

# SECURITIES AND EXCHANGE COMMISSION

## FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1994-03-18** | Period of Report: **1994-02-04**  
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### FILER

#### **FARAH INC**

CIK: **34501** | IRS No.: **741061146** | State of Incorporation: **TX** | Fiscal Year End: **1031**  
Type: **10-Q** | Act: **34** | File No.: **001-05400** | Film No.: **94516795**  
SIC: **2320** Men's & boys' furnishgs, work clothg, & allied garments

Business Address  
8889 GATEWAY WEST  
EL PASO TX 79925  
9155934444

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

Mark One

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

For the Quarter Ended February 4, 1994

OR

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

Commission File No. 1-5400

FARAH INCORPORATED

(Exact name of registrant as specified in its charter)

TEXAS

(State or other jurisdiction of  
incorporation or organization)

74-1061146

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

8889 Gateway West, El Paso, Texas  
(Address of principal executive offices)

79925  
(Zip Code)

Registrant's telephone number, including area code: (915) 593-4444

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

As of March 11, 1994 there were outstanding 8,202,736 shares of the registrant's common stock, no par value, which is the only class of common or voting stock of the registrant.

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PART 1. FINANCIAL INFORMATION

FARAH INCORPORATED AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS  
 Quarter Ended February 4, 1994 and February 5, 1993  
 (Unaudited)

	1994	1993
	(Thousands of dollars except per share data)	
Net sales	\$51,270	35,316
Cost of sales	35,886	24,676
Gross profit	15,384	10,640
Selling, general and administrative expenses	12,888	9,805
Operating income	2,496	835
Other income (expense):		
Interest expense	(687)	(402)
Interest income	180	185
Foreign currency transaction gains (losses)	75	(20)
Other, net	3	3
	(429)	(234)
Income before provision for income taxes	2,067	601
Provision (benefit) for income taxes	56	(3)
Net income	2,011	604
Retained earnings:		
Beginning	3,696	3,564
Ending	\$5,707	4,168
Net income per share	\$0.25	0.08
Weighted average shares of common stock and common stock equivalents outstanding	8,204,472	7,318,463

(Unaudited)

	February 4, 1994	November 5, 1993
	(Thousands of dollars)	
ASSETS		
Current assets:		
Cash	\$2,336	2,007
Trade receivables, net	27,311	32,458
Inventories:		
Raw materials	12,409	10,628
Work in process	19,330	15,706
Finished goods	31,837	27,838
	63,576	54,172
Other current assets	6,705	5,482
Total current assets	99,928	94,119
Note receivable	6,199	6,267
Property, plant and equipment, net	14,980	14,426
Other non-current assets	3,941	4,079
	\$125,048	118,891
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Short-term debt	\$31,605	25,680
Current installments of long-term debt	640	4,509
Trade payables	20,225	20,324
Other current liabilities	10,318	10,833
Total current liabilities	62,788	61,346
Long-term debt, excluding current installments	2,885	1,179
Other non-current liabilities	3,598	3,627
Deferred gain on sale of building	8,806	9,314
Shareholders' equity:		
Common stock, no par value, authorized 20,000,000 shares; issued 8,179,504 in 1994 and 8,007,900 in 1993	45,516	44,369
Cumulative foreign currency translation adjustment	(2,093)	(2,481)
Minimum pension liability adjustment	(2,050)	(2,050)
Retained earnings	5,707	3,696
	47,080	43,534
Less: Treasury stock, 36,275 shares in 1994 and 1993	109	109
Total shareholders' equity	46,971	43,425
	\$125,048	118,891

FARAH INCORPORATED AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
 Quarter Ended February 4, 1994 and February 5, 1993  
 (Unaudited)

	1994	1993
	(thousands of dollars)	
Cash flows from (used in) operating activities:		
Net income	\$2,011	604
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	874	552
Amortization of deferred gain on building sale	(508)	(508)
Decrease (increase) in:		
Trade receivables	5,147	5,277
Inventories	(9,404)	(1,396)
Other current assets	(1,223)	(295)
Decrease in:		
Trade payables	(99)	(3,718)
Other current liabilities	(515)	(2,231)
Net cash used in operating activities	(3,717)	(1,715)
Cash flows from (used in) investing activities:		
Purchases of property, plant and equipment	(1,287)	(1,276)
Net cash used in investing activities	(1,287)	(1,276)
Cash flows from (used in) financing activities:		
Net change in revolving credit facility	5,981	3,475
Proceeds from issuance of debt	1,897	202
Repayment of long-term debt	(4,117)	(316)
Receipts from exercise of stock options	1,055	-
Other	129	36
Net cash from financing activities	4,945	3,397
Foreign currency translation adjustment	388	(490)
Net increase (decrease) in cash flow	329	(84)
Cash, beginning of year	2,007	1,634

Cash, end of quarter	\$2,336	1,550
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Supplemental cash flow disclosures:

Interest paid	763	464
Income taxes paid	272	867

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FARAH INCORPORATED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. The attached condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. As a result, certain information and footnote disclosures normally included in financial statements accordance with generally accepted accounting principles have been condensed or omitted. The Company believes that the disclosures made are adequate to make the information presented not misleading. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes included in the Company's 1993 Annual Report on Form 10-K.
2. The foregoing financial information reflects all adjustments (which consist only of normal recurring adjustments) which are, in the opinion of management, necessary to present a fair statement of the financial position and the results of operations and cash flows for the interim periods.
3. The Company's business generally fluctuates with the activities of the retail apparel trade industry with its first quarter historically the lowest in sales volume and income. The remaining three quarters are expected to be comparable in terms of sales and profitability, with the fourth quarter being somewhat higher than the second and third. There can be no assurance that the sales and profitability pattern discussed above will occur in 1994 and results for interim periods are not necessarily indicative of results that may be expected for the fiscal year as a whole.
4. Change in Accounting Principles - Accounting for Income Taxes

In February 1992, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" ("SFAS 109"). SFAS 109 requires the recognition of deferred tax assets, net of applicable reserves, related to net operating loss carryforwards and certain temporary differences.

The Company adopted SFAS 109 effective November 6, 1993 resulting

in a deferred tax asset at November 6, 1993, of \$8,580,000, less a valuation allowance of the same amount, as follows:

Deferred tax assets:

U.S. Federal NOL carryforwards	\$1,352,000
Foreign NOL carryforwards	1,045,000
Deferred gain not recognized for book	3,167,000
Unrecognized capital loss	459,000
Foreign tax credit carryforwards	1,710,000
Other accrued expenses and reserves	1,840,000
Other deferred tax assets	273,000

Total deferred tax assets 9,846,000

Deferred Tax Liabilities:

Tax over book depreciation and amortization	862,000
Other deferred tax liabilities	404,000

Total deferred tax liabilities 1,266,000

Net deferred tax asset	8,580,000
Valuation allowance	(8,580,000)

Net deferred tax asset, net of valuation allowance \$ -

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Pursuant to the requirements of SFAS 109, a valuation allowance must be provided when it is more likely than not that the deferred tax asset will not be realized. The Company has provided a valuation allowance against the entire November 6, 1993 net deferred tax asset. In subsequent periods, the Company may reduce the valuation allowance, provided that utilization of the deferred tax asset is more likely than not as defined by SFAS 109.

At November 6, 1993 the Company's U.S. subsidiary had approximately \$3,977,000 of tax net operating loss carryforwards available to offset future taxable income. Approximately \$3,515,000 of this carryforward expires in 2007 and \$462,000 in 2008. The Company's United Kingdom and Ireland subsidiaries had approximately \$3,078,000 and \$296,000 respectively of net operating loss carryforwards available to offset future taxable income in those countries. Carryforwards in these countries are available until used, for an indefinite future period. In addition, there were foreign tax credit carryforwards at November 6, 1993 available to offset limited classes of future taxable income of approximately \$1,710,000, which expire beginning in 1994, with all expiring by 1996.

FARAH INCORPORATED AND SUBSIDIARIES

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

Results of Operations

Sales for the first quarter of fiscal 1994 increased by \$15,954,000 (45.2%) over the first quarter of fiscal 1993. Sales were up at all divisions, with the largest increase at Farah U.S.A. where sales increased by 60%. Sales increased by 2% at Farah International and by 9% at Value Slacks.

Farah U.S.A. sales for the first quarter of fiscal 1994 were \$41,310,000 compared to \$25,806,000 in the first quarter of fiscal 1993. Unit volume increased by 55% while the average unit selling price increased by 3%. The Company continues to experience considerable growth in sales of Savane products, with a 196% increase in Savane sales over the first quarter of fiscal 1993. As a percent of sales, Savane represented 55% of Farah U.S.A. sales in the first quarter of fiscal 1994 compared to 30% during the same period in fiscal 1993. Sales of private label products also increased by 225% in the first quarter of fiscal 1994. The first quarter of fiscal 1993 represented the first full quarter of private label sales. Private label sales were 9% of total Farah U.S.A. sales in the first quarter of fiscal 1994 compared to 4% in the first quarter of fiscal 1993.

Farah International sales were \$5,655,000 for the first quarter of fiscal 1994 compared to \$5,554,000 in the first quarter of fiscal 1993. Unit volume was up 2% while the average unit selling price was comparable in both periods. Sales were comparable in the first quarter of fiscal 1994 to 1993 in Farah Manufacturing (U.K.) Limited ("Farah U.K.") and Farah Australia Pty, Ltd. ("Farah Australia") while Farah (New Zealand) Limited ("Farah New Zealand") reported a 32% increase in unit sales for the period. Farah New Zealand, which began operations in 1990, is continuing to increase its customer base, contributing to its overall sales increase.

Value Slacks sales were \$4,305,000 in the first quarter of fiscal 1994 compared to \$3,956,000 in the first quarter of fiscal 1993. Sales in Puerto Rico decreased 12% while sales in the U.S. increased 30%. U.S. store sales represented 59% of total Value Slacks sales in the first quarter of fiscal 1994 compared to 50% in the first quarter of fiscal 1993. There were 11 Puerto Rican stores in operation in the first quarter of fiscal 1994 compared to 15 stores in the first quarter of



fiscal 1993. The number of U.S. stores increased to 21 stores in the first quarter of fiscal 1994 from 14 in the first quarter of fiscal 1993. The Company plans to increase the number of U.S. stores in the remainder of fiscal 1994 and close certain Puerto Rican stores.

Gross profit increased by \$4,744,000 (44.6%) in the first quarter of fiscal 1994 compared to the first quarter of fiscal 1993. As a percent of sales, consolidated gross profit was comparable at approximately 30% in both periods.

At Farah U.S.A. gross profit as a percent of sales was comparable in both quarters. The gross profit at Farah U.S.A. in the first quarter of fiscal 1994 was favorably impacted by higher production volumes which decreased per unit production cost and, to a lesser extent, by the impact of lower duties as a result of the North American Free Trade Agreement ("NAFTA") which became effective January 1, 1994. These favorable impacts were offset by the recognition of certain contractor-related production costs. At Farah International the gross profit percentage increased from 35% in the first quarter of fiscal 1993 to 38% in the first quarter of fiscal 1994. Production in the Company's Irish factories was up approximately 11% resulting in higher efficiency levels and an overall decrease in cost per unit produced. Gross profit as a percent of sales also increased at Value Slacks from 39% in fiscal 1993 to 45% in fiscal 1994. This increase is mainly due to an increase in U.S. store sales, which carry a higher gross profit percentage. Value Slacks has also been able to achieve a higher markup due to increased sales of higher margin casual and Savane product.

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Selling, general and administrative expenses ("SG&A") as a percent of sales decreased from 28% in fiscal 1993 to 25% in fiscal 1994. At Farah U.S.A. SG&A decreased from 25% in the first quarter of fiscal 1993 to 22% in the first quarter of fiscal 1994. This decrease was mainly attributable to a revised sales compensation structure, lower shipping charges due to a new freight policy, and fixed costs that did not increase in relation to increased sales levels. At Farah International SG&A as a percent of sales remained comparable in fiscal 1993 and 1994. At Value Slacks SG&A as a percent of sales increased from 37% in the first quarter of fiscal 1993 to 44% in the first quarter of fiscal 1994. This increase in SG&A was related to fixed selling costs, including rent, payrolls and advertising, that were incurred in the first quarter in stores in the eastern United States where sales suffered due to severe weather conditions, limiting the number of operating days during the month of January.

Other income (expense), net increased by \$195,000 in the first quarter of fiscal 1994 compared to the first quarter of fiscal 1993. Interest expense was up \$285,000 due to increased usage of the Company's credit facility to finance higher inventory levels. This increase was partially offset by foreign currency transaction gains of \$75,000 in fiscal 1994 compared to foreign currency transaction losses of \$20,000 in fiscal 1993.

Income tax expense (benefit) fluctuated as a result of a change in the mix of the income (loss) among the countries in which the Company conducts its business and the effect of operating loss carryforwards. See Note 4 of Notes to Consolidated Financial Statements.

#### Financial Condition

The Company's credit facility provides up to \$40,000,000 of credit through November 3, 1995. Farah U.S.A., Farah U.K. and Value Slacks are parties to this facility. Availability under the facility is limited by formulas derived from accounts receivable, inventory and fixed assets. As of February 4, 1994, usage under the facility was \$32,669,000 and available credit was \$6,897,000.

Effective February 1, 1994 the company exchanged \$1,673,000 of its 5% convertible subordinated debentures for 8.5% convertible subordinated debentures due February 1, 2004. The 8.5% debentures are convertible into the company's common stock at \$15.2375 per share. The remaining 5% convertible subordinated debentures totalling \$2,252,000 were paid on February 1, 1994.

Capital expenditures through February 4, 1994 approximated \$1,287,000 and were primarily for manufacturing equipment and information systems.

## PART II. OTHER INFORMATION

### Item 6. Exhibits and Reports on Form 8-K.

- |               |  |
|---------------|--|
| Exhibit 10.50 | Amendment No. 11 dated January 21, 1994 to Accounts Financing Agreement dated August 2, 1990 between Congress Financial Corporation (Southwest) and Farah U.S.A., Inc.                               |
| Exhibit 10.51 | Indenture dated as of February 1, 1994, between Farah Incorporated and Texas Commerce Bank, N.A. (filed as Item 9(c)(1) to Schedule 13E-4 dated December 3, 1993, incorporated herein by reference.) |
| Exhibit 11    | Statement regarding computation of net income per share.   |

(b) Reports on Form 8-K.

No reports on Form 8-K have been filed during the quarter for which the report is filed.

SIGNATURES

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

FARAH INCORPORATED

Date: March 18, 1994

/s/ James C. Swaim  
James C. Swaim  
Executive Vice President  
Chief Financial Officer

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FARAH INCORPORATED AND SUBSIDIARIES

FORM 10-Q INDEX TO EXHIBITS

FEBRUARY 4, 1994

	Description	Page Number
Exhibit 10.50	Amendment No. 11 dated January 21, 1994 to Accounts Financing Agreement dated August 2, 1990 between Congress Financial Corporation (Southwest) and Farah U.S.A., Inc.	
Exhibit 11	Statement regarding computation of net income per share.	



AMENDMENT NO. 11 TO FINANCING AGREEMENTS

January 21, 1994

Congress Financial Corporation  
(Southwest)  
1201 Main Street  
Dallas, Texas 75250

Gentlemen:

Congress Financial Corporation (Southwest) ("Lender"), Farah U.S.A., Inc. ("Farah USA") and Value Clothing Company, Inc. ("Value Clothing") have entered into financing arrangements pursuant to the Accounts Financing Agreement [Security Agreement], dated as of August 2, 1990, between Lender and Farah USA and various supplements thereto, as amended pursuant to Amendment No. 1 to Financing Agreements, dated November 5, 1990, Amendment No. 2 to Financing Agreements, dated February 11, 1991, Amendment No. 3 to Financing Agreements, dated January 29, 1992, Amendment No. 4 to Financing Agreements dated June 25, 1992, Amendment No. 5 to Financing Agreements, dated August 31, 1992, Amendment No. 6 to Financing Agreements, dated September 4, 1992, Amendment No. 7 to Financing Agreements, dated September 16, 1992, Amendment No. 8 to Financing Agreements, dated as of May 7, 1993, Amendment No. 9 to Financing Agreements, dated July 16, 1993, Amendment No. 10 to Financing Agreements, dated November 3, 1993, and as amended pursuant to the letter agreement dated as of October 28, 1992 (collectively, as so amended and as amended hereby, the "Accounts Agreement", and together with all supplements thereto, including, but not limited to, the Covenant Supplement to Accounts Financing Agreement [Security Agreement] dated as of August 2, 1990 (the "Covenant Supplement"), and all other agreements, documents and instruments at any time executed and/or delivered in connection with any of the foregoing or related thereto, as the same now exist or may hereafter be amended, modified, supplemented, extended, renewed, restated or replaced, collectively, the "Financing Agreements"), which Financing Agreements include, inter alia, the

guarantees of all obligations of Farah USA and Value Clothing to Lender by each of Farah Incorporated, Farah International, Inc., Farah Sales Corp., Farah Manufacturing Company, Inc., Farah Manufacturing

Company of New Mexico, Inc., Farah Clothing Company, Inc., FTX, Inc., Radco Sportswear, Inc., Value Slacks, Inc., Farah Manufacturing Services, Inc., Farah Licensing Company and Corporacion Farah Costa Rica S.A. (individually and collectively "Guarantors").

Farah USA, Value Clothing, Guarantors and Farah Manufacturing (U.K.) Limited have requested that Lender enter into financing arrangements with Farah Manufacturing (U.K.) Limited and certain amendments to the financing agreements and Lender is willing to enter into such financing arrangements with Farah Manufacturing (U.K.) Limited and agree to such amendments subject to the terms and conditions set forth herein. By this Agreement, Lender, Farah USA, Value Clothing, Guarantors and Farah Manufacturing (U.K.) Limited desire and intend to set forth the terms of such financing arrangements and evidence such amendments.

In consideration of the foregoing and the respective agreements and covenants contained herein, the parties hereto agree as follows:

1. Definitions.

(a) Amendments to Definitions.

(i) All references to the term "Borrowers" in the Financing Agreements shall be deemed and each such reference is hereby amended to mean, individually and collectively, jointly and severally, Farah USA, Value Clothing and Farah UK (as hereinafter defined) and their respective successors and assigns.

(ii) All references to the term "Financing Agreements" in the Financing Agreement shall be deemed and each such reference is hereby amended to include, in addition and not in limitation, this Amendment and the Farah UK Agreements.

(iii) All references to the term "Maximum Credit" in the Financing Agreements shall be deemed and each such reference is hereby amended to mean, as of any time, the amount equal to \$40,000,000 as reduced, automatically and without further action by any party hereto, by an amount equal to the aggregate amount of the loans outstanding as of such time made by Lender to Farah UK pursuant to the terms hereof.

(iv) All references to the term "Obligations" in the Financing Agreements shall be deemed and each such reference is hereby amended to include, in addition and not in limitation, any and all loans, indebtedness, liabilities and obligations of any kind owing by Farah UK to Lender, however evidenced, whether as principal, guarantor or otherwise, whether arising under the Accounts Agreement, this Amendment, or otherwise, whether now existing or hereafter arising, whether direct or indirect, absolute or contingent, joint or several, due or not due, primary or secondary, liquidated or unliquidated, secured or unsecured, original, renewed or extended, and whether arising directly or acquired from others (including, without limitation, participations or interests of Lender in obligations of Farah UK to others) and including, without limitation, Lender's charges, commissions, interest, expenses, costs and attorneys' fees chargeable to Farah UK in connection with all of the foregoing.

(b) Additional Definitions. As used herein, the following terms shall have the respective meanings given to them below and the Accounts Agreement (including all supplements thereto) shall be deemed and is hereby amended to include, in addition and not in limitation, each of the following definitions -

(i) "Current Assets" shall mean the aggregate net book value of all assets of any Person and its subsidiaries, on a consolidated basis, calculating the book value of inventory for this purpose on a first-in-first-out basis, which would, in accordance with GAAP, be classified as current assets.

(ii) "Current Liabilities" shall mean all Indebtedness of any Person and its subsidiaries, on a consolidated basis, which would in accordance with GAAP be classified as current

liabilities; and in any event including Indebtedness payable on demand or within one (1) year from the date of determination without any option of the obligor to extend or renew beyond such year, all accruals for federal or other taxes based on or measured by income and payable within such year, and including the current portion of long term debt required to be paid within one (1) year.

(iii) "Eligible Farah UK Accounts" shall mean Farah UK Accounts in the ordinary course of business arising out of Farah UK's sale of goods or rendition of services, which are and at all times

shall continue to be acceptable to Lender in all respects. Standards of eligibility may be fixed and revised from time to time solely by Lender in its exclusive reasonable judgment. In determining eligibility, Lender may, but need not, rely on aging~, reports and schedules of Farah UK Accounts furnished to Lender by Farah USA or Farah UK, but reliance by Lender thereon from time to time shall not be deemed to limit Lender's right to revise standards of eligibility at any time as to both present and future Farah UK Accounts. In general, a Farah UK Account shall not be deemed eligible unless: (A) the Farah UK Account Debtor on such Farah UK Account is and at all times continues to be reasonably acceptable to Lender, (B) such Farah UK Account complies in all respects with the representations, covenants and warranties set forth herein and in the other Financing Agreements (as if such Farah UK Account was an Eligible Account of Farah USA under the terms of the Financing Agreements, including, but not limited to, Sections 6.5 and 6.6 of the Accounts Agreement) and (C) no more than sixty (60) days have elapsed since the due date of such Farah UK Account but in no event more than one hundred twenty (120) days from the invoice date thereof.

(iv) "Eligible Farah UK Inventory" shall mean Inventory of Farah UK consisting of finished goods acceptable to Lender in all respects. General criteria for Eligible Farah UK Inventory may be established and revised from time to time by Lender in its exclusive reasonable judgment. In determining such acceptability Lender may, but need not, rely on reports and schedules of Inventory furnished to Lender by either Farah UK or Farah USA



on behalf of Farah UK, but reliance thereon by Lender from time to time shall not be deemed to limit its right to revise standards of eligibility at any time. In general, except in Lender's sole discretion, Eligible Farah UK Inventory shall not include (A) raw materials, (B) work-in-process (C) spare parts, (D) packaging and shipping materials, (E) supplies used or consumed in the business of Farah UK, (F) Inventory subject to a security interest or lien in favor of any third party or subject to a retention of title by any third party, (G) Inventory which is not subject to the first priority perfected security interest of Lender, (H) Inventory at premises which are not owned and operated by Farah UK, provided, that, any Inventory of Farah UK which would otherwise be deemed Eligible Farah UK Inventory at locations which are not owned and operated by Farah UK may nevertheless be

considered Eligible Farah UK Inventory if Lender shall have received an agreement in writing, in form and substance satisfactory to Lender, from the holder of such Inventory or the owner and/or operator of such location, as the case may be, pursuant to which such holder, owner and/or operator, if required by Lender acknowledges the first priority lien on such Inventory of Lender, agrees to waive any and all claims such holder, owner and/or operator may, at any time, have against such Inventory, and permits Lender access to and the right to remain on the premises so as to exercise Lender's rights and remedies and otherwise deal with the Inventory of Farah UK, (I) bill and hold goods, (J) defective goods, (K) obsolete, slow moving and/or discontinued goods, (L) "seconds" and (M) Inventory purchased on consignment.

(v) "Farah Licensing" shall mean Farah Licensing Company, a Delaware corporation, and its successors and assigns.

(vi) "Farah UK" shall mean Farah Manufacturing (U.K.) Limited, a private limited company incorporated in England, and its successors and assigns.

(vii) "Farah UK Account Debtor" shall mean each debtor or obligor in any way obligated on or in connection with any Farah UK Accounts.

(viii) "Farah UK Accounts" shall mean all of Farah UK's present and future accounts, contract rights, general intangibles, chattel paper, documents and instruments, as such terms are defined in the UCC, including, without limitation, all obligations for the payment of money arising out of Farah UK's sale, lease or other disposition of goods or other property or rendition of services.

(ix) "Farah UK Agreements" shall mean individually and collectively, the Debenture, dated of even date herewith, between Lender and Farah UK and all agreements, documents and instruments at any time executed and/or delivered by Farah UK to Lender in connection herewith or therewith, as the same now exist or may hereafter be further amended, modified, supplemented, extended, renewed, restated or replaced.

(x) "Farah UK Collateral" shall mean all assets and properties of Farah UK at any time subject to a mortgage, charge, assignment, pledge, lien, right of set-off, encumbrance or other security interest (whether fixed or floating) in favor of Lender and including, without limitation, all assets and properties of Farah UK subject to a charge in favor of Lender pursuant to the Farah UK Agreements.

(xi) "Farah UK Events of Default" shall have the meaning set forth in Section 7 of this Amendment.

(xii) "Governmental Agency" shall mean the government of any country, or any province or state thereof or a local municipality or other political subdivision thereof or any body, department, authority, agency, public corporation or instrumentality of any of the foregoing.

(xiii) "Net Amount of Eligible Farah UK Accounts" shall mean the gross amount of Eligible Farah UK Accounts less sales, excise or similar taxes and less returns, discounts, claims, credits and allowances of any nature at any time issued, owing, granted, outstanding, available or claimed.

(xiv) "Pounds Sterling" shall mean legal tender according to the laws of England.

(xv) "U.S. Dollars" shall mean legal tender according to the laws of the United States of America.

(xvi) "U.S. Dollar Equivalent" shall mean the number of U.S. Dollars which Lender can purchase with the amount of the available currency, including, without limitation, Pounds Sterling, at any time or from time to time in order to perform any provision of this Amendment or the other Financing Agreements, provided that such determination shall be at the buying rate of exchange available to Lender on such date, at such time, at any branch in New York, New York or of any bank, chartered, incorporated or qualified to do banking business under the laws of the United States of America, the State of New York or as may be selected by Lender, in its discretion.

(c) Interpretation. All capitalized terms used herein shall have the meaning assigned thereto in the other Financing Agreements, unless otherwise defined herein.

## 2. Farah UK Loans.

(a) Lender shall, in its discretion, make loans to Farah UK from time to time, at the request of Farah UK or Farah USA on behalf of Farah UK, of up to:

(i) seventy-five (75%) percent of the U.S. Dollar Equivalent of the Net Amount of Eligible Farah UK Accounts (or such greater or lesser percentage thereof as Lender may determine from time to time); plus

(ii) thirty-five (35%) percent of the Value (based on the U.S. Dollar Equivalent) of Eligible Farah UK Inventory (or such greater or lesser percentage thereof as Lender may determine from time to time).

(b) All loans shall be charged to a loan account in the name of Farah UK on Lender's books. Lender shall render to Farah USA, as agent for Farah

UK, each month a statement of its loan account which shall be considered correct and deemed accepted by, and binding upon, Farah UK as an account stated, except to the extent that Lender receives a written notice of any specific exceptions by Farah UK thereto within thirty (30) days after the date of such statement.

(c) At Lender's option, all principal, interest, fees, commissions, costs, expenses or other charges payable by Farah UK to Lender and any and all loans and advances by Lender to Farah UK may be charged directly to the account of Farah UK maintained by Lender.

(d) All loans by Lender to Farah UK shall be payable at the offices of Lender specified above or at such other place as Lender may hereafter designate from time to time and at Lender's option and upon the request of Lender, Farah UK shall execute and deliver to Lender one or more promissory notes in form and substance satisfactory to Lender to further evidence such loans.

(e) Interest shall be payable by Farah UK to Lender on the last day of each month upon the closing daily balances in its account for each day during such month at a rate equal to the Annual Rate. The Annual Rate shall increase or decrease by an amount equal to each increase or decrease, respectively, in the Index Rate, effective on the first day of the month after any change in

the Index Rate based on the Index Rate in effect on the last day of the month in which any such change occurs. The Annual Rate in effect hereunder on the date hereof, expressed in terms of simple interest is 8 1/4 percent per annum. Interest shall be calculated on the basis of a three hundred sixty (360) day year and shall be included in each monthly statement of the loan account of Farah UK. Lender shall have the right, at its option, to charge all interest to the loan account of Farah UK on the first day of each month, and such interest shall be deemed to be paid by the first amounts subsequently credited thereto.

(f) No agreements, conditions, provisions or stipulations contained in this Amendment or in any of the other Financing Agreements or the

occurrence of an Event of Default or the exercise by Lender of the right to accelerate the payment of the maturity of principal and interest, or to exercise any option whatsoever contained in this Amendment or in any of the other Financing Agreements or the arising of any contingency whatsoever shall entitle Lender to collect, in any event, interest exceeding the Maximum Legal Rate, and in no event shall Farah UK be obligated to pay interest exceeding such Maximum Legal Rate, and all agreements, conditions or stipulations, if any, which may in any event or contingency whatsoever operate to bind, obligate or compel Farah UK to pay a rate of interest exceeding such Maximum Legal Rate shall be without binding force or effect at law or in equity, to the extent only of the excess of interest over such maximum interest allowed by law. In the event any interest is charged in excess of the Maximum Legal Rate (herein referred to as the "Excess"), Farah UK and Lender acknowledge and stipulate that any such charge shall be the result of an accidental and bona fide error, and such Excess shall be, first, applied to reduce the principal of any Obligations due, and, second, returned to Farah UK, it being the intention of the parties hereto not to enter at any time into an usurious or otherwise illegal relationship. The parties hereto recognize that with fluctuations in the Index Rate such an unintentional result could inadvertently occur. By the execution of this Amendment, Farah UK covenants that (i) the credit or return of any Excess shall constitute the acceptance by Farah UK of any such Excess, and (ii) Farah UK shall not seek or pursue any other remedy, legal or equitable, against Lender based, in whole or in part, upon the charging or receiving of any interest in excess of the Maximum Legal Rate. For the

purpose of determining whether or not any Excess has been contracted for, charged or received by Lender, all interest at any time contracted for, charged or received by Lender in connection with the Obligations of Farah UK shall be amortized, prorated, allocated and spread in equal parts during the entire term of the financing arrangements of Lender with Farah UK.

(g) If the applicable state or federal law is amended in the future to allow a greater rate of interest to be charged to Farah UK under this

Amendment than is presently allowed by applicable state or federal law, then the limitation of interest hereunder and under the Accounts Agreement shall be increased to the maximum rate of interest allowed by applicable state or federal law as amended, which increase shall be effective hereunder on the effective date of such amendment, and all interest charges owing to Lender by reason thereof shall be payable upon demand.

(h) Until the authority of Farah UK to do so is curtailed or terminated at any time by Lender, Farah UK shall, at its expense and on behalf of Lender, collect, as the property of Lender and in trust for Lender, all proceeds from the Farah UK Accounts and the sale of the Inventory of Farah UK, in whatever form, including, without limitation, all cash, checks, drafts or other instruments and all other proceeds of Collateral. At such time hereafter as Lender may request, Farah UK shall not commingle such collections with Farah UK's own funds. Upon Lender's request, Farah UK shall on the day received deposit all such proceeds into deposit accounts subject to the provisions set forth below for the collection and transfer of sales proceeds. At such time as proceeds of Collateral of Farah UK are deposited into deposit accounts subject to the provisions set forth below, such proceeds when received by Lender at such place as Lender may designate from time to time shall be credited to the loan account of Farah UK after adding two (2) business days for remittances by federal funds wire transfers and five (5) business days for collection, clearance and transfer of all other remittances, in each instance conditional upon final payment to Lender.

(i) At such time as Lender may request, Farah UK shall, in a manner satisfactory to Lender from time to time, enter into deposit account arrangements such that all proceeds of the sale of the inventory of Farah UK of every form, or amounts

payable upon letters of credit, bankers' acceptances and other proceeds of such Collateral shall be deposited into a blocked account under Lender's control or deposited into one of the deposit accounts that is approved by Lender with respect to which irrevocable instructions from Farah UK have been accepted by the depository bank to transfer all

collected funds to a blocked account under the control of Lender. In connection therewith, Farah UK shall execute such instructions, blocked account and other agreements as Lender, in its discretion, shall specify.

3. Farah UK Representations, Warranties and Covenants. Farah UK hereby represents, warrants and covenants to Lender the following (which shall survive the execution and delivery of this Amendment), the truth and accuracy of which, or compliance with, being a continuing condition of the making of loans by Lender to Farah UK hereunder:

(a) Farah UK shall at all times preserve, renew and keep in full force and effect its existence as a corporation and the rights and franchises with respect thereto and continue to engage in business of the same type as it is engaged as of the date hereof. Farah UK shall give Lender thirty (30) days prior written notice of any proposed change in its corporate name which notice shall set forth the new name.

(b) The books and records and chief executive office of Farah UK are maintained at Crittall Road, Witham, Essex CM8 3DJ England. Farah UK shall not change such location without Lender's prior written consent and prior to making any such change, Farah UK agrees to execute any additional documents or notices which Lender may require. The only locations of any assets of Farah UK are those addresses listed on Exhibit A hereto and made a part hereof. Exhibit A sets forth the owner and/or operator of the premises at such addresses for all locations which Farah UK does not own and operate and all mortgages, if any, with respect to the premises. Farah UK shall not remove any Farah UK Collateral from such locations, without Lender's prior written consent, except for sales of Farah UK Inventory in the ordinary course of business of Farah UK.

(c) Farah UK shall maintain its shipping forms, invoices and other related documents in a form satisfactory to Lender and shall maintain its books, records and accounts in accordance with

applicable accounting principles consistently applied. Farah agrees to furnish Lender monthly

with accounts receivable aging, inventory reports (if requested by Lender) and interim financial statements (including balance sheets, statements of income and surplus account and cash flow statements), and to furnish Lender, at any time or from time to time with such other information regarding its business affairs and financial condition as Lender may reasonably request, including, without limitation, balance sheets, statements of profit and loss, financial statements, cash flow and other projections, earnings forecasts, schedules, aging and reports. Farah UK hereby irrevocably authorizes and directs all accountants, auditors or other third parties to deliver to Lender, at Farah UK's expense, copies of its financial statements, papers related thereto, and other accounting records of any nature in their possession and to disclose to Lender any information they may have regarding its business affairs and financial conditions. All such statements and information will fairly present Farah UK's financial condition as of the dates and the results of Farah UK's operations for the periods, for which the same are furnished. Any documents, schedules or other papers delivered to Lender may be destroyed or otherwise disposed of by Lender one (1) year after the same are delivered to Lender, unless Farah UK makes written request therefor and pays all expenses attendant to their return, in which event Lender shall return same when Lender's actual or anticipated need therefor has ceased.

(d) Farah UK shall keep and maintain, at its own cost and expense, satisfactory and complete books and records of all Farah UK Accounts, all payments received or credits granted thereon and all other dealings therewith. At any time on or after the occurrence of an Event of Default, at such times as Lender may request, Farah UK shall deliver to Lender all original documents evidencing the sale and delivery of goods or the performance of services which created any Accounts, including but not limited to all original contracts, orders, invoices, bills of lading, warehouse receipts, delivery tickets and shipping receipts. At any such time as Lender may request, Farah UK shall deliver to Lender schedules describing the Accounts and/or written confirmatory assignments to Lender of each Account, in form and substance satisfactory to Lender and duly executed by Farah UK, together with such other information as Lender may request. Lender will



return to Farah UK, at Farah UK's expense, any

original documents evidencing the sale and delivery of goods which created any Accounts delivered to Lender pursuant to this Section 3(d) and in Lender's possession when Lender's actual or anticipated need therefor has ceased. In no event shall the making or the failure to make or the content of any schedule or assignment or Farah UK's failure to comply with the provisions hereof be deemed or construed as a waiver, limitation or modification of Lender's security interest therein, lien upon and assignment of the Farah UK Collateral or Farah UK's representations, warranties or covenants under this Amendment or any of the other Financing Agreements.

(e) Farah UK shall immediately upon obtaining knowledge thereof report to Lender all reclaimed, repossessed or returned goods (other than returns in the ordinary course of business of Farah UK which shall only be reported to Lender with such frequency and in such manner as Lender may reasonably require). At Lender's request, any goods reclaimed or repossessed by or returned to Farah UK will be set aside, marked with Lender's name and held by Farah UK for the account of Lender.

(f) Farah UK shall duly pay and discharge all taxes, assessments, contributions and governmental charges upon or against Farah UK or its properties or assets prior to the date on

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which penalties attach thereto. Farah UK will be liable for any tax or penalty imposed upon any transaction under this Amendment or any of the other Financing Agreements or giving rise to the Farah UK Accounts or any other assets of Farah UK or which Lender may be required to withhold or pay for any reason and Farah UK agrees to indemnify and hold Lender harmless with respect thereto, and to repay to Lender on demand the amount thereof, and until paid by Farah UK such amount shall be added to and deemed part of the Obligations.

(g) Except as otherwise disclosed to Lender in writing, there is no present investigation by any Governmental Agency pending or threatened against Farah UK and there is no action, suit,

proceeding or claim pending or threatened against Farah UK or its assets or goodwill, or affecting any transactions contemplated by this Amendment or the other Financing Agreements, or any instruments or

documents delivered in connection herewith or therewith before any court, arbitrator or Governmental Agency which if adversely determined with respect to Farah UK would result in any material adverse change in Farah UK's business, properties, assets, goodwill, or condition, financial or otherwise.

(h) Farah UK does not have any Subsidiaries as of the date hereof except as set forth on Exhibit B hereto. Farah International, Inc., a Texas corporation, is the direct and beneficial owner and holder of 9,999 shares of the issued and outstanding shares of capital stock of Farah UK and Farah USA is the direct and beneficial owner and holder of 1 share of the issued and outstanding shares of capital stock of Farah UK, which 10,000 shares constitute all of the issued and outstanding shares of capital stock of Farah UK. Farah UK will not form or acquire any Subsidiary without the prior written consent of Lender.

(i) Farah UK will not, and will not permit any subsidiary to, create, incur, assume or permit to exist, contingently or otherwise, any Indebtedness, except:

(i) Indebtedness to Lender;

(ii) Indebtedness consisting of unsecured current liabilities incurred in the ordinary course of its business which are not past due;

(iii) unsecured Indebtedness of Farah UK to Farah Exports (Ireland) in the amount of British Pounds Sterling 3,887,791.64 outstanding as of December 19, 1993 and incurred by Farah UK in the ordinary course of business of Farah UK pursuant to the purchase of Inventory by Farah UK from Farah Exports (Ireland), which Indebtedness is, in all respects, subject and subordinate in right of PaYment to the right of Lender to receive the prior

indefeasible payment in full of all of the Obligations; provided, that: (A) Farah UK shall not, directly or indirectly, make any payments in respect of such Indebtedness, including, but not limited to, any prepayments or other non-mandatory payments or any payments pursuant to the purported acceleration

thereof except, that, Farah UK may make payments from time to time to Farah Exports (Ireland) in respect of such indebtedness outstanding as of the date hereof, Provided, that, each of the following conditions is satisfied: (1) as of the date of each such payment and after giving effect thereto, no Event of Default shall exist or have occurred and (2) the aggregate amount of all such payments in any fiscal year of Farah UK shall not exceed \$500,000, and (B) Farah UK shall not, directly or indirectly, (1) amend, modify, alter or change the terms of such Indebtedness or (2) redeem, retire, defease, purchase or otherwise acquire such Indebtedness, or set aside or otherwise deposit or invest any sums for such purpose;

(iv) Indebtedness incurred in the ordinary course of its business secured only by liens permitted under Sections 3(j)(ii) and 3(j)(iii) hereof;

(v) Indebtedness owing to any one person existing on the date hereof in an amount of less than \$10,000 (or the foreign currency equivalent thereof as determined by Lender) and any other Indebtedness existing on the date hereof equal to or in excess of such amount which is described on Exhibit C hereto, provided, that: (A) Farah UK and its subsidiaries may only make regularly scheduled payments of principal and interest in respect of such Indebtedness as set forth on Exhibit C, (B) Farah UK will not, directly or indirectly, (1) make any prepayments or other non-mandatory payments in respect of any such Indebtedness or (2) redeem, retire, defease, purchase or otherwise acquire such Indebtedness, or set aside or otherwise deposit or invest any sums for such purpose or (3) amend, modify, alter or change the terms of the arrangements relating thereto or any agreement or instrument evidencing such Indebtedness, and (C) Farah UK and its subsidiaries will furnish to Lender all notices, demands or other materials concerning

such Indebtedness, promptly after receipt thereof or concurrently with the sending thereof, as the case may be.

(j) Farah UK will not, and will not permit any subsidiary to create or suffer to exist any mortgage, pledge, security interest, lien, encumbrance, defect in title or restriction upon the use of its real or personal properties, whether now owned or hereafter acquired, except:

Lender;

(i) the liens or security interests in favor of

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(ii) tax, mechanics or other like statutory liens arising in the ordinary course of Farah UK's business to the extent (A) such liens secure Indebtedness which is not overdue or (B) until foreclosure or similar proceedings shall have been commenced, such liens secure Indebtedness relating to claims or liabilities which are being contested in good faith by appropriate proceedings available to Farah UK prior to the commencement of foreclosure or other similar proceedings and are adequately escrowed for or reserved against in Lender's judgment;

(iii) purchase money mortgages or other purchase money liens or security interests upon any specific fixed assets hereafter acquired, or mortgages, liens or security interests existing on any such future fixed assets at the time of acquisition thereof (including, without limitation, capitalized or finance leases) or in connection with the refinancing of the existing capitalized leases with respect to specific assets, provided, that, (A) no such purchase money or other mortgages, liens or security interests (or capitalized or finance lease, as the case may be) with respect to specific future fixed assets or as refinanced shall extend to or cover any other property, other than the specific fixed assets so acquired, or acquired or refinanced subject to such mortgage, lien or security interest (or lease) and the proceeds thereof, (B) such mortgage, lien or security interest secures the obligation to pay the purchase price of such specific fixed assets only (or the obligations under the capitalized or finance lease), and (C) the

principal amount secured thereby shall not exceed one hundred (100%) percent of the cost of the fixed assets so acquired; and

(iv) the existing liens, encumbrances or security interests described on Exhibit D hereto.

(k) Farah UK will not, and will not permit any subsidiary to, directly or indirectly, make any loans or advance money or property to any Person, or invest in (by capital contribution, dividend or otherwise) or purchase or repurchase the stock or Indebtedness or all or a substantial part of the

assets or property of any Person, or guarantee, assume, endorse, or otherwise become responsible for (directly or indirectly) the indebtedness, performance, obligations or dividends or any Person or agree to do any of the foregoing, except:

(i) guarantees in favor of Lender;

(ii) loans by Farah UK or any of its subsidiaries to any of the other Borrowers or Farah Incorporated, after written notice to Lender;

(iii) the endorsement of instruments for collection or deposit in the ordinary course of business;

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(iv) investments by Farah UK in the stock of any existing Subsidiary as of the date hereof;

(v) after written notice thereof to Lender, investments in the following instruments, which shall be pledged and delivered to Lender upon Lender's request, (A) marketable obligations issued or guaranteed by the United States of America or an instrumentality or agency thereof, maturing not more than one (1) year after the date of acquisition thereof, (B) certificates of deposit or other obligations maturing not more than one (1) year after the date of acquisition thereof issued by any bank or trust company organized under the laws of and located in the United States of America or any State thereof or any bank, trust company, building

society or other financial institution organized under the laws of and located in England or Wales and having capital, surplus and undivided profits of at least \$100,000,000 or the foreign currency equivalent thereof as determined by Lender (provided, that, upon Lender's request, Farah UK or such subsidiary, as the case may be, shall execute and deliver to Lender a pledge agreement or memorandum of deposit with respect thereto, in form and substance satisfactory to Lender) and (C) open market commercial paper with a maturity date not in excess of two hundred seventy (270) days from the date of acquisition thereof which have the highest credit rating by either Standard & Poor's Corporation or Moody's Investors Service, Inc.

(1) Farah UK will not, and will not permit

any subsidiary to, directly or indirectly, purchase, acquire or lease any property or receive any services from, or sell, transfer or lease any property or services to any Affiliate of Farah UK except on prices and terms no less favorable than would have been obtained in an arm's length transaction with a non-affiliated person.

(m) Farah UK will permit representatives of Lender at any time to inspect its inventory, equipment and other tangible Farah UK Collateral and to have free access to and right of inspection of any papers, instruments and records pertaining to any of the Farah UK Collateral and make abstracts or photocopies from Farah UK's books and records, at the expense of Farah UK, pertaining to inventory, accounts, contract rights, chattel paper, instruments, documents and other collateral. The foregoing rights shall be in addition to and shall not limit Lender's rights and remedies with respect to the Farah UK Collateral upon or at any time after the occurrence of an event of default (as provided hereunder).

(n) Upon Lender's request, on or after the occurrence of an Event of Default at any time and from time to time, but in no event prior to the occurrence of an Event of Default more than

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once in any twelve (12) consecutive month period,

Farah UK will, at its sole cost and expense, execute and deliver to Lender written reports or appraisals of the Farah UK Collateral consisting of inventory and equipment listing all items and categories thereof, describing the condition of same and setting forth the value thereof (the lower if cost or market value of the inventory and the lower of net cost less depreciation, fair market value and/or liquidation value of the equipment), in such form as is satisfactory to Lender.

(o) Farah UK will (i) use, store and maintain the Farah UK Collateral consisting of inventory and equipment with all reasonable care and caution, and (ii) use such Farah UK Collateral for lawful purposes only and in conformity with applicable laws, ordinances and regulations.

(p) At its option, Lender may discharge taxes, liens or security interests or other

encumbrances at any time levied or placed on the Farah UK Collateral and may pay for the maintenance and preservation of the Farah UK Collateral and Farah UK agrees to reimburse Lender on demand, together with interest therein at the rate specified herein, for any payment made or expense incurred by Lender in connection with the foregoing and any such payment or expense shall constitute a part of the Obligations.

4. Farah UK Inventory Loan Sublimits.  
Notwithstanding anything to the contrary contained herein or in any of the other Financing Agreements, except in Lender's discretion, the aggregate unpaid principal amount of the loans outstanding at any time based on the Eligible Farah UK Inventory, regardless of the amounts of such Eligible Farah UK Inventory, shall not exceed \$1,750,000.

5. Maximum Credit for Farah UK Loans.

(a) Except in Lender's discretion, the aggregate unpaid principal amount of the loans or other financial accommodations by Lender to Farah UK shall not exceed U.S. \$2,500,000.

(b) Section 2.3 of the Accounts Agreement is hereby deleted in its entirety and the following substituted therefor:

"Lender may, from time to time, permit the outstanding amount of any components of the loans by Lender to Borrowers and/or Credits, or the aggregate amounts of such outstanding loans and Credits to exceed the amounts available under the lending formulas provided for herein or otherwise applicable as to each of Borrowers, the lending sublimit set forth in Section 4 of Amendment No. 10 to Financing Agreements, or

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Section 4 or 5 of Amendment No. 11 to Financing Agreements or \$40,000,000, as applicable; provided, that, should Lender so permit in any one instance such event shall not operate to limit, waive or otherwise affect any rights of Lender on any future occasions. In such event, and without limiting the right of Lender to demand payment of the Obligations, or any portion thereof, in accordance with any other terms of the Accounts Agreement, Amendment No. 10 to Financing Agreements, Amendment

No. 11 to Financing Agreements or any of the other Financing Agreements, Borrowers shall remain liable therefor and Borrowers shall, upon demand by Lender, which may be made at any time and from time to time, repay to Lender the entire amount of any such excess(es) or in accordance with such other terms as Lender may agree to in writing at the time, except, that, Farah UK shall not be required to repay any such amounts arising as a result of loans by Lender to the other Borrowers."

6. Farah UK Financial Covenants.

(a) Net Worth. Farah UK will, at all times, maintain a Consolidated Tangible Net Worth of not less than \$750,000.

(b) Working Capital. Farah UK will, at all times, maintain a ratio of Current Assets to Current Liabilities of not less than 1.0:1.0.

7. Farah UK Events of Default. All Obligations shall be, at Lender's option, immediately due and payable without notice or demand (notwithstanding any deferred or installment payments allowed, if any, by any instrument



evidencing or relating to the Obligations) and any provision of this Amendment or any of the other Financing Agreements as to future loans and advances by Lender to Borrowers shall, at Lender's option, terminate forthwith, upon the occurrence of any one or more of the following ("Farah UK Events of Default"):

(a) Farah UK shall be in default in the payment of any of the Obligations of Farah UK when due, which default shall continue for three (3) days; or

(b) Farah UK shall fail to observe or perform any covenant or agreement contained herein or in any of the other Financing Agreements other than as described in subsection (a) above and such failure shall continue for seven (7) business days, provided, that, such seven (7) business day period shall not apply in the case of: (i) any failure to observe any such covenant or agreement which is not capable of being cured at all or within such seven (7) business day period or which has been

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the subject of a prior failure within a six (6) month period or (ii) an intentional breach by Farah

UK or its management of any such covenant or agreement; or

(c) any other guarantor, endorser or person liable on the Obligations shall terminate or breach any of the terms, covenants, conditions or provisions of any guarantee, endorsement or other agreement of such person with, or in favor of, Lender; or

(d) any representation, warranty or statement of fact when made to Lender at any time by or on behalf of Farah UK is false or misleading in any material respect; or

(e) Farah UK or any other guarantor, endorser or person liable on the Obligations shall become insolvent, generally unable to pay its debts as they mature, call a meeting of creditors or have a creditors' committee appointed, make a voluntary

arrangement, make a general assignment for the benefit of creditors, suspend or discontinue doing business for any reason, or shall commence or have commenced against it any action or proceeding for the winding up or dissolution or the appointment of any trustee, manager, receiver, custodian, administrator or administrative receiver or liquidator of it or all or any part of its properties or assets; or

(f) a judgment (including, without limitation, any attachment, sequestration or distress) is rendered against Farah UK or any other guarantor, endorser or person liable on the Obligations in excess of \$50,000 or the foreign currency equivalent thereof as determined by Lender in any one case or in excess of \$100,000 or the foreign currency equivalent thereof as determined by Lender in the aggregate and the same shall remain undischarged for a period in excess of thirty (30) days or execution shall at any time not be effectively stayed; or

(g) Farah UK or any other guarantor, endorser or person liable on the Obligations shall commence any action or proceeding for relief under the U.S. Bankruptcy Code or any reorganization, arrangement, composition, readjustment, liquidation, dissolution or similar relief under the U.S. Bankruptcy Code or any other present or future statute, law or regulation or an application or petition shall be made by Farah UK or any other guarantor, endorser or person liable on the Obligations or by any third person to an English

Court for an Administration Order or any other order under the United Kingdom Insolvency Act 1986 (as amended or substituted from time to time) in respect of Farah UK or its assets or Farah UK or any other guarantor, endorser and person liable for the Obligations shall take any corporate action to authorize any of such actions or proceedings; or

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(h) Farah UK or any other guarantor, endorser or person liable on the Obligations shall have commenced against it any action or proceeding for relief under the U.S. Bankruptcy Code or any reorganization, arrangement,

composition, readjustment, liquidation, dissolution or similar relief under the U.S. Bankruptcy Code or any other present or future statute, law or regulation which is not dismissed within thirty (30) days of its commencement, or Farah UK, any other guarantor, endorser or person shall file any answer admitting or not contesting the allegations of a petition or application filed against it in any such proceeding or by any act or omission indicates its consent to, acquiescence in or approval of, any such action or proceeding or if the relief requested is granted sooner; or

(i) there shall be a material adverse change in the business, assets or condition (financial or otherwise) of Farah UK from the date hereof; or

(j) there is any change in the majority control or ownership of Farah UK; or

(k) at any time, Lender shall, in its reasonable discretion, consider the Obligations insecure or all or any part of the Collateral unsafe, insecure or insufficient and Farah UK shall not on Lender's demand furnish other Farah UK Collateral or make payment on account, reasonable satisfactory to Lender; or

(l) Farah UK or any other guarantor, endorser or person liable on the Obligations shall default in the payment of any amounts due on any indebtedness owed by it or in the performance of any of the other terms or covenants of any evidence of such indebtedness or of any material mortgage, security agreement, indenture, debenture, pledge or other agreement relating thereto or securing such

indebtedness or with respect to any material contract, lease, license or other agreement with any person other than Lender, which default continues for more than the applicable cure period, if any, with respect thereto; or

(m) the occurrence of an Event of Default under any of the other Financing Agreements.

8. Early Termination Fee. Section 9.2 of the Accounts Agreement is hereby deleted in its entirety

and the following substituted therefor:

"9.2 If Lender terminates this Agreement or the other Financing Agreements upon the occurrence of an Event of Default or, at the request of Borrowers prior to the Renewal Date, or prior to any subsequent anniversary of the Renewal Date, in view of the

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impracticality and extreme difficulty of ascertaining actual damages and by mutual agreement of the parties as to a reasonable calculation of Lender's lost profits as a result thereof:

(a) Farah USA and Value Clothing hereby agree to pay to Lender, upon the effective date of such termination, an early termination fee in an amount equal to: (i) two (2%) percent of \$40,000,000 less any amounts received by Lender on such date from Farah UK pursuant to Section 9.2(b) below, if such termination is effective on or prior to November 3, 1994 or (ii) one (1%) percent of \$40,000,000 less any amounts received by Lender on such date from Farah UK pursuant to Section 9.2(b) below, if such termination is effective after November 3, 1994, but prior to the Renewal Date or if such termination is effective after the Renewal Date on a date other than an anniversary of the Renewal Date, and

(b) Farah UK hereby agrees to pay to Lender, upon the effective date of such termination, an early termination fee in an amount equal: (i) two (2%) percent of \$2,500,000, if such termination is effective on or prior to November 3, 1994 or (ii) one (1%) percent of \$2,500,000, if such termination is effective after November 3, 1994, but prior to the Renewal Date or if such termination is effective after the Renewal Date on a date other than an anniversary of the Renewal Date.

Such early termination fees shall be presumed to be

the amount of damages sustained by said early termination and Borrowers agree that it is reasonable under the circumstances currently existing. The early termination fees provided for in this Section 9.2 shall be deemed included in the Obligations."

9. Covenants Applicable to U.K. For the purposes of the application and interpretation of the provisions of the Accounts Agreement, this Amendment or the other Financing Agreements to the operations of Farah UK in England and to any of the Collateral which may at any time or from time to time be located in England:

(a) all payments of principal, interest, fees and other amounts to be made pursuant to the Accounts Agreement, this Amendment or the other Financing Agreements in respect of all or any part of the Obligations shall be made free and clear and without deduction for any and all present and future taxes, withholdings, levies, duties, any charges of any Governmental Agency and all liabilities with respect thereto (except for any taxes, duties or levies charged on the income of Lender under the laws of the United States of America), and without set-off, withholding or deduction of any kind whatsoever and, if with regard to any payment to be made by Farah UK to Lender pursuant to the Accounts Agreement, this Amendment, the other Financing Agreements or otherwise, any deduction for any and all such present and future taxes, withholding, levies, duties, charges of a Governmental Agency or any liability with respect thereto is required to be made by Farah UK, Farah UK shall pay such additional amounts to Lender as may be necessary in order that the net amount received by Lender after such deduction shall equal such payment which would have been received by Lender in the absence of such deduction; and

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(b) Farah UK shall make all payments in respect of the Obligations in U.S. Dollars and any payment on account of the Obligations made in a currency other than U.S. Dollars, whether pursuant to a judgment or order of a Court or a Governmental Agency or otherwise, shall constitute a discharge of the Obligations only to the extent of the U.S. Dollar Equivalent which Lender is able to purchase and if the number of U.S. Dollars which Lender is 80

able to purchase is less than the number of U.S. Dollars originally due to it, Farah UK shall indemnify and save Lender harmless from and against any loss or damage arising as a result of such

deficiency and this indemnity shall:

(i) constitute an obligation separate and independent from the Obligations,

(ii) give rise to a separate and independent cause of action,

(iii) apply irrespective of any indulgence granted by Lender from time to time,

(iv) be secured by the assignments, charges and security interests created in respect of the Collateral by the Accounts Agreement, this Amendment or the other Financing Agreements, and

(v) shall continue in full force and effect notwithstanding any judgment or order for a liquidated sum in respect of an amount due under the Accounts Agreement, this Amendment or the other Financing Agreements or any judgment or order or any payment made under any judgment or order or the

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termination or non-renewal of the Accounts Agreement, this Amendment and the other Financing Agreements.

10. General Representations, Warranties and Covenants. In addition to the continuing representations, warranties and covenants heretofore or hereafter made by Borrowers and Guarantors to Lender pursuant to the Financing Agreements, each of Borrowers and Guarantors hereby represents, warrants and covenants with and to Lender as follows (which representations, warranties and covenants are continuing and shall survive the execution and delivery hereof and shall be incorporated into and made a part of the Financing Agreements):

(a) No Event of Default exists on the date of this Amendment (after giving effect to the amendments to the Financing Agreements made by this Amendment).

(b) This Amendment has been duly executed and delivered by Borrowers and Guarantors and is in full force and effect as of the date hereof, and the agreements and obligations of Borrowers and

Guarantors contained herein constitute legal, valid and binding obligations of Borrowers and Guarantors enforceable against Borrowers and Guarantors in accordance with their respective terms.

11. Conditions Precedent. The effectiveness of the other terms and conditions contained herein shall be subject to the satisfaction of each of the following:

(a) receipt by Lender of each of the following, in form and substance satisfactory to Lender and its counsel:

(i) All waivers, releases, terminations and other documents as Lender may request to evidence and effectuate the termination of the existing financing arrangements of Farah-UK with Standard Chartered Bank and the termination and release by Standard Chartered Bank of any and all of its interests pursuant to such financing arrangements in and to any assets and properties of Farah UK;

(ii) an absolute and unconditional guarantee of payment of the Obligations of Farah UK to Lender, each duly authorized, executed and delivered by each of Farah USA, Value Clothing and the Guarantors (other than Farah Licensing);

(iii) an absolute and unconditional guarantee of payment of the Obligations of Borrowers to Lender, a general security agreement granting to Lender a first and only lien upon its assets and related Uniform Commercial Code Financing Statements, each duly authorized, executed and delivered by Farah Licensing;

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(iv) certified copies of directors' resolutions of Farah UK, Farah USA, Value Clothing and the Guarantors evidencing the authorization and approval of this Amendment, the guarantees referred to above and as to Farah UK, the new borrowing arrangements to be provided by Lender to Farah UK hereunder;

(v) originals of the Farah UK Agreements, duly authorized, executed and delivered by Farah UK and any other parties thereto;

(vi) appropriate lien search results

for all jurisdictions in England in which assets of Farah UK are located, which results are in all respects satisfactory to Lender;

(vii) evidence that Lender has valid and perfected first priority security interests in and liens upon all of the assets of Farah UK in England;

(viii) an opinion letter of counsel to Farah UK, Farah USA, Value Clothing and Guarantors with respect to the matters provided for in this Amendment (including an opinion letter of counsel to Farah UK in England) and such related matters as Lender may reasonably request;

(ix) all consents, waivers, acknowledgements and other agreements from third persons which Lender may deem necessary or desirable in order to permit, protect and perfect the security interests in and liens upon the assets of Farah UK granted by Farah UK to Lender pursuant to the Farah UK Agreements, including, without limitation, waivers by lessors, owners or mortgagees, processors, warehouses or consignees of any security interests, liens or other claims by such person in and to such collateral and agreements by such persons permitting Lender access to the premises to exercise its rights and remedies and otherwise deal with the collateral;

(x) evidence that Farah UK has established a blocked account or lockbox for the collection of the Accounts of Farah UK and the transfer of such collections to Lender, which shall be with a bank and on terms acceptable to Lender;

(xi) evidence of insurance and loss payee endorsements with respect to the assets of Farah UK in favor of Lender, in form and substance satisfactory to Lender, and certificates of insurance policies and/or endorsements naming Lender as loss payee, all at Farah UK's cost and expense;

(xii) such agreements from participants as may be required to effectuate the terms and provisions of this Amendment;



(xiii) an original of

this Amendment, duly authorized, executed and delivered by Farah UK, Farah USA, Value Clothing and Guarantors;

(b) all representations and warranties contained herein, in the Accounts Agreement and in the other Financing Agreements shall be true and correct in all respects;

(c) no Event of Default shall have occurred and no event shall have occurred or condition be exiting which, with notice or passage of time or both, would constitute an Event of Default.

12. WAIVER OF JURY TRIAL. THE PARTIES HERETO HEREBY WAIVE TRIAL BY JURY IN ANY ACTION OR PROCEEDING OF ANY KIND WITH RESPECT TO, IN CONNECTION WITH, OR ARISING OUT OF THIS AGREEMENT, THE OTHER FINANCING AGREEMENTS, THE OBLIGATIONS, THE COLLATERAL OR ANY INSTRUMENT, DOCUMENT OR GUARANTY DELIVERED PURSUANT HERETO OR TO ANY OF THE FOREGOING, OR THE VALIDITY, PROTECTION, INTERPRETATION, ADMINISTRATION, COLLECTION OR ENFORCEMENT HEREOF OR THEREOF OR PURSUANT TO THE OTHER FINANCING AGREEMENTS, OR ANY OTHER CLAIM OR DISPUTE HOWSOEVER ARISING BETWEEN FARAH UK, FARAH USA, VALUE CLOTHING AND GUARANTORS AND LENDER.

13. WAIVER OF COUNTERCLAIMS; JURISDICTION; SERVICE OF PROCESS. EACH OF FARAH UK, FARAH USA, VALUE CLOTHING AND GUARANTORS HEREBY WAIVES ALL RIGHTS OF SETOFF AND RIGHTS TO IMPOSE COUNTERCLAIMS IN THE EVENT OF ANY LITIGATION WITH RESPECT TO ANY MATTER CONNECTED WITH THIS AGREEMENT, THE OTHER FINANCING AGREEMENTS, THE OBLIGATIONS, THE COLLATERAL, OR ANY TRANSACTION BETWEEN THE PARTIES HERETO, AND IRREVOCABLY CONSENTS AND SUBMITS TO THE NONEXCLUSIVE JURISDICTION OF THE SUPREME COURT OF THE STATE OF NEW YORK IN NEW YORK CITY AND THE UNITED STATES DISTRICT COURT FOR THE SOUTHERN DISTRICT OF NEW YORK AND THE DISTRICT COURT OF THE STATE OF TEXAS AND THE UNITED STATES DISTRICT FOR THE NORTHERN DISTRICT OF TEXAS AND THE COURTS OF ANY STATE IN WHICH ANY OF THE COLLATERAL IS LOCATED AND OF ANY FEDERAL COURT LOCATED IN SUCH STATES IN

CONNECTION WITH ANY ACTION, PROCEEDING OR CLAIM ARISING OUT OF OR RELATED TO THIS AGREEMENT, THE OTHER FINANCING AGREEMENTS, THE OBLIGATIONS, THE COLLATERAL OR ANY DOCUMENT, INSTRUMENT OR GUARANTY DELIVERED PURSUANT HERETO OR TO ANY OF THE FOREGOING. IN ANY SUCH LITIGATION, EACH OF FARAH UK, FARAH USA, VALUE CLOTHING AND GUARANTORS WAIVES PERSONAL SERVICE OF ANY SUMMONS, COMPLAINT OR OTHER PROCESS AND AGREES THAT THE SERVICE THEREOF MAY BE

MADE BY CERTIFIED OR REGISTERED MAIL, RETURN RECEIPT REQUESTED AND BY TELECOPIER, DIRECTED TO IT AT ITS CHIEF EXECUTIVE OFFICE SET FORTH IN THE ACCOUNTS AGREEMENT OR THE OTHER FINANCING AGREEMENTS, OR DESIGNATED IN WRITING PURSUANT TO THIS AGREEMENT, OR IN ANY OTHER MANNER PERMITTED BY THE RULES OF SAID COURTS. WITHIN THIRTY (30) DAYS AFTER SERVICE, FARAH UK, FARAH USA, VALUE CLOTHING AND GUARANTORS NAMED IN SUCH SUMMONS,

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COMPLAINT OR OTHER PROCESS FAILING WHICH FARAH UK, FARAH USA, VALUE CLOTHING AND GUARANTORS, AS THE CASE MAY BE, SHALL BE DEEMED IN DEFAULT AND JUDGMENT MAY BE ENTERED BY LENDER AGAINST SUCH BORROWERS OR GUARANTORS FOR THE AMOUNT OF THE CLAIM AND OTHER RELIEF REQUESTED THEREIN.

FARAH U.S.A., INC.

By: /s/ James C. Swaim  
Title: Treasurer

FARAH MANUFACTURING (U.K.) LIMITED

By: /s/ Richard C. Allender  
Title: Director

FTX, INC.

By: /s/ Thomas H. Ludwick  
Title: Treasurer

ACKNOWLEDGED AND AGREED:

FARAH INCORPORATED  
FARAH INTERNATIONAL, INC.  
VALUE SLACKS, INC.

VALUE CLOTHING COMPANY, INC.  
FARAH SALES CORP.  
FARAH MANUFACTURING SERVICES, INC.  
FARAH MANUFACTURING COMPANY, INC.  
FARAH MANUFACTURING COMPANY  
OF NEW MEXICO, INC.  
FARAH CLOTHING COMPANY, INC.  
RADCO SPORTSWEAR, INC.  
CORPORACION FARAH-COSTA RICA S.A.  
FARAH LICENSING COMPANY

By: /s/ James C. Swaim

Title: Treasurer

ACKNOWLEDGED AND AGREED:

CONGRESS FINANCIAL CORPORATION  
(SOUTHWEST)

By: /s/ Ed Franco  
Title: Vice President

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FARAH INCORPORATED AND SUBSIDIARIES

STATEMENT REGARDING COMPUTATION OF NET INCOME PER SHARE

Income per share is based on weighted average shares of common stock and common stock equivalents outstanding. Stock options are included as common stock equivalents under the treasury stock method, where dilutive. Additional dilution from the from the Company's convertible subordinated debentures, which are not common stock equivalents, is not material.