Order", in form and substance similar to the draft previously delivered to the Bank and its counsel, duly executed by the Honorable James L. Garrity, Jr. in the matter styled In re Episode USA, Inc. (Case No. 96-B-40371 (JLG - U.S. Bankruptcy Court, Southern District of New York), pursuant to which, inter alia, MWI shall be authorized to acquire certain assets of Episode USA, Inc., and to assume certain leases, all free and clear of all Liens, and containing such other terms as shall be acceptable to the Bank and its counsel;

(e) The favorable written opinion of Pepper Hamilton & Scheetz, counsel for the Borrowers, substantially in the form of Exhibit "B" hereto, dated the date of this Third Amendment, addressed to the Bank and satisfactory to it;

(f) A certificate, dated the date of this Third Amendment and signed by the Financial Officer of the Borrowers, setting forth the additional jurisdictions in which the Borrowers are required to qualify to do business resulting from the Episode Transaction, together with evidence, satisfactory to the Bank and its counsel, that the Borrowers are so qualified;

(g) UCC-1s, executed and appropriate for filing, in order to perfect the security interest of the Bank in the inventory or other Collateral acquired in the Episode Transaction;

(h) The replacement Revolving Credit Note, duly executed by the Borrowers, payable to its order and otherwise complying with the provisions of Section 2.04 of the Credit Agreement;

(i) Copies of all lease agreements relating to premises to be occupied by the Borrowers as a result of the Episode Transaction, and it and its counsel shall have had an opportunity to review such leases and to determine them to be in form and substance satisfactory to the Bank; and

(j) Consent Agreements, executed by Episode USA, Inc. and Toppy International Limited, in which such parties consent to the collateral assignment and security interest granted by MWI to the Bank pursuant to the terms of the Security Agreement and Mortgage - Patents and Trademarks dated August 1, 1995 in the tradenames "EPISODE", "EPISODE and design", "EXCURSION", and "EXCURSIONS".

10. The Borrowers hereby:

(a) ratify and confirm all of the representations, warranties and covenants contained in the Credit Agreement, and in the Loan Documents, as any of the foregoing relate to the assets acquired in connection with the Episode Transaction;

(b) acknowledge and agree that all of their representations, warranties and covenants contained in the Credit Agreement and/or in the Loan Documents, as amended hereby, are true, accurate and correct on and as of the date hereof as if made on and as of the date hereof, except as set forth on Schedule 10(b) attached to this Third Amendment; provided, however, that with respect to the dates set forth in certain representations, such dates shall be updated as follows:

(i) in Section 4.05, the referenced date shall be September 30, 1995;

(ii) in Section 4.07(a), the referenced date for consolidated balance sheet shall be September 30, 1995;

(iii) in Section 4.07(b), the referenced date shall be 1996;

(iv) in Section 4.07(c), the referenced 1995 Fiscal Year and 1996 Fiscal Year shall be changed to 1996 Fiscal Year and 1997 Fiscal Year respectively, and provided, further that the letter delivered to the Bank concurrently with the execution hereof with respect to the 401(k) Plan of MWI and issues concerning such Plan's ERISA compliance shall be deemed included in, and shall supplement, the Disclosure Letter.

(c) acknowledge and agree that they have no defense, set-off, counterclaim or challenge against the payment of any sums owing under the Credit Agreement or the Loan Documents or the Obligations, or the enforcement of any of the terms of the Credit Agreement or the Loan Documents, as amended hereby; and

(d) represent and warrant that no Event of Default, as defined in the Credit Agreement, exists or will exist upon the delivery of notice, passage of time or both.

11. In the event that the Borrowers, or any of them, intend to record with the United States Patent and Trademark Office the license granted to MWI in the names "EPISODE", "EXCURSION" or any similar name, the Borrowers shall, prior to effecting such recording, notify the Bank and shall execute such document as the Bank shall request in order to perfect the mortgage, pledge and security agreement granted to the Bank in such license.

12. The Borrowers will pay all of Bank's out-of-pocket costs and expenses incurred in connection with the review, preparation, negotiation, documentation and closing of this Third Amendment and the consummation of the transactions contemplated herein, including, without limitation, fees, expenses and disbursements of counsel retained by Bank and all fees related to filings, recording of documents and searches, appraisal costs, whether or not the transactions contemplated hereunder are consummated.

13. All other terms and conditions of the Credit Agreement and of the Loan Documents, not inconsistent with the terms hereof, shall remain in full force and effect and are hereby ratified and confirmed by the Borrowers.

IN WITNESS WHEREOF, the Borrowers and the Bank have caused this Third Amendment to Credit Agreement to be executed by their

respective authorized officers as of the day and year first above written.

MOTHERS WORK, INC.

By: /s/ Thomas Frank

Name: Thomas Frank
Title: Vice President

MOTHERHOOD MATERNITY SHOPS, INC.

By: /s/ Thomas Frank

Name: Thomas Frank
Title: Vice President

CAVE SPRINGS, INC.

By: /s/ Thomas Frank

Name: Thomas Frank
Title: Vice President

THE PAGE BOY COMPANY, INC.

By: /s/ Thomas Frank

Name: Thomas Frank
Title: Vice President

MOTHERS WORK (R.E.), INC.

By: /s/ Thomas Frank

Name: Thomas Frank
Title: Vice President

MERIDIAN BANK

By: /s/ David W. Mills

Name: David W. Mills
Title: Vice President

EXHIBIT "A"

REVOLVING CREDIT NOTE

$20,000,000 May 31, 1996

FOR VALUE RECEIVED, the undersigned, MOTHERS WORK, INC., a Delaware corporation, CAVE SPRINGS, INC., a Delaware corporation, THE PAGE BOY COMPANY, INC., a Delaware corporation, MOTHERHOOD MATERNITY SHOPS, INC., a Delaware corporation, and MOTHERS WORK (R.E.), INC., a Pennsylvania corporation (collectively, the "Maker"), hereby, jointly and severally, promise to pay to the order of MERIDIAN BANK (the "Bank") at its offices at 1345 Chestnut Street, FC 1-8-8-14, Philadelphia, PA 19101 on the Final Maturity Date as defined in the Credit Agreement dated as August 1, 1995 among the Maker and the Bank (as amended, modified or supplemented from time to time in accordance with its terms the "Credit Agreement") or earlier as provided for in the Credit Agreement, the lesser of the principal sum of TWENTY MILLION DOLLARS ($20,000,000) or the aggregate unpaid principal amount of all Revolving Credit Loans to the Maker from the Bank pursuant to the terms of the Credit Agreement, in lawful money of the United States of America in immediately available funds, and to pay interest from the date thereof on the principal amount hereof from time to time outstanding, in like funds, at said office, at a rate or rates per annum and, in each case, payable on such dates as determined pursuant to the terms of the Credit Agreement.

The Maker promises to pay, on demand, interest, on any overdue principal and fees and, to the extent permitted by law, interest on any overdue interest, from their due dates at a rate or rates determined as set forth in the Credit Agreement.

The Maker hereby waives diligence, presentment, demand, protest and notice of any kind whatsoever. The non-exercise by the holder of any of its rights hereunder in any particular instance shall not constitute a waiver thereof in that or any subsequent instance.

All borrowings evidenced by this Revolving Credit Note and all payments and prepayments of the principal hereof and interest hereon and the respective dates thereof shall be endorsed by the holder hereof on the schedule attached hereto and made a part hereof, or on a continuation thereof which shall be attached hereto and made a part hereof, or otherwise recorded by such holder in its internal records; provided, however, that the failure of the holder hereof to make such a notation or any error in such a notation shall not in any manner affect the obligation of the Maker to make payments of principal and interest in accordance with the terms of this Revolving Credit Note and the Credit Agreement.

This Revolving Credit Note is the Revolving Credit Note referred to in the Credit Agreement, which, among other things, contains provisions for the acceleration of the maturity hereof upon the happening of certain events, for optional and mandatory prepayment of the principal hereof prior to the maturity hereof and for the amendment or waiver of certain provisions of the Credit Agreement, all upon the terms and conditions therein specified. THIS REVOLVING CREDIT NOTE SHALL BE CONSTRUED IN ACCORDANCE WITH AND GOVERNED BY THE LAWS OF THE COMMONWEALTH OF PENNSYLVANIA, WITHOUT REGARD TO CHOICE OF LAW DOCTRINE, AND ANY APPLICABLE LAWS OF THE UNITED STATES OF AMERICA.

This Revolving Credit Note re-evidences certain indebtedness previosuly evidenced by that certain $15,000,000 Revolving Credit Note dated August 1, 1995, and has been given in substitution and replacement thereof and not as payment of such prior Note and is not intended to extinguish the liabilities evidenced thereby or as a novation thereof.

MOTHERS WORK, INC.

By: /s/ Thomas Frank

Name: Thomas Frank
Title: Vice President

CAVE SPRINGS, INC.

By: /s/ Thomas Frank

Name: Thomas Frank
Title: Vice President

MOTHERS WORK (R.E.), INC.

By: /s/ Thomas Frank

Name: Thomas Frank
Title: Vice President

MOTHERHOOD MATERNITY SHOPS, INC.

By: /s/ Thomas Frank

Name: Thomas Frank
Title: Vice President

THE PAGE BOY COMPANY, INC.

By: /s/ Thomas Frank

Name: Thomas Frank
Title: Vice President

Loans and Payment

Amount and Type of Loan	Payments Principal Interest	Unpaid Principal Balance of Note	Name of Person Making Notation

MOTHERS WORK, INC. AND SUBSIDIARIES
COMPUTATION OF PRIMARY EARNINGS PER COMMON SHARE

	Three Months Ended June 30, 1996	Nine Months Ended June 30, 1996
PRIMARY EARNINGS PER COMMON SHARE:		
Common shares outstanding	3,257,978	3,167,615
Net effect of dilutive stock options and warrants	320,976	273,617
Weighted average shares outstanding	3,578,953	3,441,233
Net income	$ 1,238,719	$ 2,740,443
Preferred stock dividends	(244,375)	(733,125)
Net income applicable to common stockholders	$ 994,344	$ 2,007,318
Per common share amount	$ 0.28	$ 0.58

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     EXTRACTED FROM THE COMPANY'S THIRD QUARTER 10-Q
     FOR THE PERIOD ENDED JUNE 30, 1996 AND IS QUALIFIED
     IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.
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