

SECURITIES AND EXCHANGE COMMISSION

FORM 10-K

Annual report pursuant to section 13 and 15(d)

Filing Date: **1995-10-20** | Period of Report: **1995-06-30**
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VICTORIA CREATIONS INC

CIK: **796812** | IRS No.: **050301429** | State of Incorpor.: **RI** | Fiscal Year End: **0630**
Type: **10-K** | Act: **34** | File No.: **000-15238** | Film No.: **95583020**
SIC: **3960** Costume jewelry & novelties

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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended June 30, 1995

Commission File Number 0-15238

VICTORIA CREATIONS, INC.
(Exact name of registrant as specified in its charter)

Rhode Island
(State or other jurisdiction of
incorporation or organization)

05-0301429
(I.R.S. Employer
Identification No.)

30 Jefferson Park Rd.
Warwick, Rhode Island
(Address of principal
executive offices)

02888
(Zip Code)

Registrant's telephone number, including area code (401)467-7150

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

Common Stock, \$0.01 par value
(Title of class)

Indicate by check mark whether the registrant (1) has filed all documents and 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 No

The aggregate market value of Common Stock held by non-affiliates (based upon the average of bid and asked prices) on September 22, 1995 was approximately \$765,000.

As of September 22, 1995, there were 7,800,000 shares of the registrant's Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive Proxy Statement for the Annual Meeting of Stockholders to be held on November 14, 1995 are incorporated by reference into Part III.

PART I

Item 1. Business.

General

Victoria Creations, Inc. ("Victoria" or the "Company") is one of the leading designers, manufacturers and distributors of costume jewelry throughout the United States and also exports such products, principally to Japan and western Europe. Victoria produces a broad range and assortment of costume jewelry, including relatively expensive, high quality items sold under the Bijoux Givenchy(R), Richelieu(R) and Karl Lagerfeld(R) trade names and private label jewelry for major department and chain stores. The Company markets its costume jewelry primarily to department and chain stores and to a lesser extent to direct marketing distributors. In addition, Victoria has established a factory direct business to design and manufacture unique and proprietary costume-jewelry type items for certain customers.

The Company was incorporated in 1962 and, until March 1984, was privately owned. Effective March 8, 1984, the Company was purchased by Jonathan Logan, Inc. ("Logan") which in turn was acquired by United Merchants and Manufacturers, Inc. ("UM&M") effective September 1, 1984. Effective September 11, 1986, UM&M sold 17% of the outstanding shares of Common Stock of the Company in a public offering, thus reducing UM&M's ownership to 83% of the outstanding Common Stock of the Company. On December 30, 1992, the Company sold 300,000 shares of its authorized, but previously unissued, Common Stock to certain key employees, which sale increased the number of shares of Common Stock outstanding and, thereby, reduced UM&M's ownership to 79.8% of the outstanding Common Stock of the Company. UM&M's Common and Preferred Stocks are traded on the New York Stock Exchange. See Item 12 below.

Selected Financial Data

The following information has been derived from audited financial statements. The information below is qualified by reference to, and should be read in conjunction with, the financial statements, related notes thereto and "Management's Discussion and Analysis of Financial Condition and Results of Operations" contained elsewhere herein.

(000 omitted)

	for the Year Ended June 30				
	1995	1994	1993	1992	1991
Income Statement Data:					
Net sales.....	\$49,863	\$42,569	\$42,179	\$39,789	\$40,992
Operating income (loss) ..	2,009	(537)	(1,701)	(4,534)	(6,197)
Loss before income taxes.	(1,288)	(2,027)	(4,137)	(7,388)	(9,057)
Net loss.....	(1,313)	(2,054)	(4,177)	(7,428)	(9,107)
Net loss per share	(0.17)	(0.26)	(0.55)	(0.99)	(1.21)

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(000 omitted)

	At June 30				
	1995	1994	1993	1992	1991
Balance Sheet Data:					
Working capital.....	\$19,900	\$23,897	\$ 5,110	\$12,273	\$15,447
Total assets.....	47,951	50,673	50,756	50,283	53,926
Notes payable/long-term debt.	11,090	13,391	18,915	10,951	9,654
Due to Parent Company.....	23,461	24,493	17,977	21,893	18,740
Stockholders' equity.....	8,032	9,345	11,399	15,538	22,966

The Company has paid no cash dividends since the date of its incorporation. There were 7,500,000 shares of Common Stock outstanding during the periods prior to December 30, 1992; thereafter there were 7,800,000 shares outstanding.

Seasonality

The Company believes that, to some extent, the seasonality of its business is the result of retail clothing seasonal buying patterns and certain traditional gift-giving holidays, such as Valentine's Day, Mother's Day and the holidays which occur in December. See Note N of Notes to Financial Statements for financial information by fiscal quarter.

Description of Principal Products

Bijoux Givenchy. Bijoux Givenchy, marketed under an exclusive licensing arrangement, is a very prestigious, high quality and upscale jewelry line and is sold principally to department stores. The principal products

marketed under the Bijoux Givenchy trade name are earrings, necklaces, pins and bracelets which are manufactured in the Company's facility located in Warren, Rhode Island. These items are made principally of cast metal with precious metal finishes applied by electroplating. Certain of the products are set with decorative stones and/or have color highlights. The pieces reflect positively the Company's capabilities and high quality standards in design, model making and manufacturing. Retail selling prices for items in the line generally range from \$15 to \$125 per item. The Bijoux Givenchy line is geared to be highly fashionable and, as a result, is continuously being changed and updated. However, certain items in the line, including signature jewelry, have become basic items. The Company has created a separate Bijoux Givenchy line, with more explicit designer logo identification, for the Japanese and other international markets. The Bijoux Givenchy line's direct worldwide competitors are lines marketed under the Anne Klein, Yves St. Laurent and Christian Dior names.

Under the licensing agreement with Givenchy, the Company has exclusive worldwide marketing rights for the Bijoux Givenchy trade name through 1999, while Givenchy retains final approval of design. Under the terms of the agreement which commenced in 1975, the Company is obligated to pay a royalty on all sales under the Bijoux Givenchy trade name with minimum royalties for each fiscal year. Royalty payments historically have far exceeded the minimum in every year.

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Richelieu. Richelieu, founded in 1882 and acquired by Victoria in 1979, is believed by the Company to be the oldest company in the costume jewelry business. Richelieu imports simulated pearls from independent suppliers and markets them principally to major department and chain stores and, beginning in fiscal 1993, through the Army and Air Force Exchange System worldwide. Products include necklaces, earrings, bracelets and pins made primarily with "pearls". Retail selling prices for items in the line are from \$7.50 to \$110 per item.

Richelieu simulated pearls assume the appearance of natural pearls. Alabaster glass pearls are hand-made of high quality lampen beads by independent suppliers to the Company. These beads are covered with a sealer and then coated with pearl essence. After the "pearl" is coated, a dulling process is applied in order to achieve the look of a cultured pearl. A sealer coat is the last application to the "pearl" ensuring its lasting quality. The "pearls" are then hand knotted on silk thread.

Approximately one-half of Richelieu's business is in basic products: strand "pearls" and basic earrings. The other half of the Richelieu business is more fashion oriented with different colored, sized or shaped "pearls" being introduced yearly. Richelieu is one of the two largest

distributors of simulated pearls in the United States.

R. J. Design. During the year ended June 30, 1993, the Company established a design and marketing group, R. J. Design, to capitalize on the design and manufacturing capabilities available at the Company's Warren, Rhode Island, facility. The group produces unique, proprietary items for sale to selected customers. The items include specialty lines of costume jewelry, costume-jewelry type articles and specialty recognition-award pieces of costume jewelry such as compacts for solid fragrance and powder, pins, earrings and necklaces. The items are primarily made of cast metal and brass with precious metal finishes and are generally decorated with high quality components.

Private Label. Victoria has designed and manufactured private label costume jewelry for J. C. Penney Company, Inc. ("J. C. Penney") since 1972. During the 1993 fiscal year, J. C. Penney and the Company collaborated in developing a new costume jewelry line to support J. C. Penney's brand of women's ready to wear apparel, "Worthington". In the fourth quarter of the 1993 fiscal year, the Company made the initial shipments of Worthington costume jewelry to J. C. Penney. Worthington is a tailored line of merchandise, including earrings, necklaces, bracelets and pins, that has a variety of fashion themes and is distributed to approximately 1,100 J. C. Penney stores nationwide. The items are made of cast metal with precious metal finishes, some with decorative stones and/or color highlights, and "pearls". Retail selling prices for items in the line are \$5 to \$50 per item. As a result of the success of the Worthington line, the Company was selected J. C. Penney's "Jewelry Supplier of the Year" for calendar year 1993. The Company is currently instituting several private label programs for other U. S. department store chains, capitalizing on the opportunity to market value-driven and styling-differentiated classic, tailored product marketed under store brand labels.

Karl Lagerfeld. During fiscal 1988, the Company acquired a license to manufacture and distribute high quality, specially designed, luxury costume jewelry under the Karl Lagerfeld trade name. Principal products include necklaces, earrings, pins and bracelets made of cast metal with precious metal finishes, some with decorative stones and/or color highlights. Under the agreement, the Company is obligated to pay a royalty of 10% on all of its sales under the Lagerfeld trade name. The Karl Lagerfeld collection is sold in boutiques and stores with discriminating clientele. Retail prices range from \$25 to \$350 per item.

Design and Production

Victoria's designers identify, on an ongoing basis, fashion trends for the

coming seasons. Costume jewelry is developed and screened with product merchandisers.

In the case of the Worthington line, the Company and J. C. Penney conceive, sample and finalize the line. After approval, model stock selections are created and presented to the jewelry department managers of individual J. C. Penney stores by the Company's sales staff, who then write orders.

The Company's two designer brands, Givenchy and Karl Lagerfeld, are developed in conjunction with the Paris, France studio of each designer. Initial design concepts are created in Paris and are related to the designers' runway apparel collections presented throughout the year.

The manufacturing process is labor intensive. The Company currently employs approximately 463 people solely in its design and production department and believes that its manufacturing efficiency is attributable in large part to the many years of experience and expertise of these employees.

Victoria manufactures at a plant in Warren, Rhode Island. The Company also makes use of local outside contractors to do preliminary manufacturing such as linking, gluing and polishing. The Company believes that its facilities are adequate for current and projected production requirements.

In general, the raw materials and supplies that Victoria requires are commodity goods that can be provided by many suppliers. The Company does not generally enter into long-term commitments with its suppliers and contractors.

Marketing and Distribution

Victoria's sales and marketing organization for department store and mass merchandiser business is headquartered at the Company's showroom in New York City, with a staff of approximately 45 people, including certain regional sales representatives. In addition, the Company has a regional sales office in Los Angeles with a sales staff totaling approximately 32 people. Costume jewelry lines are shown five times a year at jewelry

markets in New York. The major shows are in May, for fall season buying, and in November, for spring season buying. After new lines are shown at the seasonal marketing shows, it is the responsibility of sales executives to contact buyers and merchandise managers to obtain orders and projections of future seasons' needs. Regional sales managers and

associates manage various accounts and are responsible for handling returns and customer inquiries, setting up advertising and promotions and reordering. The regional sales and marketing executives also generate new business by visiting potential customers throughout the United States. In addition to the Company's sales staff, a separate sales and service group of approximately 21 independent representatives, working in conjunction with the Company's personnel, services the J. C. Penney account.

Under Victoria's cooperative advertising policy, Victoria bears, to a limited extent, a portion of department stores' local advertising costs relative to the amount of advertising of the Company's products included therein.

Victoria's products are exported to markets throughout the world, primarily to Japan and western Europe and to a lesser extent to Australia, Canada, Mexico and the Near East. In addition, the Company sells to duty-free shops throughout the world. During the years ended June 30, 1995, 1994 and 1993, export sales were approximately 9%, 9% and 13% of sales, net of returns, respectively.

Significant Customers

In 1995, the Company's products were sold to approximately 400 customers, including most major department stores in the United States. During the year ended June 30, 1995, sales to one of the Company's customers, J. C. Penney, accounted for approximately 30% of the Company's total sales, net of returns. The Company has no contractual relationships with its principal customers. Goods are shipped against orders received from time to time on customary payment terms.

Backlog

The Company does not believe that the dollar amount of unfilled orders is significant to an understanding of the Company's business due to the generally short time between receipt of a customer order and shipment of the product.

Competition

The costume jewelry industry is highly fragmented and includes many small firms. The Company believes it is one of the largest manufacturers of costume jewelry in the United States. Within the industry, there are manufacturers that focus on low-margin, basic items and those that emphasize higher-margin (and higher risk) items geared to be highly fashionable. The Company believes that only a few companies, of which Victoria is one, combine manufacturing and marketing capabilities for both basic and high fashion items.

Victoria competes on the basis of design, quality, reliability as a supplier, service to a customer and price. Its major direct competitors are Monet, Anne Klein division of Swank, Inc., Liz Claiborne, Inc. and Napier, Inc.

Employees

As of June 30, 1995, the Company employed full time approximately 600 people, none of whom is represented by a labor union. Of these employees, approximately 43 are involved in management and administration, 10 in design, 453 in manufacturing and shipping and 94 in marketing and customer service. Of the Company's employees at June 30, 1995, 172 were salaried and 428 were paid on an hourly basis. The Company believes that its relationship with its employees is good.

Executive Officers of the Registrant

Set forth below are the names, ages, present positions and business experience during the last five years of all current Executive Officers of the Company. Officers are appointed to serve until the meeting of the Board of Directors following the next Annual Meeting of Stockholders and until their successors have been elected and have qualified.

Name	Age	Present Position	Business Experience
----	---	-----	-----
Uzi Ruskin	50	Chairman of the Company and Director	Chairman, President, Chief Executive and Chief Operating Officer of UM&M; Chairman of the Company since October 1993
Patricia Stensrud	47	President and Chief Executive Officer of the Company and Director	Executive of the Company since 1990. Executive Vice President - Sales and Marketing of the Company from June 1992 to July 1993; President and Chief Executive Officer of the Company since July 1993
Richard M. Andreoli	39	Executive Vice President and Chief Operating Officer of the Company and Director	Executive of the Company since 1982. Senior Vice President - Operations of the Company from September 1991 to May 1992; Executive Vice President - Operations

of the Company since
 May 1992; Chief
 Operating Officer of the
 Company since July 1993

Norman R. Forson	66	Senior Vice President and Treasurer of the Company	Senior Vice President and Controller of UM&M since 1987
Edgar L. Brinkworth	52	Vice President and Controller of the Company	Vice President and Controller of the Company since 1987

Item 2. Properties.

The following table lists the location of the Company's facilities, all of which are leased.

Location	Square Feet	Lease Expiration Dates
-----	-----	-----
Warren, RI (Manufacturing facility).....	40,000	June 1996
Warwick, RI (Offices, warehousing and distribution).....	35,000	June 1996
Providence, RI (warehouse).....	15,000	July 1996
New York, NY (Offices and showroom).....	17,100	July 2013
(Showroom).....	2,800	March 2001
Los Angeles, CA (Showroom).....	1,100	Feb 1996

The Company leases its Warren, Rhode Island and Warwick, Rhode Island facilities from UM&M under leases expiring in June 1996 at a total cost of \$325,000 a year (subject to annual cost-of-living adjustments). See Item 13 below.

The Company's manufacturing facility, based on a one shift a day operation, operated at approximately 85% of capacity during the year ended June 30, 1995.

The Company believes that each of its facilities is well maintained and properly equipped for its purpose.

Item 3. Legal Proceedings.

The Company is a defendant in various lawsuits. It is not expected that

these suits will result in judgements which in the aggregate would have a material adverse effect on the Company's financial position; accordingly, no such lawsuit is described herein.

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

None

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PART II

Item 5. Market for the Registrant's Common Equity and Related Stockholder Matters.

The Company's Common Stock trades in the over-the-counter market. The stock is currently quoted on the OTC Bulletin Board operated by National Association of Securities Dealers, Inc. The approximate number of holders of the Common Stock of the Company at August 31, 1995 was 500. The following table sets forth the high and low bid prices of the Company's Common Stock. The market quotations may reflect inter-dealer prices, without retail mark-up or mark-down or commission, and may not necessarily represent actual transactions.

Fiscal Year	Fiscal Quarter Ended	Market Quotations	
		High	Low
1995	June 30, 1995	\$ 0.50	\$ 0.28125
	March 31, 1995	0.875	0.375
	December 31, 1994	1.0625	0.375
	September 30, 1994	0.625	0.15625
1994	June 30, 1994	\$ 0.0626	\$ 0.0625
	March 31, 1994	0.1875	0.0625
	December 31, 1993	0.25	0.0625
	September 30, 1993	0.1875	0.0625

The Company has never declared nor paid a cash dividend on its Common Stock, and the Company's Board of Directors presently intends to retain any earnings for use in the business.

Item 6. Selected Financial Data.

The information required by the Item is found in Part I, Item 1.

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

The information required by this Item is found on page F-3.

Item 8. Financial Statements and Supplementary Data.

See index on page F-1.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

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PART III

Item 10. Directors and Executive Officers of the Registrant.

Information required under this item regarding the Directors of the Registrant is contained in the Registrant's 1995 Proxy Statement, pursuant to Regulation 14A, which is incorporated herein by reference.

Information required under this item regarding the Executive Officers of the Registrant is found in Part I, Item 1.

Item 11. Executive Compensation.

Information required under this item is contained in the Registrant's 1995 Proxy Statement, pursuant to regulation 14A, which is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management.

Information required under this item is contained in the Registrant's 1995 Proxy Statement, pursuant to regulation 14A, which is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions.

Information required under this item is contained in the Registrant's 1995 Proxy Statement, pursuant to regulation 14A, which is incorporated herein by reference.

PART IV

Item 14. Exhibits, Financial Statement Schedules and Reports on Form 8-K.

Item 14(a) 1. and 2. Financial Statements and Schedules - See "Index to Financial Statements, Schedules and Management's Discussion and Analysis" on page F-1.

Item 14(a) 3. Exhibits

(3) Articles of Incorporation and Bylaws.

- (3) 1. Composite Certificate of Incorporation. Incorporated by reference to Exhibit 3 (a) to the Registration Statement of the Registrant on Form S-1, File No. 33-7125. Amendment dated May 24, 1993 incorporated by reference to Form 10-K filed by the Registrant for the year ended June 30, 1993.
- (3) 2. Bylaws. Incorporated by reference to Exhibit 3 (b) to the Registration Statement of the Registrant on Form S-1, File No. 33-7125.

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(4) Instruments defining the rights of security holders, including indentures.

- (4) 1. 1986 Stock Option Plan. Incorporated by reference to Exhibit 10(m) to the Registration Statement of the Registrant on Form S-1, File No. 33-7125.

(10) Material Contracts. (see Exhibit Index, Page E-1)

(27) Financial Data Schedule (See Exhibit Index, Page E-1)

- (99) (1) Secured Promissory Note and (2) Loan and Security Agreement from Registrant to Foothill Capital Corporation dated as of June 28, 1994 (which were in effect during fiscal 1995) are incorporated herein by reference to Registrant's Report on Form 8-K filed July 14, 1994.

- (99) (3) Secured Promissory Note and (4) Loan and Security Agreement from Registrant to Foothill Capital Corporation dated as of July 31, 1995, which supersede the instruments of the same name in (99) (1) and (2) above, are filed herewith.

Item 14(b) Reports on Form 8-K during last fiscal quarter. None

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, Registrant has duly caused this Annual Report to be signed on behalf by the undersigned, thereunto duly authorized.

Dated: September 28, 1995

VICTORIA CREATIONS, INC.
(Registrant)

By /s/ Norman R. Forson
Norman R. Forson
Senior Vice President,
Treasurer and Secretary

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons, which include the Principal Executive Officer, the Principal Accounting Officer and a majority of the Board of Directors, on behalf of the Registrant and in the capacities and on the dates indicated:

/s/ Patricia Stensrud
Patricia Stensrud

President and Chief
Executive Officer and

September 28, 1995

Director (Principal
Executive Officer)

/s/ Edgar L. Brinkworth Edgar L. Brinkworth	Vice President and Controller (Principal Accounting Officer)	September 28, 1995
/s/ Richard M. Andreoli Richard M. Andreoli	Executive Vice President and Chief Operating Officer and Director	September 28, 1995
/s/ Sidney O. Margolis Sidney O. Margolis	Director	September 28, 1995
/s/ Judith A. Nadzick Judith A. Nadzick	Assistant Secretary and Director	September 28, 1995
/s/ Paul B. Markovits Paul B. Markovits	Director	September 28, 1995
/s/ Uzi Ruskin Uzi Ruskin	Chairman and Director	September 28, 1995
/s/ Robert J. Swartz Robert J. Swartz	Director	September 28, 1995
/s/ Thomas J. Tisch Thomas J. Tisch	Director	September 28, 1995

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VICTORIA CREATIONS, INC.

FORM 10-K

INDEX TO FINANCIAL STATEMENTS, SCHEDULES
AND MANAGEMENT'S DISCUSSION AND ANALYSIS

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Schedules have been omitted because they are inapplicable or because the required information is included in the financial statements and notes thereto.

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VICTORIA CREATIONS, INC.

Statement of Operations (000 omitted)

YEAR ENDED JUNE 30

	1995	1994	1993
Net sales	\$49,863	\$42,569	\$42,179
Cost of goods sold	28,085	23,744	24,165
Gross Profit	\$21,778	\$18,825	\$18,014
Selling, general and administrative expenses.....	19,049	18,642	18,995
Amortization of goodwill	720	720	720
Operating Income (Loss)	\$2,009	(\$537)	(\$1,701)
Other income (expense):			
Interest expense - Notes D and G.....	(3,347)	(1,574)	(2,546)
Royalty income.....	50	84	110
Loss before Income Taxes	(\$1,288)	(\$2,027)	(\$4,137)
Provision for income taxes - Note F.....	25	27	40
Net Loss	(\$1,313)	(\$2,054)	(\$4,177)
Average common shares outstanding - Note A.....	7,800	7,800	7,650
Net Loss per Share - Note A	(\$0.17)	(\$0.26)	(\$0.55)

See notes to financial statements.

VICTORIA CREATIONS, INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
(Not Covered by Report of
Independent Certified Public Accountants)

The Company is a 79%-owned subsidiary of United Merchants and Manufacturers, Inc. ("UM&M" or "Parent Company").

Results of Operations

Net sales of the Company increased 17% to \$49.9 million for the fiscal year ended June 30, 1995 from the net sales of \$42.6 million for the year ended June 30, 1994. Sales of both the Company's branded label merchandise, Givenchy, Richelieu and Lagerfeld, and private label business increased during the current year compared with last year. Sales in both the domestic and the international markets reflected increases. The Company attributes the increases to strong product performance at retail, improvement in service levels, technological advances and development of new customers. Unit sales for the current year increased; offset somewhat by slightly lower average unit selling prices as total volume of private label merchandise increased relative to total volume of branded merchandise which is sold at higher average unit prices.

Net sales in the fiscal year ended June 30, 1994 increased by 1% to \$42.6 million from \$42.2 million in fiscal 1993. The increase in the 1994 fiscal year resulted from increased net sales in the first and third quarters of that fiscal year. Sales in the fourth quarter were approximately equal to those of the same quarter of the 1993 year even though the 1993 year's fourth quarter included shipments for an initial launch of a new (for the Company) label for the Company's largest customer. Consumer interest remained strong for the Company's branded label merchandise. Sales of the Company's private label merchandise increased over those of the prior fiscal year. R. J. Design, the Company's factory-direct design and manufacturing business which is focused on providing unique, proprietary products to certain customers, also showed sales increases in the 1994 fiscal year over the 1993 year. Overall, unit sales and average unit price increased slightly during the 1994 fiscal year versus the 1993 fiscal year.

Cost of goods sold, as a percentage of net sales, remained approximately the same for the 1995 fiscal year as those of the year ended June 30, 1994

as the Company continued its emphasis on manufacturing and purchasing efficiencies. The resulting gross profit for fiscal 1995 increased by 16% over that of the 1994 year. The Company's sales of out-of-season merchandise (which is sold at lower than the Company's normal margins) for the current year were 20% less than those of the 1994 fiscal year as management continued to emphasize improved forecasting to reduce the amount of such merchandise available to be sold through off-price channels.

While net sales increased in the 1994 fiscal year over the 1993 year, cost of goods sold decreased 2%, reflecting the Company's emphasis on manufacturing and purchasing efficiencies. The resulting gross profit for the current year increased 5% over that of the year ended June 30, 1993. The disposal of out-of-season merchandise during fiscal 1994 was at a lower rate than during the prior year.

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While net sales increased by 17% in the current fiscal year, selling, general and administrative expenses increased only 2% during the current year compared to those of the year ended June 30, 1994 as a result of continuing efforts to control such costs through strict budgetary and spending restraints. As a percentage of net sales, selling, general and administrative expenses for the 1995 year decreased by 6 percentage points from those of the 1994 fiscal year.

The exercise of strict budgeting controls and spending restraints resulted in a decrease of 2% in selling, general and administrative expenses during the fiscal 1994 year compared to those in fiscal 1993. On an absolute basis, selling, general and administrative expenses decreased by \$0.4 million in fiscal 1994.

Although average borrowings, other than from the Parent Company, were lower during the current year, interest expense increased \$1,773,000 for the year ended June 30, 1995 from that of the prior year. The increase was due to the significantly higher interest rate during the current year on the secured loans. The Parent Company waived the interest on the amount due to it for the 1995 fiscal year. If the Parent Company had not waived the interest due to it, interest expense for the 1995 fiscal year would have been approximately \$2.4 million greater than the interest expense reflected in the statement of operations.

Interest expense for the year ended June 30, 1994 was \$972,000 lower than that reported for fiscal 1993. The decrease was due to the waiving of interest by the Parent Company on the amount due to it for the entire fiscal year. If the Parent Company had not waived the interest due to it, interest expense for the 1994 fiscal year would have been approximately \$1.5 million greater than the interest expense reflected in the statement of operations.

See Note F of Notes to Financial Statements for information regarding income taxes.

Liquidity and Capital Resources

The Company has generally met its capital requirements from internally generated funds and borrowings from its Parent Company and, until June 30, 1994, from its factor. On June 30, 1994, the Company repaid its indebtedness to its factor by borrowing from another lender and its Parent Company.

Short term needs for working capital are currently being borrowed under a revolving loan from the above mentioned lender. Effective July 31, 1995, the Company renegotiated its borrowing arrangements with this lender. See Note O of Notes to Financial Statements for details of the refinancing, including the increased borrowings and reduced interest rate.

The Company does not anticipate substantial increased needs for long-term borrowings.

Working capital was \$19.9 million at June 30, 1995, and \$23.9 million at June 30, 1994. The Company's current ratio of 4.7 to 1 at June 30, 1995 is deemed adequate for the Company's present financial position and needs.

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VICTORIA CREATIONS, INC.

Balance Sheet

(000 omitted)

JUNE 30

1995 1994

ASSETS

Current Assets:

Cash.....	\$638	\$72
Receivables - Note B.....	7,242	8,359
Inventories - Notes A and C.....	16,430	17,994
Other current assets.....	958	916

Total Current Assets	\$25,268	\$27,341
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Plant and Equipment:

Machinery and equipment.....	\$3,233	\$3,239
Leasehold improvements.....	1,913	1,889
	\$5,146	\$5,128

Less accumulated depreciation.....	4,035	3,812
	-----	-----
Net Plant and Equipment	\$1,111	\$1,316
Other Assets:		
Goodwill - Note A.....	\$20,709	\$21,430
Other.....	863	586
	-----	-----
Total Other Assets	\$21,572	\$22,016
	-----	-----
	\$47,951	\$50,673
	=====	=====

LIABILITIES AND STOCKHOLDERS' EQUITY

Current Liabilities:		
Accounts payable.....	\$4,284	\$2,315
Accrued expenses and other liabilities.....	1,084	1,129
	-----	-----
Total Current Liabilities	\$5,368	\$3,444
Long-term debt - Note D.....	11,090	13,391
Due to Parent Company - Note G.....	23,461	24,493
Stockholders' Equity - Notes E and J:		
Common stock, \$0.01 par value, authorized 10 million shares, outstanding 7.8 million shares.....	\$58	\$58
Additional paid-in capital.....	32,998	32,998
Retained earnings (deficit).....	(25,024)	(23,711)
	-----	-----
Total Stockholders' Equity	\$8,032	\$9,345
	-----	-----
	\$47,951	\$50,673
	=====	=====

See notes to financial statements.

	1995	1994	1993
Operating Activities:			
Net loss	(\$1,313)	(\$2,054)	(\$4,177)
Add back items not requiring cash in the current period:			
Depreciation and amortization.....	995	1,026	1,057
Decrease (Increase) in Current Assets:			
Receivables.....	1,117	(920)	(3,449)
Inventories.....	1,564	165	2,055
Other current assets.....	(42)	(172)	107
Increase (Decrease) in Current Liabilities:			
Accounts payable.....	1,969	723	562
Accrued expenses and other liabilities	(45)	256	2
Other - net	(277)	75	6
	-----	-----	-----
Net Cash Provided by (Used for) Operating Activities	\$3,968	(\$901)	(\$3,837)
Investing Activities:			
Additions to plant and equipment	(\$129)	(\$170)	(\$171)
Dispositions of plant and equipment.....	60	3	0
	-----	-----	-----
Net Cash Used for Investing Activities	(\$69)	(\$167)	(\$171)
Financing Activities:			
Notes payable	(\$2,301)	(\$5,524)	\$7,964
Due to Parent Company	(1,032)	6,516	(3,916)
Proceeds from sale of Common Stock.....	0	0	38
	-----	-----	-----
Net Cash Provided by (Used for) Financing Activities	(\$3,333)	\$992	\$4,086
	-----	-----	-----
Net Increase (Decrease) in Cash	\$566	(\$76)	\$78
	-----	-----	-----
Cash at beginning of period	72	148	70
	-----	-----	-----
Cash at End of Period	\$638	\$72	\$148
	=====	=====	=====

Supplemental disclosure:			
Cash payments for:			
Interest	\$3,317	\$1,574	\$1,259
Income taxes	25	27	40

See notes to financial statements.

VICTORIA CREATIONS, INC.
NOTES TO FINANCIAL STATEMENTS

The Company is a 79%-owned subsidiary of United Merchants and Manufacturers, Inc. (the "Parent Company").

NOTE A - Summary of Significant Accounting Policies

Inventories are valued at the lower of cost (first-in, first-out method) or market.

Plant and equipment are carried at cost. Depreciation and amortization are computed using the straight-line method over the following range of estimated useful lives:

Machinery and equipment.....	3 to 10 years
Leasehold improvements.....	5 to 10 years

Goodwill arose as the result of the purchase price paid by the Parent Company to acquire the Company in 1984 in excess of the fair value of the net assets at the date of acquisition. The goodwill is being amortized by the straight-line method over 40 years. In evaluating the recoverability of goodwill, management gives consideration to a number of factors, including brand recognition, market share, operating systems and the creative and technical skills of the Company as a whole. Accumulated amortization of goodwill amounted to \$7,305,000 and \$6,585,000 at June 30, 1995 and 1994, respectively.

Net loss per share is computed based on the weighted average number of shares of Common Stock outstanding during the periods. See Note E.

NOTE B - Receivables

The amounts shown as receivables in the balance sheet are net of allowances of \$2,415,000 as of June 30, 1995 and \$990,000 as of June 30, 1994.

NOTE C - Inventories

Inventories consist of:

(000 omitted)

June 30,

	1995	1994
Raw materials.....	\$ 5,120	\$ 5,551
Work in process.....	484	705
Finished goods.....	10,826	11,738
	\$ 16,430	\$ 17,994

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Note D - Notes Payable/Long-Term Debt

The amount borrowed as notes payable/long-term debt fluctuates based on the Company's cash availability or requirements.

On June 30, 1994, the Company repaid its indebtedness to its senior secured lender by borrowing \$13 million from another lender and approximately \$5.6 million from its Parent Company. The borrowing from the other lender consisted of \$2 million under a secured promissory note and the balance under a revolving loan and security agreement. These borrowings are secured by substantially all of the Company's assets, are due June 30, 1996, may be prepaid without premium or penalty and bear interest at the rate of 2% a month. See Note O - Subsequent Event regarding refinancing of this long-term debt.

Prior to June 30, 1994, notes payable amounts were borrowed from a factor. The amount outstanding was secured by the Company's receivables and inventory and interest was charged at 2% a year over a bank's reference rate.

Selected information with regard to the long-term debt (1995) and the notes payable to the factor (1994) is as follows:

(000 omitted)

	1995	1994
Maximum amount outstanding (at any month end).....	\$ 17,167	\$ 17,963
Average amount outstanding during period.....	13,945	16,403
Interest paid.....	3,347	1,565
Weighted average interest rate during period - (based on average amount outstanding).....	24.0%	9.5%

NOTE E - Stockholders' Equity

On December 30, 1992, as an incentive to certain of its key employees, the Company sold 300,000 shares of its authorized, but previously unissued, Common Stock to those employees. The sale of these shares increased the number of outstanding shares of Common Stock from 7.5 million to 7.8 million. The shares are not registered under the Securities Act of 1933, as amended. These unregistered shares were sold for cash at a value, based on market quotations of the Company's publicly-traded Common Stock, of \$0.125 a share.

The only other changes in stockholders' equity during the three years ended June 30, 1995 have been the addition of net losses to retained earnings (deficit).

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NOTE F - Income Taxes

Through December 30, 1992, the results of operations of the Company were included in the consolidated Federal and certain state income tax returns of the Parent Company. The provision for income taxes was computed based on the earnings (loss) as reflected in the financial statements, using applicable Federal and state income tax law and rates, as if the Company were filing separate income tax returns. The amount which would have been payable to the applicable taxing authorities was paid to the Parent Company.

Effective December 30, 1992, as a result of the sale of Common Stock (see Note E above), the Parent Company's ownership of the Company dropped below the percentage required for consolidation for income tax purposes and, therefore, the results of operations of the Company are no longer included in consolidated Federal and certain state income tax returns of the Parent Company.

The provision for income taxes for each of the three years ended June 30, 1995 consists of state and local taxes. As a result of losses for these years, no provision for Federal income taxes was made.

A reconciliation of the United States statutory Federal corporate income tax rate to the effective rate of the provision for income taxes is as follows:

Year Ended June 30,

	1995	1994	1993
Statutory rate (benefit).....	(34.0)%	(34.0)%	(34.0)%
Decrease in taxes arising from effect of:			
State and local income taxes, net of			
Federal tax benefit.....	1.3	0.9	0.6
Amortization of goodwill.....	19.0	12.1	5.9
Losses not resulting in tax benefit.....	15.6	22.3	28.5
Effective rate.....	1.9 %	1.3 %	1.0 %

At June 30, 1995, the Company had unused net operating loss carryforwards of approximately \$37.6 million, of which \$3.6 million expires in 2003, \$11.3 million in 2005, \$10.0 million in 2006, \$9.4 million in 2007, \$1.8 million in 2008, \$1.1 million in 2009 and \$0.4 million in 2010.

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NOTE G - Related Party Transactions

Prior to 1991, the Parent Company acted as a banker for the Company. The Company would borrow from the Parent Company funds necessary to meet operational and capital needs, and lend funds to the Parent Company when the Company had excess funds available. During the 1991 fiscal year, the Company established separate credit facilities and no longer relies on the Parent Company to be its banker. The Company currently owes the Parent Company for borrowings, for interest expense on amounts due, for rent and for amounts paid by the Parent Company on behalf of the Company which were not reimbursed by the Company. The Company is charged interest on its net outstanding balance with the Parent Company at the annual rate paid by the Parent Company on its borrowings; however the Parent Company has waived the interest due to it for the fourth quarter of fiscal 1993 and for the 1994 and 1995 fiscal years. There is no repayment schedule for this debt.

Selected information with regard to the amount due to Parent Company is as follows:

(000 omitted)

	Year Ended June 30	
	1995	1994
Maximum amount outstanding (at any month end).....	\$24,421	\$24,493
Average amount outstanding during period.....	24,050	18,846
Interest paid to Parent Company	0	0
Weighted average interest rate during period (interest paid divided by average amount outstanding).....	0%	0%

Note - The Parent Company waived interest on the amount due to it for the three months ended June 30, 1993 and for the years ended June 30, 1994 and 1995.

The Company leases two buildings from the Parent Company at a total cost of \$325,000 a year (subject to annual cost-of-living adjustments). The Company pays all expenses of the buildings on a triple net lease basis.

Prior to their sale in January 1995, the Parent Company owned and operated certain retail outlet stores. During the seven months ended January 31, 1995 and the fiscal year ended June 30, 1994, sales to the Parent Company's retail outlet stores were approximately \$189,000 and \$702,000, respectively.

Under a service agreement, the Parent Company performs certain limited administrative functions, including data processing services, for the Company. These functions were performed by the Company prior to its acquisition. The Company believes that if it were to resume responsibility for these services, the additional cost to the Company would be minimal. Accordingly, the Parent Company has not charged the Company for these services.

NOTE H - Commitments and Contingencies

Rental expense for real property, machinery and equipment was \$1,073,000, \$1,006,000, and \$1,068,000 for the years ended June 30, 1995, 1994 and 1993, respectively. These amounts include rent paid to the Parent Company for the lease of two buildings (see Note G above).

At June 30, 1995, minimum rental commitments under non-cancellable operating leases (including leases with the Parent Company), primarily for real property, machinery and equipment, are as follows:

Year ending June 30, -----	(000 omitted) -----
1996.....	\$ 973
1997.....	608
1998.....	590
1999.....	614
2000.....	617
Thereafter.....	9,375

Under the present terms of certain agreements, the Company is obligated to pay royalties based on sales of certain product lines with minimum royalty payments of \$767,500 in the year ending June 30, 1996, \$802,500 in 1997, \$837,500 in 1998, \$641,250 in 1999 and \$213,750 in the first six months of fiscal 2000.

NOTE I - Supplemental Information

	(000 omitted)		
	----- Year ended June 30 -----		
	1995	1994	1993
	-----	-----	-----
Advertising expense.....	\$ 2,598	\$ 2,215	\$ 2,221
Royalty expense.....	1,540	1,304	1,401

NOTE J - Stock Options

1986 Stock Option Plan:

The 1986 Stock Option Plan provides for the granting of options to officers and other key employees to purchase an aggregate of 550,000 shares (as amended by the Company's Board of Directors on December 15, 1994, subject to approval by stockholders of the Company at the next Annual Meeting) of Common Stock of the Company. Such options are required to have an exercise price of not less than fair market value of the shares on the date the option is granted. Some or all of the options may be granted as "incentive stock options" within the meaning of the Internal Revenue Code of 1954, as amended.

Transactions under this Plan for the three years ended June 30, 1995 are as follows:

(000 omitted)

	Number of Shares	Price per Share	Total Price
Outstanding at June 30, 1992, 1993 and 1994.....	100,000	\$ 0.34375	\$ 34
Granted.....	442,000	1.00	442
Cancelled.....	(25,000)	1.00	(25)
Outstanding at June 30, 1995.....	517,000		\$ 451
Exercisable at:			
June 30, 1994.....	50,000		
June 30, 1995.....	75,000		
Available for future grant:			
June 30, 1994.....	100,000		
June 30, 1995.....	33,000		

Other Options:

On July 7, 1986, the Company granted to the Parent Company an option to purchase 800,000 shares of Common Stock of the Company at \$10.80 a share. The option is exercisable in whole or part until August 31, 1996.

As of June 30, 1992 and 1993, an executive of the Company held options to purchase 250,000 shares of Common Stock of the Company at prices ranging from \$5.25 to \$1.125 a share. During fiscal 1994, the executive ceased to be an employee of the Company and the options were cancelled.

NOTE K - Retirement Savings Plan

The Company has a Retirement Savings Plan which includes the salary deferral feature afforded by Section 401(k) of the Internal Revenue Code. The Plan covers substantially all employees of the Company. Under the Plan, covered employees may make pre-tax contributions of up to 10% of salary (but not to exceed the Internal Revenue Service limits in any one year) to their Plan account. For those employees whose annual salary is less than \$40,000, the Company contributes a matching amount equal to 20% of the employee's contribution at the time of the employee's contribution. For those employees whose annual salary is \$40,000 or greater, the Company makes no contribution. During the years ended June 30, 1995, 1994 and 1993, the Company's contributions to, and expenses of, the Plan were \$47,000, \$40,000 and \$70,000, respectively.

NOTE L - Business Segment

The Company consists of one business segment, the design, manufacture and distribution of costume jewelry.

NOTE M - Major Customers

During the years ended June 30, 1995, 1994 and 1993, one customer's purchases amounted to approximately 30%, 30% and 29%, respectively, of the Company's sales, net of returns.

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NOTE N - Quarterly Results (Unaudited)

The following summarizes the quarterly operating results of the Company for the years ended June 30, 1994 and 1993.

(000 omitted)

	Quarter Ended				
	Sep 30	Dec 31	Mar 31	June 30	Total
Year ended June 30, 1995:					
Net sales.....	\$ 14,744	\$ 12,713	\$ 11,204	\$ 11,202	\$ 49,863
Gross profit.....	7,114	5,157	4,816	4,691	21,778
Net earnings (loss).	1,012	(977)	(766)	(582)	(1,313)
Net earnings (loss) per share.....	0.13	(0.13)	(0.10)	(0.07)	(0.17)
Year ended June 30, 1994:					
Net sales.....	\$ 11,108	\$ 9,616	\$ 10,593	\$ 11,252	\$ 42,569
Gross profit.....	5,390	3,305	4,925	5,205	18,825
Net earnings (loss).	165	(2,066)	(100)	(53)	(2,054)
Net earnings (loss) per share.....	0.02	(0.26)	(0.01)	(0.01)	(0.26)

NOTE O - Subsequent Event

Refinancing - Effective July 31, 1995, the Company renegotiated its borrowing arrangements with its current lender. Under the terms of the amended agreements, the lender loaned to the Company additional funds of approximately \$8.3 million, increasing the Company's total indebtedness to the lender to approximately \$17.9 million, and reduced the interest rate paid on the Company's indebtedness to the lender from 24% to prime rate plus 3 1/2%, or currently 12 1/4% a year. Of the additional borrowing, \$2.0 million was used to meet working capital needs and the remainder was used to reduce the Company's indebtedness to its Parent Company to approximately \$16.7 million. The new arrangements consist of a \$5.0 million term loan due June 15, 2000 and a revolving loan, based on the

Company's eligible accounts receivable and inventories, having a term ending on June 15, 1998. The revolving loan will be renewed automatically for successive one year periods thereafter unless terminated by either party upon thirty days notice. The debt is classified as long-term in the accompanying balance sheet.

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INDEPENDENT AUDITORS' REPORT

The Board of Directors,
Victoria Creations, Inc.:

We have audited the balance sheets of Victoria Creations, Inc. as of June 30, 1995 and 1994 and the related statements of operations and cash flows for each of the years in the three-year period ended June 30, 1995. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Victoria Creations, Inc. as of June 30, 1995 and 1994, and the results of its operations and its cash flows for each of the years in the three-year period ended June 30, 1995, in conformity with generally accepted accounting principles.

KPMG Peat Marwick LLP

New York, New York
October 11, 1995

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VICTORIA CREATIONS, INC.

FORM 10-K

INDEX TO EXHIBITS

Certain exhibits to this Annual Report on Form 10-K have been incorporated by reference. For a list of these exhibits see Item 14 hereof.

The following exhibits are being filed herewith:

Exhibit No.

(10) Material Contracts

(10) a. Givenchy License Agreement dated as of January 1, 1994 between the Company and Givenchy Corporation is incorporated herein by reference to Registrant's Annual Report on Form 10-K for the year ended June 30, 1994.

(10) b. Karl Lagerfeld License Agreement dated as of August 1995 between the Company and Asian & Western Classics B.V. is filed herewith.

(27) Financial Data Schedule as of and for the year ended June 30, 1995 is filed herewith.

LICENCE AGREEMENT

ASIAN & WESTERN CLASSICS B.V.
AND
VICTORIA CREATIONS, INC.

T H I S A G R E E M E N T is made

August 1995

BETWEEN:-

- (1) ASIAN & WESTERN CLASSICS B.V. of Johannes Vermeetstraat 25,
107 DK Amsterdam, The Netherlands (hereinafter called "Asian");
and
- (2) VICTORIA CREATIONS, INC. of 385 Fifth Avenue, New York, New
York 10016, U.S.A. (hereinafter called "the Licensee")

W I T N E S S E T H as follows:

W H E R E A S :-

- (A) Asian is the owner of the famous trademark "Karl Lagerfeld" in
its various forms ("the Trade Marks" as defined below) and of

the goodwill and reputation associated with them and manufactures or has manufactured for it and sells under the Trade Marks a wide range of luxury goods;

- (B) The Karl Lagerfeld name enjoys an international reputation as a prestige luxury brand name and a distinctive and extensive commercial and technical know-how in the marketing and sales of Karl Lagerfeld luxury goods has been established;
- (C) The Licensee is well known and has been engaged under licence from Asian since 1987, in the manufacture, distribution and sale of Karl Lagerfeld branded luxury costume jewellery for women, and has made its best efforts to maintain the prestige of and the goodwill associated in the famous trademark "Karl Lagerfeld"; and
- (D) Asian wishes to appoint the Licensee to exclusively manufacture, distribute and sell under the Trade Marks in accordance with the terms of this Agreement, a range of Karl Lagerfeld branded products as defined below.

IT IS AGREED as follows:

1. DEFINITIONS:

For the purposes of this Agreement:

- (a) "the Commencement Date" means 1st July 1995;
- (b) "Contractual Year" shall mean the period commencing on the Commencement Date and ending on the following 30th June and any subsequent period of twelve months commencing on 1st July and ending on the following 30th June.
- (c) "the Products" shall mean the products described in Schedule 1 hereto as shall be manufactured by the Licensee and as shall be sold under the Trade Marks with such variations and additions as Asian may in its absolute discretion make from time to time to the specifications for such Products;
- (d) "Net Sales Turnover" shall mean in the ordinary course of business to a customer at arm's length, the gross price invoiced by the Licensee, less:-
 - (i) Products returned;
 - (ii) any relevant tax or duty imposed on the Licensee in respect of the Products involved;
 - (iii) shipping, packaging and insurance costs, to the

extent shown as a separate item on customer invoices and recovered as such from customers;

(iv) invoices which are unpaid by reason of customers judicially determined insolvency; and,

(v) discounts (to the extent permitted under Clause 7(f) below), rebates, credit, allowances and any other non-merchandise items stated on invoices, subject to these not exceeding fifteen per cent (15%) in total of the Net Sales Turnover in any Contractual Year.

(e) "Technical Information" shall be designated by Asian to include any and all know-how and retail information in connection with, for example, creative and technical design, image, corporate identity, advertising, promotion and fashion shows;

(f) "the Territory" shall mean North America excluding duty-free outlets;

(g) "the Trade Marks" shall mean the trade mark "Karl Lagerfeld", in its various forms and shall include (but not be limited to) the various registrations which have been obtained, which are pending, or which may be obtained as are relevant to the Products.

2. MANUFACTURING GRANT:

(a) Asian grants to the Licensee the right to exclusively manufacture the Products for sale in the Territory under the Trade Marks.

(b) The Licensee agrees to manufacture each Contractual Year for distribution in accordance with the terms of this Agreement, at least two (2) collections of the Products; one (1) for the Spring/Summer collection and one (1) for the Autumn/Winter collection. The contents of each collection, including the number of items, will be defined by Asian or its representative, after close consultation with the Licensee and such consultation shall take particular account of technical requirements, sales forecasts and brand image, subject to the final decision on all aspects of the collections being that of Asian. All costs of manufacturing, distributing or otherwise preparing the collections shall be borne by the Licensee.

(c) Asian agrees, in accordance with Clause 4 below, to provide or procure to the Licensee all relevant Technical Information necessary to enable the Licensee to manufacture the Products.

3. DISTRIBUTION GRANT:

(a) Asian grants to the Licensee upon the terms and conditions of this Agreement the right:-

(i) to exclusively distribute and sell the Products under the Trade Marks in the Territory, through Karl Lagerfeld identified corners and other channels of distribution in accordance with the provisions of Clause 7 below.

The Licensee agrees that such other channels of distribution shall be approved by Asian (such approval not to be unreasonably withheld) with reference to their location and style and to the general requirements of the Karl Lagerfeld brand environment.

(ii) to use the Trade Marks for the purposes of advertising and sales promotion of the Products and to refer to itself as the distributor of the Products in the Territory.

(b) The Licensee agrees not to distribute any Products which do not bear the Trade Marks as set forth in Schedule 2 hereto, as may be varied from time to time by Asian.

(c) Asian shall remain free in the Territory to set up Karl Lagerfeld retail shops or other outlets either directly or by way of franchise to third parties to sell other Karl Lagerfeld products with the Products. In such circumstances, the Licensee agrees that both Asian and such third parties may, subject to the agreement of favourable terms of supply, obtain the Products from the Licensee. Asian reserves the right to sell items or objects similar to the Products in such Karl Lagerfeld retail shops or other channels of distribution, but only if the Licensee has declined an interest in supplying such items or objects or if the parties are unable to agree favourable terms of supply.

(d) Nothing within this Agreement will restrict or prevent the sale in the Territory in Karl Lagerfeld retail shops or other outlets established under the "Karl Lagerfeld" name and Trade Marks, of French-manufactured items and products similar to the Products which were designed originally as accessories to Karl Lagerfeld branded apparel collections.

(e) Asian shall not appoint any other licensee for the

Products in the Territory during the term of this Agreement except that, for transitional purposes only, Asian may during the period of six (6) months prior to the termination hereof appoint the Licensee's successor (if any) and allow such successor to make itself known as Asian's future licensee able to do business after the termination hereof. During that six (6) month period, the Licensee's successor (if any) may also take orders for the Products for delivery after the termination hereof. Notwithstanding the foregoing, Asian shall use all reasonable efforts to ensure that both it and the new licensee will take no action which will materially impare the value of the rights granted hereunder to the Licensee during the term of this Agreement.

4. DESIGN:

(a) Asian shall be responsible for producing designs for all Products in accordance with such seasonal collection planning as shall be agreed between the parties from time to time.

(b) Asian shall in a timely fashion produce or procure to the Licensee relevant Technical Information including designs in sketch form together with specifications including materials, colours, finish and quality relevant to their manufacture or presentation and any other know-how necessary to enable the Licensee to manufacture the Products. Asian will advise the Licensee of any changes in the specifications as they arise in a timely fashion so that such changes can be implemented by the Licensee in a commercially reasonable manner. Asian will provide or procure artistic and technical assistance and support to the Licensee, in relation to all technical know-how essential to the manufacture of the Products.

(c) Nothing in this Agreement shall prevent Asian from making changes in the specifications of the Products so long as such changes are reasonably capable of implementation and have reasonable commercial value.

(d) The Licensee may submit a reasonable number of unpublished designs of its own for the Products, together with relevant specifications including fabrics and materials, colours, finish and quality. The final approval on the content of each collection remains with Asian, or its representatives, and all designs for the collections prepared and submitted by the Licensee shall either be presented for such approval while the Licensee's personnel are visiting Asian, or its representatives, or, if submitted on other occasions, the design(s) shall be deemed to have been approved if Asian, or its representatives, have not rejected them within twenty-one (21) days of receipt.

(e) The parties accept that it is fundamental to this Agreement that the Licensee agrees not to make a change of whatever nature in any designs produced, procured or approved by Asian, without the prior written consent of Asian, which shall not be unreasonably withheld, and that all designs produced or approved by Asian shall be the exclusive property of Asian and shall furthermore be exclusive to the Products and utilised only in association with the Products as Asian directs.

(f) All designs forming the collections, including those submitted by the Licensee, shall be and shall remain the exclusive property of Asian, and the Licensee shall only have use of the designs in accordance with the terms of this Agreement.

5. CREATIVE SERVICES:

(a) Asian will provide or procure creative designs and advice on materials and the finish of the Products and will approve all sample merchandise in accordance with seasonal collection planning.

(b) Subject to a reasonable standard and consistent with commercial practice, Asian will provide or procure the services of qualified personnel to assist the Licensee in the manufacture of the Products, including the selection of materials and accessories, in accordance with the designs supplied, procured or approved by Asian, or on its behalf, and in particular Asian or its representatives shall give the necessary advice to ensure that the Products comply with the Karl Lagerfeld brand image.

(c) Asian will provide or procure that its qualified personnel, or those of its representatives, visit the Licensee's production premises, or those of its authorised sub-contractors, or any other location selected by the Licensee, to inspect the quality of the Products and to ensure that they correspond exactly with the approved designs. Should the Products fail to correspond with the approved designs, the Licensee shall remedy any such inconsistencies within twenty (20) days of written notice and should it fail to do so, the Products may not be sold; provided, however, that Asian will use its best endeavours to conduct such inspections in a timely manner in relation to the production schedule of the Licensee so as to allow necessary changes to be made without undue hardship to the Licensee.

(d) In accordance with seasonal collection planning and at least once a year a representative of the Licensee will visit the Karl Lagerfeld design studio for the purposes of developing

closer co-operation and the cost of this and any other visits made by the Licensee's representatives shall be borne by the Licensee. The cost of visits by Asian's representatives to the Territory, for the purposes of providing creative services and assisting it in the sale, advertising and promotion of the Products, shall be borne by Asian.

6. STANDARDS OF QUALITY:

The parties recognise that the maintenance of Asian's own standards of quality, design and presentation is essential in order to preserve the prestige of the Trade Marks and the goodwill and reputation associated with them and it is agreed that Asian shall have total control over the quality of the Products. The Licensee shall conform to all quality control guidelines and recommendations given by Asian in this regard from time to time. In particular the Licensee shall:-

(a) submit a representative number of Products to Asian for approval, which shall not be unreasonably withheld, before the manufacture of any of the Products is commenced;

(b) submit for the approval of Asian or its nominee a representative quantity of printed matter and materials, including packaging, hang-tags and price tags, catalogues and labels and display items which must conform with the relevant Technical Information which Asian will provide to or procure for the Licensee;

(c) allow Asian and its representatives, agents or nominees at reasonable times and upon reasonable notice to visit the Licensee's premises and those of its authorised sub-contractors in order to inspect the Licensee's stock of the Products and to examine the manner in which they are manufactured and stored to ensure that these conform to Asian's standards and quality requirements; and

(d) not distribute Products or materials specified in Clause 6(b) above which are either not approved or are defective.

7. DISTRIBUTION:

(a) The Licensee shall use its best efforts to maximise sales of the Products and to develop a distribution network compatible with the prestige of the Karl Lagerfeld name.

(b) Prior to the distribution of the Products within the Territory, the Licensee shall first obtain Asian's agreement to the annual marketing plan referred to in Clause 8 below.

(c) The parties agree to the distribution of the Products

through Karl Lagerfeld identified corners and other channels of distribution which are proposed by the Licensee. In that regard the Licensee shall forward to Asian every six (6) months a list of such corners and other channels of distribution. It is agreed that the Licensee shall use its utmost efforts to ensure that such corners and other channels of distribution will materially conform with the Karl Lagerfeld brand environment and the relevant Technical Information which Asian will provide or procure. Asian reserves the right for its representatives to visit such corners and other channels of distribution in order to ensure that they do so materially conform and in the event that they do not, Asian shall require that the Licensee cease to supply such corners or channels of distribution.

(d) Asian may at any time propose Karl Lagerfeld identified corners and outlets for the distribution of the Products which have not been proposed by the Licensee.

(e) The Licensee will ensure that the distribution and the sale of the Products will only be in a manner which is compatible with the prestige of the Karl Lagerfeld name and is not in Asian's reasonable opinion likely to diminish the prestige of the Trade Marks and the Licensee will further ensure that all material of whatever nature relevant to the Karl Lagerfeld identity or name will be promptly removed from any corner or outlet which ceases to sell the Products.

(f) The Licensee agrees that the Products may not be sold at discounts of fifty per cent (50%) or more under the Karl Lagerfeld name or the Trade Marks. Where possible any Products sold at such a discount will have any reference to the Karl Lagerfeld name or Trade Marks removed or thoroughly deleted from it or its label and shall be "re-branded".

8. ANNUAL MARKETING PLAN:

(a) The Licensee shall produce a detailed annual marketing plan which shall include, but not be limited to, any proposals on a change in brand positioning including general information on competitors, promotion or promotional expenditure, sales volumes, projected royalties, outlets, development of the product range, stock levels, pricing, and price range together with comparative details for the previous Contractual Year including details of total turnover and distribution and turnover as relevant to major outlets.

(b) The annual marketing plan shall be fully discussed in good faith by the parties and shall be agreed by the parties each Contractual Year by 31st March for implementation in the following Contractual Year.

(c) Notwithstanding the content of Clause 8(b) above, the first annual marketing plan for the first Contractual Year shall be agreed by the date of this Agreement.

9. ROYALTY:

(a) For and in consideration of the rights granted to the Licensee and undertakings given by Asian, the Licensee shall pay to Asian, subject to the due performance of its obligations, a royalty equal to ten per cent (10%) of the Net Sales Turnover of all Products manufactured and sold by the Licensee in any Contractual Year.

(b) Royalties shall be payable for each Contractual Year in quarterly instalments within thirty (30) days of 30th September, 31st December, 31st March and 30th June and shall be accompanied by a detailed royalty statement which shall include details of the quantities of Products sold, the price charged, and any discount allowed, Net Sales Turnover, royalty due, and any other particulars which Asian may reasonably require.

(c) By 15th August each Contractual Year, the Licensee shall provide Asian with a certificate from the Licensee's auditors indicating the volume and value of sales of the Products for the previous Contractual Year and that the figures contain in the royalty statements correspond with the entries in the books of the Licensee. Asian shall have the right to verify that these details are correct and in the event that a short fall in the royalties paid is verified the Licensee shall promptly pay to Asian all costs and expenses of such examination, together with the additional royalties due to Asian.

(d) Failure by the Licensee to meet any royalty payment by its due date shall thereafter incur accrued interest at the basic bank interest rate plus three per cent (3%) per annum charged by the bank to which the Licensee makes royalty payments. Payments shall be applied first against any interest which may have accrued to the date of payment and any balance against the amount of royalty payment outstanding.

(e) All royalty payments shall be calculated and paid by the Licensee to Asian as Asian directs, in US dollars.

(f) All payments shall be made without any deductions except for tax which the Licensee is legally bound to withhold.

10. ADVERTISING AND PROMOTION:

(a) Asian shall at its option provide or procure the artwork

and creative design for all media advertising, promotional material, packaging and point of sale material which shall then be the responsibility of the Licensee to place or circulate in the Territory, failing which the Licensee shall produce all such material, subject to Asian's prior written approval. Should Asian choose to supply such material, it must be provided to the Licensee in a commercially timely fashion in order to allow the Licensee adequate time to properly place or circulate such material. The Licensee shall be responsible for organising demonstrations, fashion shows and displays at trade fairs and exhibitions subject to both Asian's reasonable approval and it conforming to the creative design or other relevant Technical Information which Asian will provide or procure.

(b) The cost of all artwork relevant to advertising and promotion under Clause 10(d) below, shall be borne by the Licensee.

(c) In addition, the Licensee agrees to spend in each Contractual Year a sum to be utilised in advertising. Such expenditure during the first Contractual Year of this Agreement will be an amount equal to not less than four per cent (4%) of the projected Net Sales Turnover for that first Contractual Year and thereafter during subsequent Contractual Years will be an amount equal to not less than four per cent (4%) of the Net Sales Turnover for the immediately preceding Contractual Year. Two per cent (2%) shall be allocated to co-operative advertising and two per cent (2%) to institutional advertising.

(d) The cost of point of sales advertising for the Territory, such as window signs, displays and window or stand decoration, and of any specific packaging which the Licensee may (subject to the prior approval of Asian) elect to use for the Products, shall be borne by the Licensee or its customers and such costs shall be included within expenditure under Clause 10(c) above, subject to point-of-sale advertising not exceeding 25% of such advertising expenditure in any Contractual Year. All such point of sale advertising shall be created by the Licensee or its customer, subject to the prior approval of Asian or its representatives, under reasonable procedures and guidelines to be agreed between the parties hereto.

(e) The Licensee will additionally exploit opportunities for joint marketing together with retail outlets and there will be no cost to Asian for such activities, all of which are subject to Asian's approval to the extent they are not already approved as part of the Licensee's annual marketing plan.

(f) The parties agree that the media advertising budget provided for in accordance with this clause shall be managed by the Licensee in consultation with Asian and in co-ordination

with either the Licensee's in-house staff or an advertising agency approved by Asian. The parties will discuss at regular consultative meetings how the budget will be allocated to maximum effect.

11. TRADE MARKS

(a) Asian hereby represents and warrants that it has the full power and right to grant to the Licensee this licence to use the Trade Marks.

(b) Asian is the owner of the Trade Marks, which include those registered in the Territory and other countries. To the extent required by Asian to assure the prestige of the Karl Lagerfeld name and the Trade Marks, Asian's policy shall continue to be, at its own expense and to the extent practicable, to maintain the Trade Marks and to demand, claim, bring suit, effect settlement or take any other action against any third party in order to terminate any infringement of Asian's rights. Asian shall be entitled to all costs or damages which may be awarded as a result of any such action or settlement.

(c) The Licensee acknowledges that Asian is the owner of the Trade Marks appearing upon or used in relation to the Products and of the goodwill attaching thereto and that it has no rights in respect thereof except for the purposes and during the subsistence of this Agreement in accordance with the terms hereof. Any rights which the Licensee may acquire in the Trade Marks by virtue of its activities pursuant to this Agreement shall vest in and on request be assigned to Asian absolutely.

(d) The Licensee shall not do or omit to do anything by which the goodwill and reputation associated with the Trade Marks might be diminished or jeopardised and agrees that Asian may unilaterally (and to the extent necessary is hereby authorised to act on behalf of the Licensee) cancel such registrations upon termination of this Agreement.

(e) The Licensee undertakes at the request of Asian to enter into a registered user agreement, where applicable, in respect of any of the Trade Marks.

(f) The Licensee shall inform Asian immediately of any infringement, unauthorised use or imitation of the Trade Marks in the Territory and any acts by third parties which may constitute unfair competition which may come to its notice and shall assist Asian at its request in pursuing any action which Asian considers appropriate. In this regard and also in respect of any cancellation or opposition actions Asian may

take, the Licensee will take no action on its own account without obtaining Asian's prior written consent.

(g) To the extent practicable, Asian may require that the Licensee shall include in all printed matter on which the Trade Marks appear a legend stating that the Trade Marks are the property of Asian.

(h) Asian shall own the intellectual property rights in any fabric, finished Product, models or designs it produces or approves and no use may be made of such fabrics, models or designs, other than for the purposes of this Agreement, without Asian's prior written consent.

(i) Asian agrees that it shall, during the term of this Agreement, maintain or procure that the Trade Marks are maintained in full force and effect in the Territory.

(j) The Licensee agrees that it shall not, at any time, directly or indirectly contest the validity of the registration of the Trade Marks or their ownership by Asian, its successors and assigns.

(k) The Licensee agrees not to use the Trade Marks as a part of its trading name and shall not use in its business any other trade or service mark so resembling the Trade Marks as to be likely to cause confusion.

(l) The Licensee agrees not to apply the Trade Marks to any goods to which it does not have title.

12. DURATION AND TERMINATION:

(a) This Agreement shall come into effect on the Commencement Date and shall continue in force, unless terminated as provided below, for three (3) Contractual Years and shall therefore terminate on 30th June 1998. This Agreement shall therefore cover the seasons from the Autumn/Winter 1995 - 1996 season to the completion of sales for the Spring/Summer 1998 season.

(b) Either party shall have the right to terminate this Agreement forthwith by written notice to the other:

(i) in the event that the other shall be guilty of any material breach, non-observance or non-performance of its obligations hereunder or any of them and shall not have remedied such breach, non-observance or non-performance (if it is capable of remedy) within thirty (30) days after receipt of written notice; or

- (ii) in the event that the other shall be unable to pay its debts in the ordinary course of business or enter into liquidation or have a Receiver appointed whether compulsorily or voluntarily or otherwise become subject to any applicable insolvency laws; or
- (iii) in the event that the other shall at any time cease to carry on a material part of its existing business or becomes subject to the direct or indirect control of any third party or group of parties other than those at present controlling it where such third party or group of parties may be reasonably deemed to be in competition with the other party to this Agreement.

(c) Additionally, Asian may terminate this Agreement if the Licensee fails to remedy within thirty (30) days after receipt of written notice any of the following breaches of its obligations hereunder:-

- (i) the Licensee fails to pay the royalties for any Contractual Year; or
- (ii) the Licensee fails to produce an annual marketing or merchandising plan in accordance with Clause 8 of this Agreement.
- (iii) any of the circumstances referred to in Clause 18(e) below persist for a period of at least three (3) calendar months.

(d) Termination of this Agreement shall be without prejudice to any claims for damages or otherwise arising prior to termination, whether or not the cause of termination.

(e) On notice of termination of this Agreement for any valid reason in accordance with Clause 12(b) and 12(c) above:-

- (i) the Licensee shall immediately determine, in whatever form, the use of the Trade Marks and shall promptly supply to Asian an inventory of the Products and any other materials of whatever nature bearing the Trade Marks then in stock (or in transit) and Asian shall have the option exercisable within two (2) months thereafter of purchasing all or any of such stock or materials at their wholesale prices less an appropriate allowance for deterioration, if any. Any such stock not purchased by Asian shall be disposed of in such manner as is mutually agreed between the parties;

(ii) the Licensee agrees not to manufacture, sell or offer for sale any products (of a type and description) under or by reference to the Trade Marks or any confusingly similar mark; and

(iii) the Licensee agrees to co-operate with Asian in cancelling any registration for the manufacturing and sale of the Products in the Territory.

(f) On termination of this Agreement for any valid reason, Asian shall have the unrestricted rights to grant licences for the manufacture and sale of the Products in the Territory so as to maintain the goodwill and the international reputation of the Karl Lagerfeld name and the Trade Marks.

13. ASSIGNMENT AND SUB-CONTRACTING:

(a) The rights and obligations of the Licensee under this Agreement are entirely personal and this Agreement shall not be assigned without the prior written consent of Asian. It is, however, agreed that Asian shall not unreasonably withhold its consent to the assignment of this Agreement to a wholly-owned subsidiary of the Licensee, provided that the Licensee shall remain primarily liable for the performance thereof.

(b) Notwithstanding the provisions of Clause 13(a) above, Asian recognise that the Licensee may from time to time wish to appoint sub-licensees or to sub-contract with third parties in connection with this Agreement. The Licensee shall not appoint any other sub-licensees or sub-contractors without the prior consent of Asian, which if given, will be on terms consistent with this Agreement and the Licensee shall be liable for the due performance of such sub-licensees or sub-contractors under the terms of this Agreement. The appointment of such sub-licensees or sub-contractors shall be for a period no longer than the term of this Agreement and shall automatically terminate in the event of the termination of this Agreement, for whatever reason.

(c) Asian may assign the obligations and the benefit of this Agreement to any of its associates, affiliates and subsidiaries or to any third party without the prior written consent of the Licensee, provided Asian shall remain primarily liable for the performance thereof and the value of the rights granted herein are not impaired or diminished in any way.

14. WARRANTIES:

(a) Except for the case provided for under Clause 14(b)

below, the Licensee warrants that to the best of its knowledge the manufacture of the Products will neither infringe the copyright, registered design or other similar right of any third party nor, to the best of the Licensee's knowledge, will the sale of the Products give rise to any claims by any third party in respect of product liability or any other reason. The Licensee undertakes to indemnify Asian entirely against all costs (including reasonable legal fees), claims, actions and expenses suffered by Asian as a result of any breach by the Licensee of this warranty.

(b) Asian warrants that to the best of its knowledge the use of the Trade Marks and designs, artwork or creative designs and other works provided or procured by Asian will not infringe the copyright, registered design, trade marks or other right of any third party in the Territory. Asian undertakes to indemnify the Licensee entirely against all costs (including reasonable legal fees), claims, expenses suffered by the Licensee as a result of any breach by Asian of this warranty.

15. INDEMNITY:

Save for the case provided for under Clause 14(b) above, the Licensee shall indemnify and hold Asian harmless against any loss, costs, expenses or claims including all reasonable legal expenses and costs with respect to any actions, claim or proceedings which may be instigated, issued or threatened (whether or not such actions or proceedings are successful) as a result of any acts or omissions by the Licensee or any of its agents, employees or sub-licensees in connection with its performance of its obligations under this Agreement.

16. CONFIDENTIALITY:

Asian has given, and during the period of this Agreement will continue to give, to the Licensee certain Technical Information and commercial information relating to the Products in order to assist the Licensee to carry out its duties hereunder. the Licensee undertakes:-

- (i) to use such information only for that purpose;
- (ii) to keep confidential all such information as is not freely available to the public (including without limiting the generality thereof, such information as Asian may from time to time specifically designate as confidential); and
- (iii) to ensure that its staff concerned with the Products are aware of and observe the provisions of this clause, both during the subsistence of this

17. GOVERNING LAW:

This Agreement shall be governed and interpreted according to Dutch law and all disputes arising out of or in connection with this Agreement shall be settled in accordance with the rules of conciliation and arbitration of the International Chamber of Commerce by three (3) arbitrators appointed according to such rules. The arbitration shall take place in Amsterdam, The Netherlands and in the English language.

18. MISCELLANEOUS:

(a) Nothing in this Agreement shall be construed as establishing a partnership or joint venture between the parties and neither party shall have the authority to bind or obligate the other in any manner outside the scope of this Agreement.

(b) No failure or delay on the part of either party in exercising its rights under this Agreement shall be construed to be a waiver by either party of any rights under this Agreement and any such waiver shall not prevent the subsequent enforcement of that right.

(c) Any notice to be served by either party upon the other shall be deemed to have been duly given seven (7) days after being sent to the intended recipient at its last known address by recorded, or registered airmail or express courier, or one (1) business day (in the recipient's country) after being sent by confirmed telefax or telex, in each case followed by confirmation delivered by registered airmail or express courier.

(d) This Agreement provides for the entire understanding of the parties and supersedes all prior agreements and understandings between the parties with regard to the transactions contemplated herein. Any modification or amendments proposed by either party shall not be binding on the other without prior written consent.

(e) The parties hereto shall not be responsible for any loss, damage, consequential or otherwise, detention or delay caused by fire, law, regulation, civil or military authority, insurrection or riot, labour strike or wartime embargoes, tempest, act of God, shortages or by any other cause whatsoever, which is unavoidable or beyond the relevant party's reasonable control; provided, however, that any such force majeure shall not relieve the Licensee from its obligations to make payment of amounts due and owing to Asian in accordance with the terms of this Agreement.

(f) Any part of this Agreement which is or may become illegal or unenforceable shall be severed and the rest of the Agreement shall remain in force unless the part which has to be severed requires negotiation of modified terms to restore the balance of the Agreement.

(g) The clause headings and titles herein are for ease of reference only and shall not affect the interpretation hereof.

IN WITNESS whereof the parties have executed this Agreement the day and year first above written

SIGNED by
For and on behalf of
ASIAN & WESTERN CLASSICS B.V.
INC.

SIGNED by
For and on behalf of
VICTORIA CREATIONS,

/s/ J.A. Barhoon
Managing Director

/S/ Patricia Stensrud
President

SCHEDULE 1

THE PRODUCTS

The Products shall comprise of the following items:-

Luxury costume jewellery for women

SCHEDULE 2

THE TRADE MARKS

Signature of Karl Lagerfeld

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<MULTIPLIER> 1,000

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SECURED PROMISSORY NOTE

\$5,000,000

Los Angeles, California

July 31, 1995

FOR VALUE RECEIVED, the undersigned ("Maker") hereby promises to pay to FOOTHILL CAPITAL CORPORATION ("Foothill"), or order, at 11111 Santa Monica Boulevard, Suite 1500, Los Angeles, California 90025-3333, or at such other address as the holder of this Note ("Holder") may specify in writing, the principal sum of Five Million Dollars (\$5,000,000) plus interest in the manner and upon the terms and conditions set forth below.

I. Rate of Interest

This Secured Promissory Note ("Note") shall bear interest at a per annum rate of equal to three and one half (3.50) percentage points in excess of the Reference Rate. For purposes of this Note, Reference Rate means the highest of the variable rates of interest, per annum, most recently announced by (i) Bank of America, N.T.&S.A., San Francisco, California, (ii) Mellon Bank, N.A., Pittsburgh, Pennsylvania, and (iii) Citibank, N.A., New York, New York, or any successor to any of the foregoing institutions, as its "prime rate" or "reference rate", as the case may be, whether or not such announced rate is the best rate available from such financial institution. The Reference Rate as of this date is eight and three quarters percent (8.75%) per annum. In the event that the Reference Rate is changed from time to time hereafter, the rate of interest hereunder automatically and immediately shall be increased or decreased by an amount equal to the Reference Rate change. The rate of interest charged under this Note shall be based on the average Reference Rate in effect during such month. In no event shall interest chargeable hereunder be less than nine percent (9%) per annum. Upon the occurrence of an Event of Default under that certain Amended And Restated Loan And Security Agreement between the Maker and Foothill (the "Agreement"), of even date herewith, the rate of interest on this Note shall, at the option of the Holder, be increased by three (3) percentage points above the pre-default rate specified above. Interest charged on this Note shall be computed on the basis of a three hundred sixty (360) day year for actual days elapsed.

II. Schedule of Payments

Principal and interest under this Note shall be due and payable according to the following schedule: (a) interest shall be due and payable on the first day of each month commencing September 1, 1995 and continuing thereafter until this Note has been paid in full; (b) installments of principal, each in the amount of Sixty Thousand Dollars (\$60,000), shall be due and payable on the first day of each month commencing September 1, 1995 and continuing thereafter until this Note is paid in full; (c) the outstanding principal balance, together with all accrued and unpaid interest thereon, shall be due and payable in full on June 15, 2000.

III. Prepayment

This Note may be prepaid at any time, in whole or in part, without any premium or penalty whatsoever. Partial prepayments will be applied to principal payments on this Note in the inverse order of their maturity.

IV. Holder's Right of Acceleration

Upon the occurrence of an Event of Default under the Agreement including, but not limited to, the failure to pay any installment of principal or interest hereunder when due, the Holder may, at its election and without notice to the Maker, declare the entire balance hereof immediately due and payable.

V. Additional Rights of Holder

If any installment of principal or interest hereunder is not paid when due, the Holder shall have the following rights in addition to the rights set forth herein, in the Agreement, and under law:

A. the right to compound interest by adding the unpaid interest to principal, with such combined amount thereafter bearing interest at the rate provided in this Note; and

B. if any installment is more than ten (10) days past due, the right to collect a charge equal to five percent (5%) of the late payment for each month in which it is late. This charge is a result of a reasonable endeavor by the Maker and the Holder to estimate the Holder's added costs and damages resulting from the Maker's failure to make timely payments under this Note; hence the Maker agrees that the charge shall be presumed to be the amount of damage sustained by the Holder since it is extremely difficult to determine the actual amount

necessary to reimburse the Holder for damages.

VI. General Provisions

A. If this Note is not paid when due, the Maker further promises to pay all costs of collection, foreclosure fees, and reasonable attorneys' fees incurred by the Holder, whether or not suit is filed hereon.

B. The Maker hereby consents to any and all renewals, replacements, and/or extensions of time for payment of this Note before, at, or after maturity.

C. The Maker hereby consents to the acceptance, release, or substitution of security for this Note.

D. Presentment for payment, notice of dishonor, protest, and notice of protest are hereby expressly waived.

E. Any waiver of any rights under this Note, the Agreement, or under any other agreement, instrument, or paper signed by the Maker is neither valid nor effective unless made in writing and signed by the Holder.

F. No delay or omission on the part of the Holder in exercising any right shall operate as a waiver thereof or of any other right.

G. A waiver by the Holder upon any one occasion shall not be construed as a bar or waiver of any right or remedy on any future occasion.

H. Should any one or more of the provisions of this Note be determined illegal or unenforceable, all other provisions shall nevertheless remain effective.

I. This Note cannot be changed, modified, amended, or terminated orally.

VII. Security for the Note

This Note is secured by the Agreement, and is subject to all of the terms and conditions thereof including, but not limited to, the remedies specified therein.

VIII. Choice of Law and Venue. THE VALIDITY OF THIS NOTE, ITS CONSTRUCTION, INTERPRETATION, AND ENFORCEMENT, AND THE RIGHTS OF THE MAKER AND THE HOLDER, SHALL BE DETERMINED UNDER, GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH THE INTERNAL LAWS OF THE STATE OF CALIFORNIA, WITHOUT REGARD TO PRINCIPLES OF CONFLICTS OF LAW. THE MAKER HEREBY AGREES THAT ALL ACTIONS OR

PROCEEDINGS ARISING IN CONNECTION WITH THIS NOTE SHALL BE TRIED AND DETERMINED ONLY IN THE STATE AND FEDERAL COURTS LOCATED IN THE COUNTY OF LOS ANGELES, STATE OF CALIFORNIA, OR, AT THE SOLE OPTION OF THE HOLDER, IN ANY OTHER COURT IN WHICH THE HOLDER SHALL INITIATE LEGAL OR EQUITABLE PROCEEDINGS AND WHICH HAS SUBJECT MATTER JURISDICTION OVER THE MATTER IN CONTROVERSY. THE MAKER HEREBY EXPRESSLY WAIVES, TO THE EXTENT PERMITTED UNDER APPLICABLE LAW, ANY RIGHT IT MAY HAVE TO ASSERT THE DOCTRINE OF FORUM NON CONVENIENS OR TO OBJECT TO VENUE TO THE EXTENT ANY PROCEEDING IS BROUGHT IN ACCORDANCE WITH THIS SECTION.

IX. Waiver of Jury Trial. MAKER HEREBY WAIVES ITS RIGHTS TO A JURY TRIAL OF ANY CLAIM OR CAUSE OF ACTION BASED UPON OR ARISING OUT OF THIS NOTE OR ANY OF THE TRANSACTIONS CONTEMPLATED HEREIN INCLUDING CONTRACT CLAIMS TORT CLAIMS, BREACH OF DUTY CLAIMS AND ALL OTHER COMMON LAW OR STATUTORY CLAIM. MAKER REPRESENTS THAT IT HAS REVIEWED THIS WAIVER AND IT KNOWINGLY AND VOLUNTARILY WAIVES ITS JURY TRIAL RIGHTS FOLLOWING CONSULTATION WITH LEGAL COUNSEL. IN THE EVENT OF LITIGATION A COY OF THIS AGREEMENT MAY BE FILED AS A WRITTEN CONSENT TO A TRIAL BY THE COURT.

IN WITNESS WHEREOF, this Note has been executed and delivered on the date first set forth above.

VICTORIA CREATIONS, INC.,
a Rhode Island corporation

By /s/ Norman R. Forson
Title Senior Vice President

AMENDED AND RESTATED
LOAN AND SECURITY AGREEMENT

by and between

VICTORIA CREATIONS, INC.

and

FOOTHILL CAPITAL CORPORATION

Dated as of July 31, 1995

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- LOAN AND SECURITY AGREEMENT

This AMENDED AND RESTATED LOAN AND SECURITY AGREEMENT, is entered into as of July 31, 1995, between FOOTHILL CAPITAL CORPORATION, a California corporation ("Foothill"), with a place of business located at 11111 Santa Monica Boulevard, Suite 1500, Los Angeles, California 90025-3333, and VICTORIA CREATIONS, INC., a Rhode Island corporation ("Borrower"), with its chief executive office located at 30 Jefferson Park Road, Warwick, Rhode Island 02888.

The parties agree as follows:

1. DEFINITIONS AND CONSTRUCTION.

1.1 Definitions. As used in this Agreement, the following terms shall have the following definitions:

"Account Debtor" means any Person who is or who may become obligated under, with respect to, or on account of an Account.

"Accounts" means all currently existing and hereafter arising accounts, contract rights, and all other forms of obligations owing to Borrower arising out of the sale or lease of goods or the rendition of services by Borrower, irrespective of whether earned by performance, and any and all credit insurance, guaranties, or security therefor.

"Act" means all applicable laws, regulations, and ordinances, where a property is located, of any federal, state, or

local government, instrumentality, or body, and that are related to Hazardous Materials, as the same may be amended, modified, or supplemented from time to time.

"ADA" means the Americans with Disabilities Act, 42 U.S.C. Section 12101, et. seq., and all applicable rules and regulations promulgated thereunder.

"Affiliate" means, as applied to any Person, any other Person directly or indirectly controlling, controlled by, or under common control with, that Person. For purposes of this definition, "control" as applied to any Person means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of that Person, whether through the ownership of voting securities, by contract, or otherwise.

"Agreement" means this Amended and Restated Loan and Security Agreement and any extensions, riders supplements, notes, amendments, or modifications to or in connection with this Amended and Restated Loan and Security Agreement. Borrower.

"Bankruptcy Code" means the United States Bankruptcy Code (11 U.S.C. Section 101 et seq.), as amended, and any successor statute.

"Borrower" has the meaning set forth in the preamble to this Agreement.

"Borrower's Books" means all of Borrower's books and records including: ledgers; records indicating, summarizing, or evidencing Borrower's properties or assets (including the Collateral) or liabilities; all information relating to Borrower's business operations or financial condition; and all computer programs, disc or tape files, printouts, runs, or other computer prepared information, and the equipment containing such information.

"Borrowing Base" has the meaning set forth in Section 2.1.

"Business Day" means any day which is not a Saturday, Sunday, or other day on which national banks are authorized or required to close.

"Change of Control" shall be deemed to have occurred at such time as UM&M ceases to own, directly or indirectly, a minimum of fifty one percent (51%) of the total voting power of all classes of stock then outstanding of Borrower normally entitled to vote in the election of directors.

"Closing Date" means the date of the initial

advance.

"Code" means the California Uniform Commercial Code.

"Collateral" means each of the following: the Accounts; Borrower's Books; the Equipment; the General Intangibles; the Inventory; the Negotiable Collateral; any money, or other assets of Borrower which now or hereafter come into the possession, custody, or control of Foothill; and the proceeds and products, whether tangible or intangible, of any of the foregoing including proceeds of insurance covering any or all of the Collateral, and any and all Accounts, Borrower's Books, Equipment, General Intangibles, Inventory, Negotiable Collateral, money, deposit accounts, or other tangible or intangible property resulting from the sale, exchange, collection, or other disposition of any of the foregoing, or any portion thereof or interest therein, and the proceeds thereof.

"Daily Balance" means the amount of an Obligation owed at the end of a given day.

"Eligible Accounts" means those Accounts created Borrower's sale of goods or rendition of services, that strictly comply with all of Borrower's representations and warranties to Foothill, and that are and at all times shall continue to be acceptable to Foothill in all respects; provided, however, that standards of eligibility may be fixed and revised from time to time by Foothill in Foothill's reasonable credit judgment. Eligible Accounts shall not include the following:

(a) Accounts that the Account Debtor has failed to pay within ninety (90) days of due date or Accounts with selling terms of more than sixty (60) days and all Accounts owed by an Account Debtor that has failed to pay fifty percent (50%) or more of its Accounts owed to Borrower within ninety (90) days of due date;

(b) Accounts with respect to which the Account Debtor is an officer, employee, Affiliate, or agent of Borrower;

(c) Accounts with respect to which goods are placed on consignment, guaranteed sale, sale or return, sale on approval, bill and hold (provided, however, that Accounts in respect of bill and hold goods may constitute Eligible Accounts if documentation satisfactory to Foothill evidences the terms of such bill and hold relationship), or other terms by reason of which the payment by the Account Debtor may be conditional;

(d) Accounts with respect to which the Account Debtor is not a resident of the United States, and which are not either (i) covered by credit insurance in form and amount, and by an insurer, satisfactory to Foothill, or (ii) supported by one or more

letters of credit that are assignable by their terms and have been delivered to Foothill in an amount, of a tenor, and issued by a financial institution, reasonably acceptable to Foothill;

(e) Accounts with respect to which the Account Debtor is the United States or any department, agency, or instrumentality of the United States other than military exchanges, including the Army and Navy Exchanges;

(f) Accounts with respect to which Borrower is or may become liable to the Account Debtor for goods sold or services rendered by the Account Debtor to Borrower;

(g) Accounts with respect to an Account Debtor whose total obligations owing to Borrower exceed fifteen percent (15%) of all Eligible Accounts (or, in the case of J.C. Penney Company, Inc. and Sears, Roebuck & Company, forty percent (40%) each, or in the case of Dillard's Department Stores and The Estee Lauder Companies, twenty percent (20%) each), to the extent of the obligations owing by such Account Debtor in excess of such percentage;

(h) Accounts with respect to which the Account Debtor disputes liability or makes any claim with respect thereto (to Proceeding, or becomes insolvent, or goes out of business;

(i) Accounts the collection of which Foothill, in its reasonable credit judgment, believes to be doubtful by reason of the Account Debtor's financial condition;

(j) Accounts that are payable in other than United States Dollars; and

(k) Accounts that represent progress payments or other advance billings that are due prior to the completion of performance by Borrower of the subject contract for goods or services.

"Eligible Inventory" means Inventory consisting of first quality finished goods held for sale in the ordinary course of Borrower's business and raw materials for such finished goods, and work in process, that are located at Borrower's premises identified on Schedule E-1, that strictly comply with all of Borrower's representations and warranties to Foothill, and that are acceptable to Foothill in all respects; provided, however, that standards of eligibility may be fixed and revised from time to time by Foothill in Foothill's reasonable credit judgment. Eligible Inventory shall not include the following: (a) slow moving or obsolete items, (b) restrictive items, (c) spare parts, packaging, and shipping materials, (d) supplies used or consumed in Borrower's business, (e) Inventory at any location other than those set forth on Schedule E-1, (f)

Inventory subject to a security interest or lien in favor of any third Person except for a junior Permitted Lien, (g) bill and hold goods, (h) Inventory that is not subject to Foothill's perfected security interests, (i) defective goods, (j) "seconds," and (k) Inventory acquired by Borrower on consignment. Eligible Inventory shall be valued at the lower of Borrower's cost or market value.

"Equipment" means all of Borrower's present and hereafter acquired machinery, machine tools, motors, equipment, furniture, furnishings, fixtures, vehicles (including motor vehicles and trailers), tools, parts, dies, jigs, goods (other than consumer goods, farm products, or Inventory), wherever located, and any interest of Borrower in any of the foregoing, and all attachments, accessories, accessions, replacements, substitutions, additions, and improvements to any of the foregoing, wherever located.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended from time to time, or any predecessor, successor, or superseding laws of the United States of America, together with all regulations promulgated thereunder.

"ERISA Affiliate" means any trade or business (whether or not incorporated) which, within the meaning of Section 414 of the IRC, is: (i) under common control with Borrower; (ii) treated, together with Borrower, as a single employer; (iii) treated as a member of an affiliated service group of which aggregated with the Borrower for purposes of the employee benefits requirements listed in IRC Section 414(m)(4).

"ERISA Event" means any one or more of the following: (i) a Reportable Event with respect to a Qualified Plan or a Multiemployer Plan; (ii) a Prohibited Transaction with respect to any Plan; (iii) a complete or partial withdrawal by Borrower or any ERISA Affiliate from a Multiemployer Plan; (iv) the complete or partial withdrawal of Borrower or an ERISA Affiliate from a Qualified Plan during a plan year in which it was, or was treated as, a "substantial employer" as defined in Section 4001(a)(2) of ERISA; (v) a failure to make full payment when due of all amounts which, under the provisions of any Plan or applicable law, Borrower or any ERISA Affiliate is required to make; (vi) the filing of a notice of intent to terminate, or the treatment of a plan amendment as a termination, under Sections 4041 or 4041A of ERISA; (vii) an event or condition which might reasonably be expected to constitute grounds under Section 4042 of ERISA for the termination of, or the appointment of a trustee to administer, any Qualified Plan or Multiemployer Plan; (viii) the imposition of any liability under Title IV of ERISA, other than PBGC premiums due but not delinquent under Section 4007 of ERISA, upon Borrower or any ERISA Affiliate; and (ix) a violation of the applicable requirements of Sections 404 or 405 of ERISA, or the exclusive benefit rule under Section 403(c) of ERISA, by any fiduciary or disqualified person with respect to any Plan for which

Borrower or any ERISA Affiliate may be directly or indirectly liable.

"Event of Default" has the meaning set forth in Section 8.

"FEIN" means Federal Employer Identification Number.

"Foothill" has the meaning set forth in the preamble to this Agreement.

"Foothill Expenses" means all: costs or expenses (including taxes, photocopying, notarization, telecommunication and insurance premiums) required to be paid by Borrower under any of the Loan Documents that are paid or advanced by Foothill; documentation, filing, recording, publication, appraisal (including periodic Collateral appraisals), and search fees assessed, paid, or incurred by Foothill in connection with Foothill's transactions with Borrower; costs and expenses incurred by Foothill in preserving the value of the Collateral; costs and expenses incurred by Foothill in the disbursement of funds to Borrower (by wire transfer or otherwise); charges paid or incurred by Foothill resulting from the dishonor of checks; costs and expenses paid or incurred by Foothill to correct any default or enforce any provision of the Loan Documents, or in gaining possession of, maintaining, handling, preserving, storing, shipping, selling, preparing for sale, or advertising to sell the Collateral, or any portion thereof, irrespective of whether a sale is consummated; costs and expenses paid or expenses of third party claims or any other suit paid or incurred by Foothill in enforcing or defending the Loan Documents; and Foothill's reasonable attorneys fees and expenses incurred in advising, structuring, drafting, reviewing, administering, amending, terminating, enforcing (including attorneys fees and expenses incurred in connection with a "workout," a "restructuring," or an Insolvency Proceeding concerning Borrower or any guarantor of the Obligations), defending, or concerning the Loan Documents, irrespective of whether suit is brought.

"GAAP" means generally accepted accounting principles as in effect from time to time in the United States, consistently applied.

"General Intangibles" means all of Borrower's present and future general intangibles and other personal property (including contract rights, rights arising under common law, statutes, or regulations, choses or things in action, goodwill, patents, trade names, trademarks, servicemarks, copyrights, blueprints, drawings, purchase orders, customer lists, monies due or recoverable from pension funds, route lists, rights to payment and other rights under any royalty or licensing agreements, infringements, claims, computer programs, computer discs, computer tapes, literature,

reports, catalogs, deposit accounts, insurance premium rebates, tax refunds, and tax refund claims), other than goods and Accounts.

"Hazardous Materials" means:

(a) those substances as defined as "hazardous substances," "hazardous materials," "toxic substances," or "solid waste" in the Comprehensive Environmental Response, Compensation and Liability Act, Resource Conservation and Recovery Act, 42 U.S.C. Section 6901 et seq. ("RCRA"), or the Hazardous Materials Transportation Act, 49 U.S.C. Section 1801 et seq., and in the regulations promulgated pursuant thereto;

(b) those substances designated as a "hazardous substance" under or pursuant to the Federal Water Pollution Control Act, 33 U.S.C. Section 1257 et seq., or defined as a "hazardous waste" under or pursuant to RCRA and in the regulations promulgated pursuant thereto;

(c) those substances listed in the United States Department of Transportation Table (40 CFR 172.101 and amendments thereto) or by the Environmental Protection Agency (or any successor agency) as hazardous substances (40 CFR Part 302 and amendments thereto); and

(d) such other substances, materials and wastes which are regulated under any act, or which are classified as hazardous or toxic under any Act.

"Indebtedness" means: (a) all obligations of

evidenced by bonds, debentures, notes, or other similar instruments and all reimbursement or other obligations of Borrower in respect of letters of credit, letter of credit guaranties, bankers acceptances, interest rate swaps, controlled disbursement accounts, or other financial products; (c) all obligations under capitalized leases; (d) all obligations or liabilities of others secured by a lien or security interest on any property or asset of Borrower, irrespective of whether such obligation or liability is assumed; and (e) any obligation of Borrower guaranteeing or intended to guarantee (whether guaranteed, endorsed, co-made, discounted, or sold with recourse to Borrower) any indebtedness, lease, dividend, letter of credit, or other obligation of any other Person.

"Indemnified Persons" means Foothill and its parents, subsidiaries and affiliates, attorneys, and each of their officers, directors, agents, employees, trustees, receivers, executors, and administrators, and the heirs, successors, and assigns of all of the foregoing.

"Insolvency Proceeding" means any proceeding

commenced by or against any Person under any provision of the Bankruptcy Code or under any other bankruptcy or insolvency law, including assignments for the benefit of creditors, formal or informal moratoria, compositions, extensions generally with its creditors, or proceedings seeking reorganization, arrangement, or other similar relief.

"Inventory" means all present and future inventory in which Borrower has any interest, including goods held for sale or lease or to be furnished under a contract of service and all of Borrower's present and future raw materials, work in process, finished goods, and packing and shipping materials, wherever located, and any documents of title representing any of the above.

"IRC" means the Internal Revenue Code of 1986, as amended, and the regulations thereunder.

"Loan Documents" means this Agreement, the Term Note, the Lock Box Agreements, any note or notes executed by Borrower and payable to Foothill, and any other agreement entered into in connection with this Agreement, including the Patent and Trademark Security Agreement dated as of June 28, 1994.

"Lock Box" has the meaning provided in the respective Lock Box Agreements.

"Lock Box Agreements" means those certain Lockbox Operating Procedural Agreements and Depository Account Agreements, each of which is among Borrower, Foothill, and the Lock Box Bank.

"Lock Box Bank" means Harris Trust and Savings Bank. contingent liabilities, damages, obligations, claims, contingent claims, actions, suits, proceedings, disbursements, penalties, costs, and expenses (including, without limitation, actual attorneys' fees and costs of counsel retained by Foothill to monitor the proceedings and actions of Borrower in satisfying its obligations hereunder, and to advise and represent Foothill with respect to matters related hereto, including, without limitation, fees incurred pursuant to 11 U.S.C.) and all other professional or consultants' fees and expenses), whether or not an action or proceeding is commenced or threatened.

"Maturity Date" has the meaning set forth in Section 3.3.

"Maximum Amount" has the meaning set forth in Section 2.1.

"Multiemployer Plan" means a multiemployer plan as defined in Sections 3(37) or 4001(a)(3) of ERISA or Section 414 of

the IRC in which employees of Borrower or an ERISA Affiliate participate or to which Borrower or any ERISA Affiliate contribute or are required to contribute.

"Negotiable Collateral" means all of Borrower's present and future letters of credit, notes, drafts, instruments, certificated and uncertificated securities (including the shares of stock of subsidiaries of Borrower), documents, personal property leases (wherein Borrower is the lessor), chattel paper, and Borrower's Books relating to any of the foregoing.

"Obligations" means all loans, advances, debts, principal, interest (including any interest that, but for the provisions of the Bankruptcy Code, would have accrued), premiums, liabilities (including all amounts charged to Borrower's loan account pursuant to any agreement authorizing Foothill to charge Borrower's loan account), obligations, fees, lease payments, guaranties, covenants, and duties owing by Borrower to Foothill of any kind and description (whether pursuant to or evidenced by the Loan Documents, by any note or other instrument (including the Term Note), or pursuant to any other agreement between Foothill and Borrower, and irrespective of whether for the payment of money), whether direct or indirect, absolute or contingent, due or to become due, now existing or hereafter arising, and further including all interest not paid when due and all Foothill Expenses that Borrower is required to pay or reimburse by the Loan Documents, by law, or otherwise.

"Overadvance" has the meaning set forth in Section 2.4.

"PBGC" means the Pension Benefit Guaranty Corporation as defined in Title IV of ERISA, or any successor thereto.

interests held by Foothill; (b) liens for unpaid taxes that are not yet due and payable; (c) purchase money security interests and liens of lessors under capitalized leases to the extent that the acquisition or lease of the underlying asset was permitted under Section 7.10, and so long as the security interest or lien only secures the purchase price of the asset; (d) easements, rights of way, reservations, covenants, conditions, restrictions, zoning variances, and other similar encumbrances that do not materially interfere with the use or value of the property subject thereto; (e) obligations and duties as lessee under any lease existing on the date of this Agreement; (f) carriers', warehousemen's, mechanics', materialmen's, repairmen's or other like liens arising in the ordinary course of business which are not overdue for a period of more than thirty (30) days or which are being contested in good faith and by appropriate proceedings if adequate reserves with respect thereto are maintained on the books of the Borrower in accordance with GAAP or for which a bond in the

full amount thereof has been posted; (g) pledges or deposits under worker's compensation, unemployment insurance and other social security legislation; and (h) deposits to secure the performance of bids, trade contracts (other than for borrowed money), leases, statutory obligations, surety and appeal bonds, performance bonds and other obligations of a like nature incurred in the ordinary course of business.

"Person" means and includes natural persons, corporations, limited partnerships, general partnerships, joint ventures, trusts, land trusts, business trusts, or other organizations, irrespective of whether they are legal entities, and governments and agencies and political subdivisions thereof.

"Plan" means an employee benefit plan (as defined in Section 3(3) of ERISA) which Borrower or any ERISA Affiliate sponsors or maintains or to which Borrower or any ERISA Affiliate makes, is making, or is obligated to make contributions, including any Multiemployer Plan or Qualified Plan.

"Prohibited Transaction" means any transaction described in Section 406 of ERISA which is not exempt by reason of Section 408 of ERISA, and any transaction described in Section 4975(c) of the IRC which is not exempt by reason of Section 4975(c) of the IRC.

"Qualified Plan" means a pension plan (as defined in Section 3(2) of ERISA) intended to be tax-qualified under Section 401(a) of the IRC which Borrower or any ERISA Affiliate sponsors, maintains, or to which any such person makes, is making, or is obligated to make, contributions, or, in the case of a multiple-employer plan (as described in Section 4064(a) of ERISA), has made contributions at any time during the immediately preceding period covering at least five (5) plan years, but excluding any Multiemployer Plan.

rates of interest, per annum, most recently announced by (a) Bank of America, N.T. & S.A., (b) Mellon Bank, N.A., and (c) Citibank, N.A., or any successor to any of the foregoing institutions, as its "prime rate" or "reference rate," as the case may be, irrespective of whether such announced rate is the best rate available from such financial institution.

"Reportable Event" means any event described in Section 4043 (other than Subsections (b)(7) and (b)(9)) of ERISA.

"Term Note" has the meaning set forth in Section 2.2.

"UM&M" means United Merchants and

Manufacturers, Inc., a Delaware corporation.

"UM&M Guaranty" means that certain Continuing Guaranty, of even date herewith, by UM&M in favor of Foothill, respecting the Obligations.

"UM&M Loan Agreement" means that certain Loan and Security Agreement, dated as of June 28, 1994, between Foothill and UM&M, and any amendments, replacements, renewals, and substitutions thereto.

"Unfunded Benefit Liability" means the excess of a Plan's benefit liabilities (as defined in Section 4001(a)(16) of ERISA) over the current value of such Plan's assets, determined in accordance with the assumptions used by the Plan's actuaries for funding the Plan pursuant to Section 412 of the IRC for the applicable plan year.

"Voidable Transfer" has the meaning set forth in Section 15.8.

1.2 Accounting Terms. All accounting terms not specifically defined herein shall be construed in accordance with GAAP. When used herein, the term "financial statements" shall include the notes and schedules thereto. Whenever the term "Borrower" is used in respect of a financial covenant or a related definition, it shall be understood to mean Borrower on a consolidated basis unless the context clearly requires otherwise.

1.3 Code. Any terms used in this Agreement which are defined in the Code shall be construed and defined as set forth in the Code unless otherwise defined herein.

1.4 Construction. Unless the context of this Agreement clearly requires otherwise, references to the plural include the singular, references to the singular include the plural, the term "including" is not limiting, and the term "or" has, except where otherwise indicated, the inclusive meaning represented by the phrase "and/or." The words "hereof," "herein," "hereby," Agreement as a whole and not to any particular provision of this Agreement. Section, subsection, clause, schedule, and exhibit references are to this Agreement unless otherwise specified. Any reference in this Agreement or in the Loan Documents to this Agreement or any of the Loan Documents shall include all alterations, amendments, changes, extensions, modifications, renewals, replacements, substitutions, and supplements, thereto and thereof, as applicable.

1.5 Schedules and Exhibits. All of the schedules and exhibits attached to this Agreement shall be deemed incorporated herein by reference.

2. LOAN AND TERMS OF PAYMENT.

2.1 Revolving Advances.

(a) Subject to the terms and conditions of this Agreement, Foothill agrees to make revolving advances to Borrower in an amount not to exceed the Borrowing Base. For purposes of this Agreement, "Borrowing Base" shall mean the sum of: (i) an amount equal to the lesser of: (v) seventy-five percent (75%) of the amount of Eligible Accounts, and (w) an amount equal to Borrower's cash collections for the immediately preceding ninety (90) day period; plus (ii) an amount equal to the lowest of: (x) fifty percent (50%) of the amount of Eligible Inventory, net of reserves not otherwise excluded in the definition of Eligible Inventory, (y) two (2) times the amount of credit availability created by Section 2.1(a)(i) above, and (z) Ten Million Dollars (\$10,000,000). Foothill shall establish reasonable reserves against Eligible Inventory for obsolescence, shrinkage, and damaged goods not otherwise excluded in the definition of Eligible Inventory, and for Inventory, if any, that is subject to landlord liens that are not subordinate to Foothill's security interests in such Inventory.

(b) Anything to the contrary in Section 2.1(a) above notwithstanding, Foothill may reduce its advance rates based upon Eligible Accounts or Eligible Inventory without declaring an Event of Default if it determines, in its reasonable discretion, that there is a material impairment of the prospect of repayment of all or any portion of the Obligations or a material impairment of the value or priority of Foothill's security interests in the Collateral.

(c) Foothill shall have no obligation to make advances hereunder to the extent they would cause the outstanding advances under this Section 2.1 to exceed Fifteen Million Dollars (\$15,000,000) ("Maximum Amount").

(d) Foothill is authorized to make advances under this Agreement based upon telephonic or other instructions received from anyone purporting to be an Authorized Officer of Borrower, or without instructions if pursuant to Section 2.5(c). Borrower agrees to establish and maintain a single designated advances requested by Borrower and made by Foothill hereunder. Unless otherwise agreed by Foothill and Borrower, any advance requested by Borrower and made by Foothill hereunder shall be made to such designated deposit account. Amounts borrowed pursuant to this Section 2.1 may be repaid and, subject to the terms and conditions of this Agreement, reborrowed at any time during the term of this Agreement.

2.2 Term Loan. Foothill has agreed to make a term loan to Borrower in the original principal amount of Five Million

Dollars (\$5,000,000), to be evidenced by and repayable in accordance with the terms and conditions of a promissory note (the "Term Note"), of even date herewith, executed by Borrower in favor of Foothill. All amounts evidenced by the Term Note shall constitute Obligations.

2.3 Intentionally Omitted.

2.4 Overadvances. If, at any time or for any reason, the amount of Obligations owed by Borrower to Foothill pursuant to Section 2.1 is greater than either the dollar or percentage limitations set forth in Section 2.1 (an "Overadvance"), Borrower immediately shall pay to Foothill, in cash, the amount of such excess to be used by Foothill to repay Obligations.

2.5 Interest: Rates, Payments, and Calculations.

(a) Interest Rate. Commencing July 1, 1995, all Obligations shall bear interest, on the average Daily Balance, at a per annum rate of three and one-half (3.50) percentage points above the Reference Rate.

(b) Default Rate. All Obligations shall bear interest, from and after the occurrence and during the continuance of an Event of Default, at a per annum rate equal to seven and one-half (7.50) percentage points above the Reference Rate.

(c) Minimum Interest. In no event shall the rate of interest chargeable hereunder be less than nine percent (9%) per annum. To the extent that interest accrued hereunder at the rate set forth herein (including the minimum interest rate) would yield less than the foregoing minimum amount, the interest rate chargeable hereunder for the period in question automatically shall be deemed increased to that rate that would result in the minimum amount of interest being accrued and payable hereunder.

(d) Payments. Interest hereunder shall be due and payable, in arrears, on the first day of each month during the term hereof. Borrower hereby authorizes Foothill, at its option, without prior notice to Borrower, to charge such interest, Foothill Expenses arising after the occurrence and during the continuance of an Event of Default (as and when incurred), and all installments or other payments due under the Term Note, any note or other Loan accrue interest at the rate then applicable hereunder. Any interest not paid when due shall be compounded by becoming a part of the Obligations, and such interest shall thereafter accrue interest at the rate then applicable hereunder.

(e) Computation. The Reference Rate as of this date is eight and three quarters percent (8.75%) per annum. In the event the Reference Rate is changed from time to time hereafter, the

applicable rate of interest hereunder automatically and immediately shall be increased or decreased by an amount equal to such change in the Reference Rate. The rates of interest charged hereunder shall be based upon the average Reference Rate in effect during the month. All interest and fees chargeable under the Loan Documents shall be computed on the basis of a three hundred sixty (360) day year for the actual number of days elapsed.

(f) Intent to Limit Charges to Maximum Lawful Rate. In no event shall the interest rate or rates payable under this Agreement and the Term Note, plus any other amounts paid in connection herewith, exceed the highest rate permissible under any law that a court of competent jurisdiction shall, in a final determination, deem applicable. Borrower and Foothill, in executing this Agreement and the Term Note intend to legally agree upon the rate or rates of interest and manner of payment stated within it; provided, however, that, anything contained herein or in the Term Note to the contrary notwithstanding, if said rate or rates of interest or manner of payment exceeds the maximum allowable under applicable law, then, ipso facto as of the date of this Agreement, Borrower is and shall be liable only for the payment of such maximum as allowed by law, and payment received from Borrower in excess of such legal maximum, whenever received, shall be applied to reduce the principal balance of the Obligations to the extent of such excess.

2.6 Crediting Payments; Application of Collections. The receipt of any wire transfer of funds, check, or other item of payment by Foothill (whether from transfers to Foothill by the Lock Box Bank pursuant to the Lock Box Agreements or otherwise) immediately shall be applied to provisionally reduce the Obligations, but shall not be considered a payment on account unless such wire transfer is of immediately available federal funds and is made to the appropriate deposit account of Foothill or unless and until such check or other item of payment is honored when presented for payment. Should any check or item of payment not be honored when presented for payment, then Borrower shall be deemed not to have made such payment, and interest shall be recalculated accordingly. Anything to the contrary contained herein notwithstanding, any wire transfer, check, or other item of payment shall be deemed received by Foothill only if it is received into Foothill's Operating Account (as such account is identified in the Lock Box Agreements) on or before 11:00 a.m. Los Angeles time. If any wire transfer, check, or other item of payment is received into Foothill's Operating Account (as such account is identified in the deemed to have been received by Foothill as of the opening of business on the immediately following Business Day.

2.7 Statements of Obligations. Foothill shall render statements to Borrower of the Obligations, including principal, interest, fees, and including an itemization of all charges and

expenses constituting Foothill Expenses owing, and such statements shall be conclusively presumed to be correct and accurate and constitute an account stated between Borrower and Foothill unless, within thirty (30) days after receipt thereof by Borrower, Borrower shall deliver to Foothill by registered or certified mail at its address specified in Section 12, written objection thereto describing the error or errors contained in any such statements.

2.8 Fees. Borrower shall pay to Foothill's customary fee of Six Hundred Fifty Dollars (\$650) per day per examiner, plus reasonable out-of-pocket expenses for each financial analysis and examination of Borrower performed by Foothill or its agents; Foothill's customary appraisal fee of One Thousand Dollars (\$1,000) per day per appraiser, plus reasonable out-of-pocket expenses for each appraisal of the Collateral performed by Foothill or its agents. Prior to the occurrence of an Event of Default or Foothill deeming itself insecure, financial examinations will not be conducted more frequently than quarterly.

3. CONDITIONS; TERM OF AGREEMENT.

3.1 Conditions Precedent to Initial Advance. The obligation of Foothill to make the initial advance is subject to the fulfillment, to the satisfaction of Foothill and its counsel, of each of the following conditions on or before the Closing Date:

(a) the Closing Date shall occur on or before July 31, 1995;

(b) Foothill shall have received each of the following documents, duly executed, and each such document shall be in full force and effect:

i) a reaffirmation of the UM&M Guaranty;
and

ii) the Term Note.

(c) Foothill shall have received a certificate from the Secretary of Borrower attesting to the resolutions of Borrower's Board of Directors authorizing its execution and delivery of this Agreement and the other Loan Documents to which Borrower is a party and authorizing specific officers of Borrower to execute same;

(d) Foothill shall have received a certificate of corporate status with respect to Borrower, dated within ten (10) incorporation of Borrower, which certificate shall indicate that Borrower is in good standing in such state;

(e) Foothill shall have received certificates of

corporate status with respect to Borrower, each dated within fifteen (15) days of the Closing Date, such certificates to be issued by the Secretary of State of the states in which its failure to be duly qualified or licensed would have a material adverse effect on the financial condition or properties and assets of Borrower, which certificates shall indicate that Borrower is in good standing;

(f) Foothill shall have received an opinion of Borrower's counsel in form and substance satisfactory to Foothill in its sole discretion; and

(g) all other documents and legal matters in connection with the transactions contemplated by this Agreement shall have been delivered or executed or recorded and shall be in form and substance satisfactory to Foothill and its counsel.

3.2 Conditions Precedent to All Advances. The following shall be conditions precedent to all advances hereunder:

(a) the representations and warranties contained in this Agreement and the other Loan Documents shall be true and correct in all respects on and as of the date of such advance as though made on and as of such date (except to the extent that such representations and warranties relate solely to an earlier date);

(b) no Event of Default or event which with the giving of notice or passage of time would constitute an Event of Default shall have occurred and be continuing on the date of such advance nor shall either result from the making of the advance; and

(c) no injunction, writ, restraining order, or other order of any nature prohibiting, directly or indirectly, the making of such advance shall have been issued and remain in force by any governmental authority against Borrower, Foothill, or any of their Affiliates.

3.3 Term; Automatic Renewal. This Agreement shall become effective upon the execution and delivery hereof by Borrower and Foothill and shall continue in full force and effect for a term ending on June 15, 1998 (the "Renewal Date") and automatically shall be renewed for successive one (1) year periods thereafter, unless sooner terminated pursuant to the terms hereof. Either party may terminate this Agreement effective on the Renewal Date or on any year anniversary of the Renewal Date by giving the other party at least thirty (30) days prior written notice by registered or certified mail, return receipt requested. The foregoing notwithstanding, Foothill shall have the right to terminate its obligations under this Agreement immediately and without notice upon the occurrence and during the continuation of an Event of Default. all Obligations immediately shall become due and payable without notice or demand. No termination of this Agreement, however, shall

relieve or discharge Borrower of Borrower's duties, Obligations, or covenants hereunder, and Foothill's continuing security interests in the Collateral shall remain in effect until all Obligations have been fully and finally discharged and Foothill's obligation to provide advances hereunder is terminated.

3.5 Early Termination by Borrower. The provisions of Section 3.3 that allow termination of this Agreement by Borrower only on the Renewal Date and certain anniversaries thereof notwithstanding, Borrower has the option, at any time upon thirty (30) days prior written notice to Foothill, to terminate this Agreement by paying to Foothill, in cash, the Obligations, without premium or penalty.

4. CREATION OF SECURITY INTEREST.

4.1 Grant of Security Interest. Borrower hereby grants to Foothill a continuing security interest in all currently existing and hereafter acquired or arising Collateral in order to secure prompt repayment of any and all Obligations and in order to secure prompt performance by Borrower of each of its covenants and duties under the Loan Documents. Foothill's security interests in the Collateral shall attach to all Collateral without further act on the part of Foothill or Borrower. Anything contained in this Agreement or any other Loan Document to the contrary notwithstanding, and other than sales of Inventory to buyers in the ordinary course of business and those actions contemplated by Section 7.4 and Schedule 7.4, Borrower has no authority, express or implied, to dispose of any item or portion of the Collateral.

4.2 Negotiable Collateral. In the event that any Collateral, including proceeds, is evidenced by or consists of Negotiable Collateral, Borrower shall, immediately upon the request of Foothill, endorse and assign such Negotiable Collateral to Foothill and deliver physical possession of such Negotiable Collateral to Foothill.

4.3 Collection of Accounts, General Intangibles, Negotiable Collateral. Foothill, Borrower, and the Lock Box Bank shall enter into the Lock Box Agreements, in form and substance satisfactory to Foothill in its sole discretion, pursuant to which all of Borrower's cash receipts, checks, and other items of payment (including, insurance proceeds, proceeds of cash sales, rental proceeds, and tax refunds) will be forwarded to Foothill on a daily basis. At any time after the occurrence and during the continuance of an Event of Default or after Foothill, in its reasonable judgment, deems itself insecure, Foothill or Foothill's designee may: (a) notify customers or Account Debtors of Borrower that the Accounts, General Intangibles, or Negotiable Collateral have been assigned to Foothill or that Foothill has a security interest therein; and (b) collect the Accounts, General Intangibles, and Negotiable Collateral directly and

Borrower agrees that it will hold in trust for Foothill, as Foothill's trustee, any cash receipts, checks, and other items of payment (including, insurance proceeds, proceeds of cash sales, rental proceeds, and tax refunds) that it receives and immediately will deliver said cash receipts, checks, and other items of payment to Foothill in their original form as received by Borrower except that Treza sales proceeds will be transferred to the Lock Box weekly.

4.4 Delivery of Additional Documentation Required. At any time upon the request of Foothill, Borrower shall execute and deliver to Foothill all financing statements, continuation financing statements, fixture filings, security agreements, chattel mortgages, pledges, assignments, endorsements of certificates of title, applications for title, affidavits, reports, notices, schedules of accounts, letters of authority, and all other documents that Foothill may reasonably request, in form satisfactory to Foothill, to perfect and continue perfected Foothill's security interests in the Collateral and in order to fully consummate all of the transactions contemplated hereby and under the other the Loan Documents.

4.5 Power of Attorney. Borrower hereby irrevocably makes, constitutes, and appoints Foothill (and any of Foothill's officers, employees, or agents designated by Foothill) as Borrower's true and lawful attorney, with power to: (a) send requests for verification of Accounts; (b) endorse Borrower's name on any checks, notices, acceptances, money orders, drafts, or other item of payment or security that may come into Foothill's possession; (c) at any time that an Event of Default has occurred and is continuing, settle and adjust disputes and claims respecting the Accounts directly with Account Debtors, for amounts and upon terms which Foothill determines to be reasonable, and Foothill may cause to be executed and delivered any documents and releases which Foothill determines to be necessary. The appointment of Foothill as Borrower's attorney, and each and every one of Foothill's rights and powers, being coupled with an interest, is irrevocable until all of the Obligations have been fully and finally repaid and performed and Foothill's obligation to extend credit hereunder is terminated.

4.6 Right to Inspect. Foothill (through any of its officers, employees, or agents) shall have the right, from time to time hereafter, during normal business hours, to inspect Borrower's Books and to check, test, and appraise the Collateral in order to verify Borrower's financial condition or the amount, quality, value, condition of, or any other matter relating to, the Collateral.

5. REPRESENTATIONS AND WARRANTIES.

Borrower represents and warrants to Foothill as follows:

5.1 No Prior Encumbrances. Borrower has good and indefeasible title to the Collateral, free and clear of liens, claims,

security interests, or encumbrances, except for Permitted Liens.

representations and warranties in this Section are based upon Borrower's knowledge after reasonable review in accordance with normal and prudent business practices. The Eligible Accounts are, at the time of the creation thereof and as of each date on which Borrower includes them in a Borrowing Base calculation or certification, bona fide existing obligations created by the sale and delivery of Inventory or the rendition of services to Account Debtors in the ordinary course of Borrower's business, unconditionally owed to Borrower without defenses, disputes, offsets, counterclaims, or rights of return or cancellation. Except for Accounts arising from bill and hold sales, the property giving rise to such Eligible Accounts has been delivered to the Account Debtor, or to the Account Debtor's agent for immediate shipment to and unconditional acceptance by the Account Debtor. At the time of the creation of an Eligible Account and as of each date on which Borrower includes an Eligible Account in a Borrowing Base calculation or certification, Borrower has not received notice of actual or imminent bankruptcy, insolvency, or material impairment of the financial condition of any applicable Account Debtor regarding such Eligible Account.

5.3 Eligible Inventory. All Eligible Inventory is now and at all times hereafter shall be of good and merchantable quality, free from defects.

5.4 Location of Inventory and Equipment. The Inventory and Equipment are not stored with a bailee, warehouseman, or similar party (without Foothill's prior written consent) and are located only at the locations identified on Schedule 6.15 or otherwise permitted by Section 6.15.

5.5 Inventory Records. Borrower now keeps, and hereafter at all times shall keep, correct and accurate records itemizing and describing the kind, type, quality, and quantity of the Inventory, and Borrower's cost therefor.

5.6 Location of Chief Executive Office; FEIN. The chief executive office of Borrower is located at the address indicated in the preamble to this Agreement and Borrower's FEIN is 05-0301429.

5.7 Due Organization and Qualification. Borrower is duly organized and existing and in good standing under the laws of the state of its incorporation and qualified and licensed to do business in, and in good standing in, any state where the failure to be so licensed or qualified could reasonably be expected to have a material adverse effect on the business, operations, condition (financial or otherwise), finances, or prospects of Borrower or on the value of the Collateral to Foothill.

5.8 Due Authorization; No Conflict. The execution, delivery, and performance of the Loan Documents are within Borrower's corporate powers, have been duly authorized, and are not in conflict with nor constitute a breach of any provision contained will they constitute an event of default under any material agreement to which Borrower is a party or by which its properties or assets may be bound.

5.9 Litigation. There are no actions or proceedings pending by or against Borrower before any court or administrative agency and Borrower does not have knowledge or belief of any pending, threatened, or imminent litigation, governmental investigations, or claims, complaints, actions, or prosecutions involving Borrower or any guarantor of the Obligations, except for: (a) ongoing collection matters in which Borrower is the plaintiff; (b) matters disclosed on Schedule 5.9; and (c) matters arising after the date hereof that, if decided adversely to Borrower, would not materially impair the prospect of repayment of the Obligations or materially impair the value or priority of Foothill's security interests in the Collateral.

No Material Adverse Change in Financial Condition. All financial statements relating to Borrower or any guarantor of the Obligations that have been delivered by Borrower to Foothill have been prepared in accordance with GAAP and fairly present Borrower's (or such guarantor's, as applicable) financial condition as of the date thereof and Borrower's results of operations for the period then ended. There has not been a material adverse change in the financial condition of Borrower (or such guarantor, as applicable) since the date of the latest financial statements submitted to Foothill on or before the Closing Date.

5.11 No Transfer. No transfer of property is being made by Borrower and no obligation is being incurred by Borrower in connection with the transactions contemplated by this Agreement or the other Loan Documents with the intent to hinder, delay, or defraud either present or future creditors of Borrower.

5.12 Employee Benefits. Except as set forth in Schedule 5.12, each of the following provisions of this Section 5.12 is true. Each Plan is in compliance in all material respects with the applicable provisions of ERISA and the IRC. Each Qualified Plan and Multiemployer Plan has been determined by the Internal Revenue Service to qualify under Section 401 of the IRC, and the trusts created thereunder have been determined to be exempt from tax under Section 501 of the IRC, and, to the best knowledge of Borrower, nothing has occurred that would cause the loss of such qualification or tax-exempt status. There are no outstanding liabilities under Title IV of ERISA with respect to any Plan maintained or sponsored by Borrower or any ERISA Affiliate, nor with respect to any Plan to which Borrower or any ERISA Affiliate

contributes or is obligated to contribute which could reasonably be expected to have a material adverse effect on the financial condition of Borrower. No Plan subject to Title IV of ERISA has any Unfunded Benefit Liability which could reasonably be expected to have a material adverse effect on the financial condition of Borrower. Neither Borrower nor any ERISA Affiliate has transferred any ERISA Affiliate or has otherwise engaged in a transaction that could be subject to Sections 4069 or 4212(c) of ERISA which could reasonably be expected to have a material adverse effect on the financial condition of Borrower. Neither Borrower nor any ERISA Affiliate has incurred nor reasonably expects to incur (x) any liability (and no event has occurred which, with the giving of notice under Section 4219 of ERISA, would result in such liability) under Sections 4201 or 4243 of ERISA with respect to a Multiemployer Plan, or (y) any liability under Title IV of ERISA (other than premiums due but not delinquent under Section 4007 of ERISA) with respect to a Plan, which could, in either event, reasonably be expected to have a material adverse effect on the financial condition of Borrower. Within the past six (6) years, no application for a funding waiver or an extension of any amortization period pursuant to Section 412 of the IRC has been made with respect to any Plan. No ERISA Event has occurred or is reasonably expected to occur with respect to any Plan which could reasonably be expected to have a material adverse effect on the financial condition of Borrower. Borrower and each ERISA Affiliate have complied in all material respects with the notice and continuation coverage requirements of Section 4980B of the IRC.

5.13 Reliance by Foothill; Cumulative. Each warranty and representation contained in this Agreement automatically shall be deemed repeated with each advance and shall be conclusively presumed to have been relied on by Foothill regardless of any investigation made or information possessed by Foothill. The warranties and representations set forth herein shall be cumulative and in addition to any and all other warranties and representations that Borrower now or hereafter shall give, or cause to be given, to Foothill.

6. AFFIRMATIVE COVENANTS.

Borrower covenants and agrees that, so long as any credit hereunder shall be available and until full and final payment of the Obligations, and unless Foothill shall otherwise consent in writing, Borrower shall do all of the following:

6.1 Accounting System. Borrower shall maintain a standard and modern system of accounting in accordance with GAAP with ledger and account cards or computer tapes, discs, printouts, and records pertaining to the Collateral which contain information as from time to time may be requested by Foothill. Borrower also shall keep proper books of account showing all sales, claims, and allowances on its Inventory.

6.2 Collateral Reports. Borrower shall deliver to Foothill, no later than the tenth (10th) day of each month during the term of this Agreement, a detailed aging, by total, of the Accounts, a reconciliation statement, and a summary, by vendor, of all accounts payable, including due dates of invoices, and any book overdraft. Original sales invoices evidencing daily sales shall be mailed by Borrower to each Account Debtor with, at Foothill's request, a copy an Event of Default, at Foothill's direction, the invoices shall indicate on their face that the Account has been assigned to Foothill and that all payments are to be made directly to Foothill. Borrower shall deliver to Foothill, as Foothill may from time to time require, collection reports, sales journals, invoices, original delivery receipts, customer's purchase orders, shipping instructions, bills of lading, and other documentation respecting shipment arrangements. Absent such a request by Foothill, copies of all such documentation shall be held by Borrower as custodian for Foothill.

6.3 Schedules of Accounts. With such regularity as Foothill shall require, Borrower shall provide Foothill with schedules describing all Accounts. Foothill's failure to request such schedules or Borrower's failure to execute and deliver such schedules shall not affect or limit Foothill's security interests or other rights in and to the Accounts.

6.4 Financial Statements, Reports, Certificates. Borrower agrees to deliver to Foothill: (a) as soon as available, but in any event within forty-five (45) days after the end of each month during each of Borrower's fiscal years, a company prepared income statement and cash flow statement covering Borrower's operations during such period; and (b) as soon as available, but in any event within ninety (90) days after the end of each of Borrower's fiscal years, financial statements of Borrower for each such fiscal year, audited by KPMG Peat Marwick or by other independent certified public accountants reasonably acceptable to Foothill and certified, without any qualifications (other than going concern or consistency with prior year in the case of a change of accounting principle), by such accountants to have been prepared in accordance with GAAP, together with a certificate of such accountants addressed to Foothill stating that such accountants do not have knowledge of the existence of any event or condition constituting an Event of Default, or that would, with the passage of time or the giving of notice, constitute an Event of Default. Such audited financial statements shall include a balance sheet, profit and loss statement, and cash flow statement, and, if prepared, such accountants' letter to management. If Borrower is a parent company of one or more subsidiaries, or Affiliates, or is a subsidiary or Affiliate of another company, then, in addition to the financial statements referred to above, Borrower agrees to deliver financial statements prepared on a consolidating basis so as to present Borrower and each such related entity separately, and on a consolidated basis.

Together with the above, Borrower also shall deliver to Foothill Borrower's Form 10-Q Quarterly Reports, Form 10-K Annual Reports, and Form 8-K Current Reports, and any other filings made by Borrower with the Securities and Exchange Commission, if any, as soon as the same are filed, or any other information that is provided by Borrower to its shareholders, and any other report reasonably requested by Foothill relating to the Collateral and financial condition of Borrower.

provided pursuant to Section 6.4(a), Borrower shall deliver to Foothill a certificate signed by its chief financial officer to the effect that: (i) all reports, statements, or computer prepared information of any kind or nature delivered or caused to be delivered to Foothill hereunder have been prepared in accordance with GAAP (except for footnotes for monthly statements) and fairly present the financial condition of Borrower; (ii) Borrower is in timely compliance with all of its covenants and agreements hereunder; (iii) the representations and warranties of Borrower contained in this Agreement and the other Loan Documents are true and correct in all material respects on and as of the date of such certificate, as though made on and as of such date (except to the extent that such representations and warranties relate solely to an earlier date); and (iv) on the date of delivery of such certificate to Foothill there does not exist any condition or event that constitutes an Event of Default (or, in each case, to the extent of any non-compliance, describing such non-compliance as to which he or she may have knowledge and what action Borrower has taken, is taking, or proposes to take with respect thereto).

Borrower shall have issued written instructions to its independent certified public accountants authorizing them after the occurrence and during the continuance of an Event of Default or with Borrower's cooperation prior thereto, to communicate with Foothill and to release to Foothill whatever financial information concerning Borrower that Foothill may request. After the occurrence of an Event of Default, Borrower hereby irrevocably authorizes and directs all auditors, accountants, or other third parties to deliver to Foothill, at Borrower's expense, copies of Borrower's financial statements, papers related thereto, and other accounting records of any nature in their possession, and to disclose to Foothill any information they may have regarding Borrower's business affairs and financial conditions.

6.5 Tax Returns. Borrower agrees to deliver to Foothill copies of each of Borrower's future federal income tax returns, and any amendments thereto, within thirty (30) days of the filing thereof with the Internal Revenue Service.

6.6 Guarantor Reports. For so long as the UM&M Guaranty remains in effect, Borrower agrees to cause UM&M to

deliver its annual financial statements at the time when Borrower provides its audited financial statements to Foothill and copies of all federal income tax returns as soon as the same are available and in any event no later than thirty (30) days after the same are required to be filed by law.

6.7 Designation of Inventory. Borrower shall now and from time to time hereafter, but not less frequently than monthly, execute and deliver to Foothill a designation of Inventory specifying the lower of Borrower's cost or market value of Borrower's raw materials, work in process, and finished goods, and further specifying such other information as Foothill may reasonably request. between Borrower and its Account Debtors shall be on the same basis and in accordance with the usual customary practices of Borrower, as they exist at the time of the execution and delivery of this Agreement. If, at a time when no Event of Default has occurred and is continuing, any Account Debtor returns any Inventory to Borrower, Borrower promptly shall determine the reason for such return and, if Borrower accepts such return, issue a credit memorandum in the appropriate amount to such Account Debtor. If, at a time when an Event of Default has occurred and is continuing, any Account Debtor returns any Inventory to Borrower, Borrower promptly shall determine the reason for such return and, if Foothill consents (which consent shall not be unreasonably withheld), issue a credit memorandum (with a copy to be sent to Foothill) in the appropriate amount to such Account Debtor. On a daily basis, Borrower shall notify Foothill of all returns and recoveries and of all disputes and claims of which it is aware.

6.9 Title to Equipment. Upon Foothill's request, Borrower immediately shall deliver to Foothill, properly endorsed, any and all evidences of ownership of, certificates of title, or applications for title to any items of Equipment.

6.10 Maintenance of Equipment. Borrower shall keep and maintain the Equipment in good operating condition and repair (ordinary wear and tear excepted) in accordance with past practices, and make all necessary replacements thereto so that the value and operating efficiency thereof shall at all times be maintained and preserved. Borrower shall not permit any item of Equipment to become a fixture (other than a trade fixture) to real estate or an accession to other property, and the Equipment is now and shall at all times remain personal property.

6.11 Taxes. All assessments and taxes, whether real, personal, or otherwise, due or payable by, or imposed, levied, or assessed against Borrower or any of its property have been paid, and shall hereafter be paid in full, before delinquency or before the expiration of any extension period. Borrower shall make due and timely payment or deposit of all federal, state, and local taxes, assessments, or contributions required of it by law, and will execute

and deliver to Foothill, on demand, appropriate certificates attesting to the payment thereof or deposit with respect thereto. Borrower will make timely payment or deposit of all tax payments and withholding taxes required of it by applicable laws, including those laws concerning F.I.C.A., F.U.T.A., state disability, and local, state, and federal income taxes, and will, upon request, furnish Foothill with proof satisfactory to Foothill indicating that Borrower has made such payments or deposits.

6.12 Insurance.

(a) Borrower, at its expense, shall keep the Collateral insured against loss or damage by fire, theft, explosion, sprinklers, and all other hazards and risks, and in such amounts, as businesses. Borrower also shall maintain business interruption, public liability, product liability, and property damage insurance, as well as insurance against larceny, embezzlement, and criminal misappropriation.

(b) All insurance required herein shall be written by companies of recognized financial standing, satisfactory to Foothill, which are authorized to do insurance business in the State of California. Such insurance shall be in form satisfactory to Foothill, shall with respect to hazard insurance and such other insurance as Foothill shall specify, name as the loss payee thereunder Borrower and Foothill, as their interests may appear, and shall contain a California Form 438BFU (NS) mortgagee endorsement, or its local equivalent. Every policy of insurance referred to in this Section shall contain an agreement by the insurer that it will not cancel such policy except after thirty (30) days' prior written notice to Foothill and that any loss payable thereunder shall be payable notwithstanding any act or negligence of Borrower or Foothill which might, absent such agreement, result in a forfeiture of all or a part of such insurance payment.

(c) Original policies or certificates thereof satisfactory to Foothill evidencing such insurance shall be delivered to Foothill at least thirty (30) days prior to the expiration of the existing or preceding policies. Borrower shall give Foothill prompt notice of any loss covered by such insurance and Foothill shall have the right to adjust any loss. Foothill shall have the exclusive right to adjust all losses in excess of One Hundred Fifty Thousand Dollars (\$150,000) payable under any such insurance policies without any liability to Borrower whatsoever in respect of such adjustments; provided, however that Foothill will consult with Borrower with respect of such adjustments and will act in a commercially reasonable manner in respect thereto. Any monies received as payment for any loss in excess of One Hundred Fifty Thousand Dollars (\$150,000) under any insurance policy including, but not limited to, the insurance policies mentioned above, shall be paid over to Foothill to be applied at the option of Foothill either to the

prepayment of the Obligations without premium, in such order or manner as Foothill may elect, or shall be disbursed to Borrower under stage payment terms satisfactory to Foothill for application to the cost of repairs, replacements or restorations. All restorations shall be effected with reasonable promptness and shall be of a value at least equal to the value of the items or property to destroyed prior to such damage or destruction. Upon the occurrence of an Event of Default, all prepaid premiums shall be the sole and absolute property of Foothill to be applied by Foothill to the payment of the Obligations in such order or form as Foothill shall determine.

(d) Borrower shall not take out separate insurance concurrent in form or contributing in the event of loss with that required to be maintained under this Section 6.12, unless Foothill is included thereon as named insured with the loss payable to Foothill under a standard California 438BFU (NS) Mortgagee notify Foothill whenever such separate insurance is taken out, specifying the insurer thereunder and full particulars as to the policies evidencing the same, and originals of such policies shall immediately thereafter be provided to Foothill.

6.13 Intentionally Omitted.

6.14 No Setoffs or Counterclaims. All payments hereunder and under the other Loan Documents made by or on behalf of Borrower shall be made without setoff or counterclaim and free and clear of, and without deduction or withholding for or on account of, any federal, state, or local taxes.

6.15 Location of Inventory and Equipment. Borrower shall keep the Inventory and Equipment only at the locations identified on Schedule 6.15; provided, however, that Borrower may amend Schedule 6.15 so long as such amendment occurs by written notice to Foothill not less than thirty (30) days prior to the date on which the Inventory or Equipment is moved to such new location, so long as such new location is within the continental United States, and so long as, at the time of such written notification, Borrower provides any financing statements or fixture filings necessary to perfect and continue perfected Foothill's security interests in such assets and also provides to Foothill a landlord's waiver in form and substance satisfactory to Foothill.

6.16 Compliance with Laws. Borrower shall comply with the requirements of all applicable laws, rules, regulations, and orders of any governmental authority, including the Fair Labor Standards Act and the ADA.

6.17 Employee Benefits.

(a) Borrower shall deliver to Foothill a written statement by the chief financial officer of Borrower specifying the

nature of any of the following events and the actions which Borrower proposes to take with respect thereto promptly, and in any event within ten (10) days of becoming aware of any of them, and when known, any action taken or threatened by the Internal Revenue Service, PBGC, Department of Labor, or other party with respect thereto: (i) an ERISA Event with respect to any Plan; (ii) the incurrence of an obligation to pay additional premium to the PBGC under Section 4006(a)(3)(E) of ERISA with respect to any Plan; and (iii) any lien on the assets of Borrower arising in connection with any Plan.

(b) Borrower shall also promptly furnish to Foothill copies prepared or received by Borrower or an ERISA Affiliate of: (i) at the request of Foothill, each annual report (Internal Revenue Service Form 5500 series) and all accompanying schedules, actuarial reports, financial information concerning the financial status of each Plan, and schedules showing the amounts contributed to each Plan by or on behalf of Borrower or its ERISA intent to terminate or to have a trustee appointed to administer any Plan; (iii) all written demands by the PBGC under Subtitle D of Title IV of ERISA; (iv) all notices required to be sent to employees or to the PBGC under Section 302 of ERISA or Section 412 of the IRC; (v) all written notices received with respect to a Multiemployer Plan concerning (x) the imposition or amount of withdrawal liability pursuant to Section 4202 of ERISA, (y) a termination described in Section 4041A of ERISA, or (z) a reorganization or insolvency described in Subtitle E of Title IV of ERISA; (vi) the adoption of any new Plan that is subject to Title IV of ERISA or Section 412 of the IRC by Borrower or any ERISA Affiliate; (vii) the adoption of any amendment to any Plan that is subject to Title IV of ERISA or Section 412 of the IRC, if such amendment results in a material increase in benefits or Unfunded Benefit Liability; or (viii) the commencement of contributions by Borrower or any ERISA Affiliate to any Plan that is subject to Title IV of ERISA or Section 412 of the IRC.

6.18 Consigned Inventory. Borrower agrees that each Inventory designation provided under Section 6.7 shall also separately identify and value all Inventory consigned to third Persons.

7. NEGATIVE COVENANTS.

Borrower covenants and agrees that, so long as any credit hereunder shall be available and until full and final payment of the Obligations, Borrower will not do any of the following without Foothill's prior written consent:

7.1 Indebtedness. Create, incur, assume, permit, guarantee, or otherwise become or remain, directly or indirectly, liable with respect to any Indebtedness, except:

(a) Indebtedness evidenced by this Agreement or the Term Note;

(b) Indebtedness set forth in the latest financial statements of Borrower submitted to Foothill on or prior to the Closing Date;

(c) Indebtedness secured by Permitted Liens;
and

(d) refinancings, renewals, or extensions of Indebtedness permitted under clauses (b) and (c) of this Section 7.1 (and continuance or renewal of any Permitted Liens associated therewith) so long as: (i) the terms and conditions of such refinancings, renewals, or extensions do not materially impair the prospects of repayment of the Obligations by Borrower, (ii) the net cash proceeds of such refinancings, renewals, or extensions do not result in an increase in the aggregate principal amount of the Indebtedness so refinanced, renewed, or extended, (iii) such shortening of the average weighted maturity of the Indebtedness so refinanced, renewed, or extended, and (iv) to the extent that Indebtedness that is refinanced was subordinated in right of payment to the Obligations, then the subordination terms and conditions of the refinancing Indebtedness must be at least as favorable to Foothill as those applicable to the refinanced Indebtedness.

7.2 Liens. Create, incur, assume, or permit to exist, directly or indirectly, any lien on or with respect to any of its property or assets, of any kind, whether now owned or hereafter acquired, or any income or profits therefrom, except for Permitted Liens (including liens that are replacements of Permitted Liens to the extent that the original Indebtedness is refinanced under Section 7.1(e) and so long as the replacement liens secure only those assets or property that secured the original Indebtedness).

7.3 Restrictions on Fundamental Changes. Except as provided in Schedule 7.4, enter into any acquisition, merger, consolidation, reorganization, or recapitalization, or reclassify its capital stock, or liquidate, wind up, or dissolve itself (or suffer any liquidation or dissolution), or convey, sell, assign, lease, transfer, or otherwise dispose of, in one transaction or a series of transactions, all or any substantial part of its business, property, or assets, whether now owned or hereafter acquired, or acquire by purchase or otherwise all or substantially all of the properties, assets, stock, or other evidence of beneficial ownership of any Person.

7.4 Extraordinary Transactions and Disposal of Assets. Enter into any transaction not in the ordinary and usual course of Borrower's business, including the sale, lease, or other disposition

of, moving, relocation, or transfer, whether by sale or otherwise, of any of Borrower's properties or assets (other than sales of Inventory to buyers in the ordinary course of Borrower's business as currently conducted and sales of obsolete Equipment in the ordinary course of Borrower's business for prices at or above Borrower's book value for such Equipment).

7.5 Change Name. Change Borrower's name, FEIN, business structure, or identity, or add any new fictitious name.

7.6 Guarantee. Guarantee or otherwise become in any way liable with respect to the obligations of any third Person except by endorsement or instruments or items of payment for deposit to the account of Borrower or which are transmitted or turned over to Foothill.

7.7 Restructure. Except as provided in Schedule 7.4 or as previously disclosed to Foothill, make any change in Borrower's financial structure, the principal nature of Borrower's business operations, or the date of its fiscal year.

7.8 Prepayments. Except in connection with a owing to any third Person.

7.9 Change of Control. Cause, permit, or suffer, directly or indirectly, any Change of Control.

7.10 Capital Expenditures. Make capital expenditures in the aggregate amount, in any fiscal year, in excess of Five Hundred Thousand Dollars (\$500,000).

7.11 Consignments. Consign any Inventory (except to the Burlington Coat Factory), or sell any Inventory on sale or return, sale on approval, or other conditional terms of sale.

7.12 Distributions. Make any distribution or declare or pay any dividends (in cash or in stock) on, or purchase, acquire, redeem, or retire any of Borrower's capital stock, of any class, whether now or hereafter outstanding.

7.13 Accounting Methods. Modify or change its method of accounting or enter into, modify, or terminate any agreement currently existing, or at any time hereafter entered into with any third party accounting firm or service bureau for the preparation or storage of Borrower's accounting records without said accounting firm or service bureau agreeing to provide Foothill information regarding the Collateral or Borrower's financial condition.

7.14 Investments. Except for employee loans not to exceed One Hundred Thousand Dollars (\$100,000) in the aggregate outstanding at any one time, directly or indirectly make or acquire

any beneficial interest in (including stock, partnership interest, or other securities of), or make any loan, advance, or capital contribution to, any Person.

7.15 Transactions with Affiliates. Directly or indirectly enter into or permit to exist any material transaction with any Affiliate of Borrower except for transactions that are in the ordinary course of Borrower's business, upon fair and reasonable terms, that are fully disclosed to Foothill, and that are no less favorable to Borrower than would be obtained in arm's length transaction with a non-Affiliate.

7.16 Suspension. Except as provided in Schedule 7.4, suspend or go out of a substantial portion of its business.

7.17 Compensation. Increase the annual fee or per-meeting fees paid to directors during any year by more than fifteen percent (15%) over the prior year; pay or accrue total cash compensation, during any year, to officers and senior management employees in an aggregate amount in excess of one hundred fifteen percent (115%) of that paid or accrued in the prior year.

7.18 Use of Proceeds. Use the proceeds of the advances made hereunder for any purpose other than: (a) to pay this Agreement; and (b) thereafter, consistent with the terms and conditions hereof, for its lawful and permitted corporate purposes.

7.19 Change in Location of Chief Executive Office; Inventory and Equipment with Bailees. Borrower covenants and agrees that it will not, without thirty (30) days prior written notification to Foothill, relocate its chief executive office to a new location and so long as, at the time of such written notification, Borrower provides any financing statements or fixture filings necessary to perfect and continue perfected Foothill's security interests and also provides to Foothill a landlord's waiver in form and substance satisfactory to Foothill. The Inventory and Equipment shall not at any time now or hereafter be stored with a bailee, warehouseman, or similar party without Foothill's prior written consent.

8. EVENTS OF DEFAULT.

Any one or more of the following events shall constitute an event of default (each, an "Event of Default") under this Agreement:

8.1 If Borrower fails to pay when due and payable or when declared due and payable, any portion of the Obligations (whether of principal, interest (including any interest which, but for the provisions of the Bankruptcy Code, would have accrued on such amounts), fees and charges due Foothill, reimbursement of Foothill

Expenses, or other amounts constituting Obligations), and if such failure results or would result in an Overadvance by virtue of payment of interest and such amount is not fully paid within five (5) days;

8.2 If Borrower fails or neglects to perform, keep, or observe any material term, provision, condition, covenant, or agreement contained in this Agreement, in any of the Loan Documents, or in any other present or future agreement between Borrower and Foothill;

8.3 If there is a material impairment of the value or priority of Foothill's security interests in the Collateral;

8.4 If any material portion of Borrower's properties or assets is attached, seized, subjected to a writ or distress warrant, or is levied upon, or comes into the possession of any third Person;

8.5 If an Insolvency Proceeding is commenced by Borrower;

8.6 If an Insolvency Proceeding is commenced against Borrower and any of the following events occur: (a) Borrower - consents to the institution of the Insolvency Proceeding against it; (b) the petition commencing the Insolvency Proceeding is not timely controverted; (c) the petition commencing the Insolvency Proceeding the filing thereof; provided, however, that, during the pendency of such period, Foothill shall be relieved of its obligation to make additional advances hereunder; (d) an interim trustee is appointed to take possession of all or a substantial portion of the properties or assets of, or to operate all or any substantial portion of the business of, Borrower; or (e) an order for relief shall have been issued or entered therein;

8.7 If Borrower is enjoined, restrained, or in any way prevented by court order from continuing to conduct all or any material part of its business affairs for three (3) Business Days or more;

8.8 If a notice of lien, levy, or assessment is filed of record with respect to any of Borrower's properties or assets (and the same cannot be adequately reserved against by Foothill or is not discharged within ten (10) days of its filing) by the United States Government, or any department, agency, or instrumentality thereof, or by any state, county, municipal, or governmental agency, or if any taxes or debts owing at any time hereafter to any one or more of such entities becomes a lien, whether choate or otherwise, upon any of Borrower's properties or assets and the same is not paid on the payment date thereof;

8.9 If a judgment or other claim becomes a lien or

encumbrance upon any material portion of Borrower's properties or assets;

8.10 If there is a default in any material agreement to which Borrower is a party with one or more third Persons where such third Persons have accelerated the maturity of Borrower's obligations thereunder;

8.11 If Borrower makes any payment on account of Indebtedness that has been contractually subordinated in right of payment to the payment of the Obligations, except to the extent such payment is permitted by the terms of the subordination provisions applicable to such Indebtedness;

8.12 If any material misstatement or misrepresentation exists now or hereafter in any warranty, representation, statement, or report made to Foothill by Borrower or any officer, employee, agent, or director of Borrower, or if any such warranty or representation is withdrawn;

8.13 If the obligations of UM&M under the UM&M Guaranty are limited or terminated by operation of law or terminated or purported to be terminated by UM&M; or

8.14 If (a) with respect to any Plan, there shall occur any of the following which could reasonably be expected to have a material adverse effect on the financial condition of Borrower: (i) the violation of any of the provisions of ERISA; (ii) the loss by a Section 401(a) of the IRC; (iii) the incurrence of liability under Title IV of ERISA; (iv) a failure to make full payment when due of all amounts which, under the provisions of any Plan or applicable law, Borrower or any ERISA Affiliate is required to make; (v) the filing of a notice of intent to terminate a Plan under Sections 4041 or 4041A of ERISA; (vi) a complete or partial withdrawal of Borrower or an ERISA Affiliate from any Plan; (vii) the receipt of a notice by the plan administrator of a Plan that the PBGC has instituted proceedings to terminate such Plan or appoint a trustee to administer such Plan; (viii) a commencement or increase of contributions to, or the adoption of or the amendment of, a Plan; and (ix) the assessment against Borrower or any ERISA Affiliate of a tax under Section 4980B of the IRC; or (b) if there shall be any Unfunded Benefit Liability under any of the Plans of Borrower and its ERISA Affiliates other than an Unfunded Benefit Liability of Plans of UM&M.

9. FOOHILL'S RIGHTS AND REMEDIES.

9.1 Rights and Remedies. Upon the occurrence of an Event of Default Foothill may, at its election, without notice of its election and without demand, do any one or more of the following, all of which are authorized by Borrower:

(a) Declare all Obligations, whether evidenced by this Agreement, by any of the other Loan Documents, or otherwise, immediately due and payable;

(b) Cease advancing money or extending credit to or for the benefit of Borrower under this Agreement, under any of the Loan Documents, or under any other agreement between Borrower and Foothill;

(c) Terminate this Agreement and any of the other Loan Documents as to any future liability or obligation of Foothill, but without affecting Foothill's rights and security interests in the Collateral and without affecting the Obligations;

(d) Settle or adjust disputes and claims directly with Account Debtors for amounts and upon terms which Foothill considers advisable, and in such cases, Foothill will credit Borrower's loan account with only the net amounts received by Foothill in payment of such disputed Accounts after deducting all Foothill Expenses incurred or expended in connection therewith;

(e) Cause Borrower to hold all returned Inventory in trust for Foothill, segregate all returned Inventory from all other property of Borrower or in Borrower's possession and conspicuously label said returned Inventory as the property of Foothill;

(f) Without notice to or demand upon Borrower or any guarantor, make such payments and do such acts as Foothill in the Collateral. Borrower agrees to assemble the Collateral if Foothill so requires, and to make the Collateral available to Foothill as Foothill may designate. Borrower authorizes Foothill to enter the premises where the Collateral is located, to take and maintain possession of the Collateral, or any part of it, and to pay, purchase, contest, or compromise any encumbrance, charge, or lien that in Foothill's determination appears to conflict with its security interests and to pay all expenses incurred in connection therewith. With respect to any of Borrower's owned premises, Borrower hereby grants Foothill a license to enter into possession of such premises and to occupy the same, without charge, for up to one hundred twenty (120) days in order to exercise any of Foothill's rights or remedies provided herein, at law, in equity, or otherwise;

(g) Without notice to Borrower (such notice being expressly waived), and without constituting a retention of any collateral in satisfaction of an obligation (within the meaning of Section 9505 of the Code), set off and apply to the Obligations any and all (i) balances and deposits of Borrower held by Foothill (including any amounts received in the Lock Boxes), or (ii) indebtedness at any time owing to or for the credit or the account

of Borrower held by Foothill;

(h) Hold, as cash collateral, any and all balances and deposits of Borrower held by Foothill, and any amounts received in the Lock Boxes, to secure the full and final repayment of all of the Obligations;

(i) Ship, reclaim, recover, store, finish, maintain, repair, prepare for sale, advertise for sale, and sell (in the manner provided for herein) the Collateral. Foothill is hereby granted a license or other right to use, without charge, Borrower's labels, patents, copyrights, rights of use of any name, trade secrets, trade names, trademarks, service marks, and advertising matter, or any property of a similar nature, as it pertains to the Collateral, in completing production of, advertising for sale, and selling any Collateral and Borrower's rights under all licenses and all franchise agreements shall inure to Foothill's benefit;

(j) Sell the Collateral at either a public or private sale, or both, by way of one or more contracts or transactions, for cash or on terms, in such manner and at such places (including Borrower's premises) as Foothill determines is commercially reasonable. It is not necessary that the Collateral be present at any such sale;

(k) Foothill shall give notice of the disposition of the Collateral as follows:

(1) Foothill shall give Borrower and each holder of a security interest in the Collateral who has filed with Foothill a written request for notice, a notice in writing of the time and place of public sale, or, if the sale is a private sale or some Collateral, then the time on or after which the private sale or other disposition is to be made;

(2) The notice shall be personally delivered or mailed, postage prepaid, to Borrower as provided in Section 12, at least five (5) days before the date fixed for the sale, or at least five (5) days before the date on or after which the private sale or other disposition is to be made; no notice needs to be given prior to the disposition of any portion of the Collateral that is perishable or threatens to decline speedily in value or that is of a type customarily sold on a recognized market. Notice to Persons other than Borrower claiming an interest in the Collateral shall be sent to such addresses as they have furnished to Foothill;

(3) If the sale is to be a public sale, Foothill also shall give notice of the time and place by publishing a notice one time at least five (5) days before the date of the sale in a newspaper of general circulation in the county in which the sale is to be held;

(l) Foothill may credit bid and purchase at any public sale; and

(m) Any deficiency that exists after disposition of the Collateral as provided above will be paid immediately by Borrower. Any excess will be returned, without interest and subject to the rights of third Persons, by Foothill to Borrower.

9.2 Remedies Cumulative. Foothill's rights and remedies under this Agreement, the Loan Documents, and all other agreements shall be cumulative. Foothill shall have all other rights and remedies not inconsistent herewith as provided under the Code, by law, or in equity. No exercise by Foothill of one right or remedy shall be deemed an election, and no waiver by Foothill of any Event of Default shall be deemed a continuing waiver. No delay by Foothill shall constitute a waiver, election, or acquiescence by it.

10. TAXES AND EXPENSES REGARDING THE COLLATERAL.

If Borrower fails to pay any monies (whether taxes, rents, assessments, insurance premiums, or otherwise) due to third Persons, or fails to make any deposits or furnish any required proof of payment or deposit, all as required under the terms of this Agreement or the Mortgages, then, to the extent that Foothill reasonably determines that such failure by Borrower could have a material adverse effect on Foothill's interests in the Collateral, in its discretion and upon five (5) days prior notice to Borrower, Foothill may do any or all of the following: (a) make payment of the same or any part thereof; (b) set up such reserves in Borrower's loan account as Foothill deems necessary to protect Foothill from the exposure created by such failure; or (c) obtain and maintain insurance policies of the type described in Section 6.12, and take any action with respect to such policies as Foothill deems prudent. Any such payments made by Foothill shall not constitute an agreement by Foothill to make similar payments in the future or a waiver by Foothill of any Event of Default under this Agreement. Foothill need not inquire as to, or contest the validity of, any such expense, tax, security interest, encumbrance, or lien and the receipt of the usual official notice for the payment thereof shall be conclusive evidence that the same was validly due and owing.

11. WAIVERS; INDEMNIFICATION.

11.1 Demand; Protest; etc. Borrower waives demand, protest, notice of protest, notice of default or dishonor, notice of payment and nonpayment, notice of any default, nonpayment at maturity, release, compromise, settlement, extension, or renewal of accounts, documents, instruments, chattel paper, and guarantees at any time held by Foothill on which Borrower may in any way be liable.

11.2 Foothill's Liability for Collateral. So long as Foothill complies with its obligations, if any, under Section 9207 of the Code, Foothill shall not in any way or manner be liable or responsible for: (a) the safekeeping of the Collateral; (b) any loss or damage thereto occurring or arising in any manner or fashion from any cause; (c) any diminution in the value thereof; or (d) any act or default of any carrier, warehouseman, bailee, forwarding agency, or other Person. All risk of loss, damage, or destruction of the Collateral shall be borne by Borrower.

11.3 Indemnification. Borrower agrees to defend, indemnify, save, and hold all Indemnified Persons harmless against: (a) all obligations, demands, claims, and liabilities claimed or asserted by any other Person arising out of or relating to the transactions contemplated by this Agreement or any other Loan Document including, but not limited to, those claimed by any broker or finder unless such obligations, demands, claims or liabilities result from the gross negligence or willful misconduct of such Indemnified Person, and (b) all Losses in any way suffered, incurred, or paid as a result of or in any way arising out of, following, or consequential to the transactions contemplated by this Agreement or any other Loan Document unless such Losses result from the gross negligence or willful misconduct of such Indemnified Person. This provision shall survive the termination of this Agreement.

12. NOTICES.

Unless otherwise provided in this Agreement, all notices or demands by any party relating to this Agreement or any other Loan Document shall be in writing and (except for financial statements and other informational documents which may be sent by first-class mail, postage prepaid) shall be personally delivered or sent by registered or certified mail, postage prepaid, return receipt requested, or by prepaid telex, TWX, telefacsimile, or telegram (with messenger delivery specified) to Borrower or to Foothill, as the case

If to Borrower: VICTORIA CREATIONS, INC.
30 Jefferson Park Road
Warwick, Rhode Island 02888
Attn.: Treasurer
Telefacsimile No. (401) 467-7181

With copy to: UNITED MERCHANTS AND MANUFACTURERS,
INC.

1650 Palisade Avenue
Teaneck, New Jersey 07666
Attn.: Treasurer
Telefacsimile No. (201) 837-8689

If to Foothill: Foothill CAPITAL CORPORATION

11111 Santa Monica Boulevard
Suite 1500
Los Angeles, California 90025-3333
Attn.: Business Finance Division Manager
Telefacsimile No. (310) 479-2690

The parties hereto may change the address at which they are to receive notices hereunder, by notice in writing in the foregoing manner given to the other. All notices or demands sent in accordance with this Section 12, other than notices by Foothill in connection with Sections 9504 or 9505 of the Code, shall be deemed received on the earlier of the date of actual receipt or three (3) days after the deposit thereof in the mail. Borrower acknowledges and agrees that notices sent by Foothill in connection with Sections 9504 or 9505 of the Code shall be deemed sent when deposited in the mail or transmitted by telefacsimile or other similar method set forth above.

13. CHOICE OF LAW AND VENUE; JURY TRIAL WAIVER.

THE VALIDITY OF THIS AGREEMENT, ITS CONSTRUCTION, INTERPRETATION, AND ENFORCEMENT, AND THE RIGHTS OF THE PARTIES HERETO WITH RESPECT TO ALL MATTERS ARISING HEREUNDER OR RELATED HERETO SHALL BE DETERMINED UNDER, GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF CALIFORNIA, WITHOUT GIVING EFFECT TO ITS CONFLICT OF LAWS PRINCIPLES. THE PARTIES AGREE THAT ALL ACTIONS OR PROCEEDINGS ARISING IN CONNECTION WITH THIS AGREEMENT SHALL BE TRIED AND LITIGATED ONLY IN THE STATE AND FEDERAL COURTS LOCATED IN THE COUNTY OF LOS ANGELES, STATE OF CALIFORNIA OR, AT THE SOLE OPTION OF Foothill, IN ANY OTHER COURT WHERE IT IS NECESSARY TO ENFORCE OR PROTECT Foothill'S SECURITY INTERESTS IN THE COLLATERAL IN WHICH Foothill SHALL INITIATE LEGAL OR EQUITABLE PROCEEDINGS AND WHICH HAS SUBJECT MATTER JURISDICTION OVER THE MATTER IN CONTROVERSY. EACH OF BORROWER AND Foothill WAIVES, TO THE EXTENT PERMITTED UNDER APPLICABLE LAW, ANY RIGHT EACH MAY HAVE TO ASSERT THE DOCTRINE OF FORUM NON CONVENIENS OR TO ACCORDANCE WITH THIS SECTION 13. BORROWER AND Foothill HEREBY WAIVE THEIR RESPECTIVE RIGHTS TO A JURY TRIAL OF ANY CLAIM OR CAUSE OF ACTION BASED UPON OR ARISING OUT OF ANY OF THE LOAN DOCUMENTS OR ANY OF THE TRANSACTIONS CONTEMPLATED THEREIN, INCLUDING CONTRACT CLAIMS, TORT CLAIMS, BREACH OF DUTY CLAIMS, AND ALL OTHER COMMON LAW OR STATUTORY CLAIMS. BORROWER AND Foothill REPRESENT THAT EACH HAS REVIEWED THIS WAIVER AND EACH KNOWINGLY AND VOLUNTARILY WAIVES ITS JURY TRIAL RIGHTS FOLLOWING CONSULTATION WITH LEGAL COUNSEL. IN THE EVENT OF LITIGATION, A COPY OF THIS AGREEMENT MAY BE FILED AS A WRITTEN CONSENT TO A TRIAL BY THE COURT.

14. DESTRUCTION OF BORROWER'S DOCUMENTS.

All documents, schedules, invoices, agings, or other papers delivered to Foothill may be destroyed or otherwise disposed of by Foothill four (4) months after they are delivered to or received by Foothill, unless Borrower requests, in writing, the return of said documents, schedules, or other papers and makes arrangements, at Borrower's expense, for their return.

15. GENERAL PROVISIONS.

15.1 Effectiveness. This Agreement shall be binding and deemed effective when executed by Borrower and Foothill.

15.2 Successors and Assigns. This Agreement shall bind and inure to the benefit of the respective successors and assigns of each of the parties; provided, however, that Borrower may not assign this Agreement or any rights or duties hereunder without Foothill's prior written consent and any prohibited assignment shall be absolutely void. No consent to an assignment by Foothill shall release Borrower from its Obligations. Foothill may assign this Agreement and its rights and duties hereunder and no consent or approval by Borrower is required in connection with any such assignment. Foothill reserves the right to sell, assign, transfer, negotiate, or grant participations in all or any part of, or any interest in Foothill's rights and benefits hereunder. In connection with any such assignment or participation, Foothill may disclose all documents and information which Foothill now or hereafter may have relating to Borrower or Borrower's business. To the extent that Foothill assigns its rights and obligations hereunder to a third Person, Foothill shall thereafter be released from such assigned obligations to Borrower and such assignment shall effect a novation between Borrower and such third Person.

15.3 Section Headings. Headings and numbers have been set forth herein for convenience only. Unless the contrary is compelled by the context, everything contained in each section applies equally to this entire Agreement.

15.4 Interpretation. Neither this Agreement nor any against Foothill or Borrower, whether under any rule of construction or otherwise. On the contrary, this Agreement has been reviewed by all parties and shall be construed and interpreted according to the ordinary meaning of the words used so as to fairly accomplish the purposes and intentions of all parties hereto.

15.5 Severability of Provisions. Each provision of this Agreement shall be severable from every other provision of this Agreement for the purpose of determining the legal enforceability of any specific provision.

15.6 Amendments in Writing. This Agreement can only be amended by a writing signed by both Foothill and Borrower.

15.7 Counterparts; Telefacsimile Execution. This Agreement may be executed in any number of counterparts and by different parties on separate counterparts, each of which, when executed and delivered, shall be deemed to be an original, and all of which, when taken together, shall constitute but one and the same Agreement. Delivery of an executed counterpart of this Agreement by telefacsimile shall be equally as effective as delivery of a manually executed counterpart of this Agreement. Any party delivering an executed counterpart of this Agreement by telefacsimile also shall deliver a manually executed counterpart of this Agreement but the failure to deliver a manually executed counterpart shall not affect the validity, enforceability, and binding effect of this Agreement.

15.8 Revival and Reinstatement of Obligations. If the incurrence or payment of the Obligations by Borrower or any guarantor of the Obligations or the transfer by either or both of such parties to Foothill of any property of either or both of such parties should for any reason subsequently be declared to be void or voidable under any state or federal law relating to creditors' rights, including provisions of the Bankruptcy Code relating to fraudulent conveyances, preferences, and other voidable or recoverable payments of money or transfers of property (collectively, a "Voidable Transfer"), and if Foothill is required to repay or restore, in whole or in part, any such Voidable Transfer, or elects to do so upon the reasonable advice of its counsel, then, as to any such Voidable Transfer, or the amount thereof that Foothill is required or elects to repay or restore, and as to all reasonable costs, expenses, and attorneys fees of Foothill related thereto, the liability of Borrower or such guarantor automatically shall be revived, reinstated, and restored and shall exist as though such Voidable Transfer had never been made.

15.9 Lending Relationship. Nothing contained in the this Agreement or any of the other Loan Documents shall be deemed or construed by the parties hereto or by any third party to create the relationship of principal and agent, partnership, joint venture, or any association between Borrower and Foothill, it being expressly understood and agreed that nothing contained in this Agreement or between Borrower and Foothill other than the relationship of borrower and lender.

15.10 Integration. This Agreement, together with the other Loan Documents, reflect the entire understanding of the parties with respect to the transactions contemplated hereby and shall not be contradicted or qualified by any other agreement, oral or written, before the date hereof.

15.11Confidentiality. Foothill agrees (on behalf of itself and each of its Affiliates, directors, officers, employees and representatives) to use reasonable precautions to keep confidential in accordance with its customary business practices, any non-public information supplied to it by the Borrower, provided that nothing herein shall limit the disclosure of any such information (i) to the extent required by statute, rule, regulation or judicial process, (ii) to counsel to Foothill, (iii) to regulators, auditors or accountants, (iv) in connection with any litigation to which Foothill is a party or (v) to any assignee or participant (or prospective assignee or participant) so long as such assignee or participant (or prospective assignee or participant) first agrees to this confidentiality provision in writing. In connection with any potential disclosure under (i) or (iii) above, Foothill agrees that it will promptly advise the Borrower of any request for disclosure and use reasonable efforts to provide the Borrower with as much time as possible prior to complying with such request in order to allow the Borrower to obtain an injunction or stay to the release of such information or an order providing for the handling of such information in a confidential matter.

15.12Limitation of Liability. Except for a Person's willful misconduct, none of Borrower's officers, directors, agents, employees, nor any heir, successor or assign of the foregoing shall be personally liable (whether by operation or law or otherwise) for payments due hereunder or under any other Loan Document or for the performance of any Obligations. The sole recourse of Foothill for satisfaction of the Obligations shall be against the Borrower and guarantor of Borrower's Obligations and the assets of Borrower and any guarantor and not against any other Person.

15.13Amendment and Restatement. This Agreement amends and restates in its entirety that certain Loan And Security Agreement between Borrower and Foothill dated as of June 28, 1994.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed in Los Angeles, California.

FOOTHILL CAPITAL CORPORATION,
a California corporation

By /s/ Steven Cole
Title: Vice President
VICTORIA CREATIONS, INC.,
a Rhode Island corporation

By /s/ Norman R. Forson
Title: Senior Vice President

