

SECURITIES AND EXCHANGE COMMISSION

FORM 10-K

Annual report pursuant to section 13 and 15(d)

Filing Date: **1999-03-26** | Period of Report: **1998-12-26**
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FILER

DM MANAGEMENT CO /DE/

CIK: **910721** | IRS No.: **042973769** | State of Incorporation: **DE** | Fiscal Year End: **1228**
Type: **10-K** | Act: **34** | File No.: **000-22480** | Film No.: **99573370**
SIC: **5961** Catalog & mail-order houses

Mailing Address	Business Address
25 RECREATION PARK DRIVE SSTE 200 HINGHAM MA 052043	25 RECREATION PARK DR STE 200 HINGHAM MA 02043 6177402718

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED DECEMBER 26, 1998

OR

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

COMMISSION FILE NUMBER 0-22480

DM MANAGEMENT COMPANY
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

DELAWARE
(STATE OR OTHER JURISDICTION OF
INCORPORATION OR ORGANIZATION)

04-2973769
(I.R.S.EMPLOYER
IDENTIFICATION NO.)

25 RECREATION PARK DRIVE
HINGHAM, MA
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)

02043
(ZIP CODE)

Registrant's telephone number, including area code: (781) 740-2718

Securities registered pursuant to Section 12(b) of the Act: None

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

TITLE OF EACH CLASS

Common Stock, \$0.01 par value

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item
405 of Regulation S-K is not contained herein, and will not be contained, to the
best of registrant's knowledge, in definitive proxy or information statements
incorporated by reference in Part III of this Form 10-K or any amendment to this
Form 10-K. /X/

As of March 12, 1999, the aggregate market value of common stock held by
non-affiliates of the Registrant was \$154,354,600 based on the closing price
(\$ 16 5/8 per share) for the common stock as reported on The Nasdaq Stock
Market on March 12, 1999.

Shares outstanding of the Registrant's common stock at March 12, 1999:
9,707,740

DOCUMENTS INCORPORATED BY REFERENCE

Certain portions of the Proxy Statement for the Annual Meeting of
Stockholders of DM Management Company to be held on May 25, 1999, which will be
filed with the Securities and Exchange Commission within 120 days after December
26, 1998, are incorporated by reference in Part III of this Form 10-K or any
amendment to this Form 10-K.

DM MANAGEMENT COMPANY
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FOR THE FISCAL YEAR ENDED DECEMBER 26, 1998

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PART I

ITEM 1. BUSINESS

THE COMPANY

DM Management Company ("DM Management" or the "Company") is a specialty direct marketer of high quality women's apparel, accessories, shoes and gifts. In 1998 the Company also began featuring bed and bath items. The Company currently markets its products through two discrete catalog concepts, J. JILL and NICOLE SUMMERS. These concepts are designed to appeal to active, affluent women age 35 and older, with each concept aimed at a distinct lifestyle segment within this demographic group. The Company seeks to distinguish its catalogs and reinforce the brand identity of the J. JILL and NICOLE SUMMERS names through exclusive private label merchandise offerings, a broad assortment of extended sizes, "total look" wardrobing and editorial lifestyle photography.

THE CATALOGS

J. JILL is characterized by the simple, comfortable style of its apparel offerings, which range from relaxed career wear to weekend wear. These apparel offerings are predominantly private label, with emphasis on natural fibers and creative details. J. JILL'S target customers are active, affluent women age 35 to 55. During the twelve months ended December 26, 1998 ("fiscal 1998"), J. JILL net sales accounted for approximately 75% of the Company's total net sales, up from approximately 54% for the twelve months ended December 27, 1997 ("fiscal 1997"). The Company believes that this growth is being driven by J. JILL'S distinctive merchandising, marketing and creative strategies, as well as the emerging market for more casual apparel, particularly for the workplace, and the need active, working women have for comfortable, versatile clothing. The Company also believes that this market has not been well served by other direct marketers or retailers.

NICOLE SUMMERS is characterized by its edited assortment of updated classic apparel. Its target customers are affluent women age 45 and older who have an active but formal lifestyle and, most importantly, are younger in their outlook than their peers in previous generations. NICOLE SUMMERS operates in a mature marketplace and is currently experiencing negative growth. In an effort to respond to this mature marketplace and focus on potential opportunities in this market the Company hired a new Vice President of Merchandising for NICOLE SUMMERS with experience in product development, planning and women's apparel merchandising.

BUSINESS STRATEGY

DM Management's objective is to be a fashion authority for its target

market. The Company seeks to combine the personal experience of shopping at an upscale specialty retailer with the ease and convenience of shopping at home by offering an edited assortment of high quality products in vibrant, easy-to-read catalogs. The key elements of the Company's business strategy are set forth below:

BRAND BUILDING. The Company believes that it has a significant opportunity to build the brand identity of each of its catalog concepts within its target market. The Company seeks to enhance brand identity by developing strong relationships with its customers that foster loyalty and increase repeat purchases. The consistent application of unique creative and merchandising techniques tailored to create a signature style for each catalog concept is a central element of this effort, as is an emphasis on superior customer service.

WELL DIFFERENTIATED MERCHANDISE OFFERINGS. The Company believes that its distinctive approach to merchandising enhances its position as a fashion authority to its target customers. Key components of the Company's merchandising strategy include:

- **PRIVATE LABEL PROGRAM.** A substantial portion of the merchandise offered through the Company's catalogs is private label merchandise (i.e., merchandise sold under the DM Management catalog's brand name). All of the Company's private label offerings, particularly under the J. JILL concept, are designed by the Company and are not available in other catalogs or retail stores. In fiscal 1998 private label merchandise represented approximately 91% and 34% of the apparel styles offered in the J. JILL and NICOLE SUMMERS catalogs, respectively. All private label merchandise is exclusive to DM Management. The Company believes that its exclusive private label merchandise offerings reinforce its role as a fashion authority to its target customers and enhance the brand identity of the J. JILL and NICOLE SUMMERS names.

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- **EXTENDED SIZES.** In addition to offering regular sizes from 4 to 20, the Company offers a broad assortment of apparel in petite and large sizes in the same styles as its regular size offerings. Management believes that the Company has particular expertise in scaling fashionable regular size merchandise to be attractively worn by extended size customers, and that these hard to fit customers currently have few attractive catalog or retail shopping alternatives. In fiscal 1998 extended size apparel offerings accounted for 44% of total merchandise offerings.

- **"TOTAL LOOK" WARDROBING.** The Company's "total look" wardrobing approach seeks to satisfy the lifestyle needs of the Company's target customers by offering a coordinated selection of apparel, accessories and shoes to outfit them from head to toe. Management believes that this approach builds brand identity while increasing the Company's potential share of household spending dollars.

DISTINCTIVE CREATIVE PRESENTATION. The Company's catalogs are its primary vehicles for communicating with its customers. The creative presentation of each catalog is a crucial factor in attracting customer attention, stimulating purchases, projecting differentiation in the marketplace and building brand identity. The signature style of each catalog is enhanced by the use of editorial lifestyle photography that presents merchandise in settings in which the Company's target customers might find or imagine themselves and by other distinctive catalog design elements such as thematic merchandise spreads highlighting particular colors or fabrics.

INVESTMENT IN MANAGEMENT AND INFRASTRUCTURE. The Company is committed to investments in management and operational infrastructure in order to support its anticipated future growth, serve its customers, improve operating efficiencies and respond to strategic opportunities. In fiscal 1998 DM Management completed the construction of a new operations and fulfillment center and the implementation of two major operating systems - a new order taking system and a new warehouse management system.

NEW OPPORTUNITIES. In 1999 the Company intends to mail four separate 48 page J. JILL catalogs featuring an assortment of bed, bath and accessory items entitled "peopleplacethings." Additionally, in an effort to continue to capitalize on the strength of the J. JILL brand, the Company is expanding its channels of distribution to include retail stores and the Internet. Currently, the Company plans to open five to ten specialty retail stores by the end of 2000. The Company also plans to have a fully-transactional website in operation in time for the 1999 holiday season. The Company may incur costs in excess of revenues generated by these new opportunities during the initial phases of their development. There can be no assurance that these new opportunities will be successful.

CREATIVE PRESENTATION AND CATALOG PRODUCTION

The objective of the Company's creative approach for each of its catalogs is to present merchandise in a vibrant, easy-to-read format with a visual style appropriate for the sophistication of the merchandise and the expectations of the target customers. Management believes that the use of distinctive catalog design techniques such as editorial lifestyle photography and thematic merchandise spreads highlighting particular colors or fabrics helps to create the signature style of its catalog concepts and establish their position as fashion authorities for their target customers. The Company's catalogs showcase merchandise in settings in which their customers might find or imagine themselves, in order to heighten the customers' identification with the concept and affinity for its merchandise offerings. The Company's catalogs are also designed to enhance customer convenience through easy-to-read layouts, coordinated merchandise placement and the Company's "total look" wardrobing approach. Management believes that the Company's strategy of presenting merchandise in real life settings also helps to differentiate it from store-front retailers.

The Company devotes substantial resources to the design and production of each edition of its catalogs. After an initial conceptualization meeting, the creative and merchandising teams work closely together on catalog design, merchandise selection and presentation and catalog print production. The materials and direction necessary to produce each catalog are then delivered to the Company's production team approximately eight weeks before the initial mailing date of the catalog. The production team creates the electronic files used to print the catalog and plans and manages the printing and catalog distribution processes. The production team ensures that photographs appearing in the Company's catalogs accurately depict merchandise characteristics such as color and texture. Catalog production takes place in-house using desktop publishing systems. As a result, the Company can adjust catalog layout until approximately two weeks before the planned initial mailing date, allowing the Company to react to current market and sales trends by adjusting content and presentation of catalogs while they are in production. All of the Company's catalogs are printed commercially under the Company's supervision.

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MARKETING AND CUSTOMER DATABASE MANAGEMENT

At December 26, 1998, the Company's customer database contained approximately 3.3 million individual customer names, including approximately 1,022,000 individuals who had made a purchase within the previous 12 months. The Company estimates that approximately two-thirds of these active customers have made multiple purchases from the Company. DM Management stores detailed information on each of its customers, including demographic data and purchase history. The database is updated on a weekly basis. To determine which of its customers will receive a particular catalog mailing, the Company analyzes this information using sophisticated statistical modeling techniques. The Company's customer database is maintained off-site by a service bureau which sorts and processes the information in accordance with instructions from the Company. The Company's agreement with the service bureau requires the service bureau to safeguard the confidentiality of the Company's database. Additionally, the Company uses customer research techniques such as focus groups and quantitative surveys to assess customer perceptions of its catalog concepts and their competitors, in order to help set distinctive marketing, merchandising and creative strategies appropriate for each catalog concept.

The Company acquires lists of prospective customers by rental or exchange and from a database cooperative and other sources. The Company also purchases lists of prospective customers. The most productive prospects tend to come from the customer lists of other women's apparel catalogs, including direct competitors. The Company rents its list of customers to and exchanges it with others, including direct competitors. To determine which prospective customers will receive a particular catalog mailing, the Company analyzes available information concerning such prospects using the same types of sophisticated statistical modeling techniques used to target mailings to the Company's own customers.

As part of its customer retention program and brand building strategy, DM Management offers its own private label credit card. The Company believes that this credit card reinforces the Company's relationship with existing customers and promotes additional purchases by these customers. In fiscal 1998 approximately 7% of net sales were attributable to purchases made using the Company's private label credit card. At December 26, 1998 there were approximately 91,000 holders of the Company's private label credit card. The credit card program is currently administered by a fee-based outside vendor who bears the credit risk associated with the credit card without recourse to the Company.

MERCHANDISING

The Company provides an edited assortment of high quality merchandise designed to meet the tastes and serve the lifestyle needs of its target

customers. Each of the Company's catalog concepts has its own merchandise selection staff. In addition to apparel, shoes and accessories, the Company's catalogs also offer a selection of seasonal items, gifts and other products selected with the specific lifestyle profiles of J. JILL and NICOLE SUMMERS target customers in mind.

The Company's catalogs offer both brand name and private label merchandise. In fiscal 1998 approximately 91% of the apparel styles offered through J. JILL catalogs were private label. During the same period, approximately 34% of the apparel styles offered through NICOLE SUMMERS catalogs were private label. Private label merchandise is manufactured to the Company's detailed specifications by foreign and domestic vendors. The foreign vendors are primarily located in Hong Kong, Singapore and Israel. Brand name products are selected from the regular offerings of the Company's vendors.

Both the J. JILL and NICOLE SUMMERS catalogs offer a wide assortment of merchandise in petite and large sizes, in the same styles as their regular sized offerings. In fiscal 1998 extended size apparel offerings accounted for 44% of total merchandise offerings.

DM Management's catalogs feature a "total look" wardrobing approach which presents a coordinated selection of apparel and related items including sportswear, dresses, suits, coats, swimwear, shoes and accessories intended to outfit the customer from head to toe. Management believes that this approach builds brand identity while increasing the Company's potential share of household spending dollars.

INVENTORY MANAGEMENT AND PURCHASING

The Company's inventory management systems are designed to maintain inventory levels that provide optimum in-stock positions and maximum inventory turnover rates while minimizing the amount of unsold merchandise at the end of each selling season. To achieve this goal, the Company seeks to schedule merchandise deliveries and inventory amounts to conform to expected sales levels.

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The Company follows an interdepartmental approach to the inventory planning process. Conceptual planning for each principal catalog edition begins approximately nine months in advance of its initial mailing. Early in the process the Company's inventory control, marketing, creative and merchandising teams meet to present key strategies and opportunities for specific catalog editions and merchandise items. The inventory control group then applies inventory coverage models to plan opening inventory levels for each stock keeping unit ("sku"), taking into account projected sales, the cost of being out of stock and ease of reordering. Preliminary commitments with the Company's private label merchandise vendors typically are made five to seven months in advance of each principal catalog edition's initial mailing date. To the extent feasible, the Company seeks to retain flexibility in these commitments in order to be able to react to market and sales trends. Initial merchandise commitments for branded merchandise typically are made three to five months before the edition's initial mailing date. Initial deliveries generally are scheduled to be received one to three weeks before the edition's initial mailing date.

The inventory control group utilizes a forecasting system which analyzes sales and returns by sku throughout the selling season to permit purchasing adjustments based on forecasted sales and returns. The Company attempts to minimize overstocks through a variety of promotional efforts, including telemarketing to customers at the time they place orders for other merchandise and circulation of seasonal clearance catalogs. The Company also sells excess inventory through its four outlet stores and to "jobbers." The Company plans to open three new outlet stores in 1999. The Company's outlet stores are run solely for the purpose of liquidating overstocks.

The Company sells both domestically produced and imported merchandise, which it purchases in the open market. In fiscal 1998 the Company purchased merchandise from approximately 750 vendors. In fiscal 1998 the Company purchased approximately 21% of its merchandise directly from foreign vendors, and the Company expects that it will continue to purchase merchandise from foreign suppliers in the future. In addition, goods purchased by the Company from domestic vendors may be sourced abroad by such vendors. The Company seeks to establish long-term relationships with its merchandise vendors and works closely with them to ensure high standards of merchandise quality.

CONTACT CENTER

DM Management believes that an emphasis on superior customer service is important to its ability to expand its customer base and build customer loyalty. At December 26, 1998, the Company employed approximately 340 contact

center representatives. Customer orders are taken 24 hours a day, 365 days a year, primarily by the Company's contact center representatives at its operations center. The operations center in Meredith, New Hampshire was replaced by a new operations center in Tilton, New Hampshire in February 1999. The Company also accepts orders by mail or facsimile. All orders are input directly into the Company's on-line data processing system, which provides, among other things, customer historical information, merchandise availability, product specifications, available substitutes and accessories and expected shipment date. The Company trains its contact center representatives to be knowledgeable in merchandise specifications and features. These representatives have ready access to samples of the current season's merchandise assortment, which enables them to answer detailed merchandise inquiries from customers on-line.

DM Management offers an unconditional merchandise guarantee. If a customer is not completely satisfied with any item for any reason, the customer may return it for an exchange or a full refund. To simplify the return process, the Company includes a self-addressed return label with every shipment, which customers can use to return any item to the Company through the United States Postal Service without paying postage fees in advance. Management believes that the Company's return rates are consistent with industry standards for comparable merchandise. Returns experience is closely monitored to identify any product quality or fit issues. Returned merchandise is inspected carefully and, unless damaged, is cleaned, pressed and returned to inventory. Approximately 96% of returned merchandise is recycled into inventory.

FULFILLMENT

DM Management believes that the prompt delivery of merchandise promotes customer loyalty and repeat buying. To achieve this goal, the Company uses an integrated picking, packing and shipping system. The system monitors the in-stock status of each item ordered, processes the order and generates all related packing and shipping materials, taking into account the location of items within the fulfillment center. The Company's customers normally receive their orders within three to five business days after shipping, although customers may request overnight delivery for an extra charge.

The Company's significant growth over the past two fiscal years and the corresponding operating infrastructure investment required to support this growth has resulted in the construction of a new 400,000 square foot, state-of-the-art operations and fulfillment center in Tilton, New Hampshire (the "Tilton facility"). Approximately 370,000 square feet of

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the new Tilton facility is fulfillment operations. Currently all merchandise is shipped from the Company's new facility in Tilton, New Hampshire.

In fiscal 1998 the Company operated out of three distribution facilities while awaiting the completion of the Tilton facility. In connection with the Company's transition to the Tilton facility, the Company has vacated its Meredith, New Hampshire operations and fulfillment center, its Laconia, New Hampshire interim fulfillment center and its Laconia, New Hampshire interim returns processing and storage facility. The Company is actively marketing its operations and fulfillment center in Meredith, New Hampshire for sale or lease and is actively seeking a sub-lessor for its interim fulfillment center in Laconia, New Hampshire. The Company has terminated the lease on its interim returns processing and storage facility effective December 31, 1998. The Company incurred no penalties as a result of this early termination.

INFORMATION SYSTEMS AND TECHNOLOGY

The Company is committed to making ongoing investments in its information systems to increase operating efficiency, provide superior customer service and support its anticipated growth. The Company believes that the ability to capture and analyze operational and financial data and relevant information about its customers and their purchasing history is critical to its success.

The Company has made, and continues to make, significant investments in systems to support order taking and customer service, fulfillment, marketing, merchandising, inventory control, financial control and reporting and forecasting. During fiscal 1998 DM Management implemented a new automated warehouse management system which will more efficiently support its warehouse processes and provide additional flexibility to support the Company's growth plans. The Company also implemented a new order management system in fiscal 1998 which provides significant processing enhancements and flexibility as compared to the Company's old system.

In addition to its in-house data processing and information systems resources, the Company also uses several outside vendors for key services such as list processing and credit card administration and approval.

COMPETITION

The market for the Company's merchandise is highly competitive. The Company competes with other direct marketers, specialty apparel and accessory retailers and traditional department store retailers. There are few barriers to entry in the women's specialty apparel and accessory market. Moreover, the Company believes that its recent success, as well as the sales growth in the direct marketing industry, has or will encourage many new competitors. In particular, the Company believes that J. JILL serves an emerging market niche in which competition is limited currently but is likely to increase in the future. Many of the Company's competitors are larger and have substantially greater financial, marketing and other resources than the Company. DM Management believes that it competes principally on the basis of its "total look" wardrobe approach, extended size offerings, private label product offerings, creatively distinctive catalogs and superior customer service.

EMPLOYEES

As of March 6, 1999, the Company employed 935 individuals, of whom 849 were full-time (those employees scheduled to work 30 hours or more per week). None of the Company's employees is represented by a union. The Company considers its employee relations to be good.

TRADEMARKS AND SERVICE MARKS

The Company has registered various trademarks and service marks with the United States Patent and Trademark Office, including J. JILL and NICOLE SUMMERS.

GOVERNMENT REGULATION

The catalog sales business conducted by the Company is subject to the Mail or Telephone Order Merchandise Rule and related regulations promulgated by the Federal Trade Commission, which prohibit unfair methods of competition and unfair or deceptive acts or practices in connection with mail and telephone order sales and require sellers of mail and telephone order merchandise to conform to certain rules of conduct with respect to shipping dates and shipping delays. The Company believes it is in compliance with the Rule and such regulations.

The Company currently collects sales taxes only on sales to its Massachusetts and Pennsylvania customers. Many states have attempted to require that out-of-state direct marketers collect use taxes on sales of products shipped to their residents. In 1992, the United States Supreme Court held unconstitutional a state's imposition of use tax collection obligations on an out-of-state mail order company whose only significant contacts with the state were the distribution of catalogs and other advertising materials through the mail and subsequent delivery of purchased goods by mail or common carriers, but stated that Congress could enact legislation authorizing the states to impose such obligations. In 1995, however, the United States Supreme Court let stand a decision of New York's highest state court requiring an out-of-state catalog company to collect use tax (including a retroactive assessment and penalties) on its mail order sales in the state, where the catalog company's reported contact with New York included a limited number of visits by sales force employees. If Congress enacts legislation permitting states to impose use tax collection obligations on out-of-state mail order businesses, or if the Company otherwise is required to collect additional sales or use taxes, such tax collection obligations would make it more expensive to purchase the Company's products and increase the Company's administrative costs, and therefore could have a material adverse effect on the Company's financial condition and results of operations.

ITEM 2. PROPERTIES

The following table sets forth certain information relating to the Company's facilities as of December 26, 1998:

<TABLE>
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Location	Square Footage	Function	Type of Interest	Lease Termination
<S>	<C>	<C>	<C>	<C>
Tilton, NH (approx. 360 acres)....	400,000	Operations and Fulfillment Center	Owned(1)	--
Laconia, NH.....	112,900	Interim Fulfillment Center	Leased	09/14/99
Meredith, NH (approx. 25 acres)...	93,120	Operations and Fulfillment Center	Owned	--
Laconia, NH.....	37,800	Interim Returns Processing and	Leased	12/31/98

		Storage Facility		
Hingham, MA.....	19,642	Corporate Offices	Leased	03/31/00
Hingham, MA.....	1,935	Corporate Offices	Leased	12/31/03
Bedford, MA.....	5,255	Outlet Store	Leased	04/30/00
Meredith, NH.....	3,600	Outlet Store	Leased	07/01/99
Reading, PA.....	3,059	Outlet Store	Leased	08/31/03
North Conway, NH.....	2,567	Outlet Store	Leased	02/28/02

</TABLE>

- (1) Subsequent to December 26, 1998, the Company contributed its new operations and fulfillment center in Tilton, New Hampshire to Birch Pond Realty Corporation, a wholly owned subsidiary of the Company, in exchange for all of the outstanding shares of Birch Pond Realty Corporation. (See Note D to the accompanying consolidated financial statements.)

In connection with the Company's transition to the new Tilton, New Hampshire operations and fulfillment center, the Company has vacated its Meredith, New Hampshire operations and fulfillment center, its Laconia, New Hampshire interim fulfillment center and its Laconia, New Hampshire interim returns processing and storage facility. The Company is actively marketing its operations and fulfillment center in Meredith, New Hampshire for sale or lease and is actively seeking a sub-lessor for its interim fulfillment center in Laconia, New Hampshire. The Company has terminated the lease on its interim returns processing and storage facility effective December 31, 1998. The Company incurred no penalties as a result of this early termination.

During fiscal 1998, the Company entered into lease agreements for two additional J. JILL catalog outlet stores. The leases on these two stores are due to commence in 1999. The term of the first lease is five years, commencing on the earlier of opening the store or April 1999, and includes 2,780 square feet of retail space located in Lancaster, Pennsylvania. The term of the second lease is three years, commencing on the earlier of opening the store or December 1999 and includes 3,500 square feet of retail space located in Wrentham, Massachusetts.

Also during fiscal 1998, the Company entered into a lease agreement for 60,500 square feet of office space intended to house its new corporate headquarters in Quincy, Massachusetts. The original term of the lease is ten years commencing on the date on which the premises are ready for occupancy. The current estimated completion date is in September 1999.

The operations and fulfillment centers in Tilton, New Hampshire and Meredith, New Hampshire are subject to certain encumbrances. (See Note D to the accompanying consolidated financial statements.)

ITEM 3. LEGAL PROCEEDINGS

The Company is not a party to any material legal proceedings and did not settle any material legal proceedings during the quarter ended December 26, 1998.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The Company's common stock trades on The Nasdaq Stock Market under the symbol "DMMC." As of March 12, 1999, the approximate number of holders of record of common stock of the Company was 350. The Company believes that the approximate number of beneficial holders of common stock of the Company is approximately 2,600.

On May 29, 1998, the Company announced a three-for-two stock split to be effected in the form of a stock dividend payable on June 30, 1998 to shareholders of record on June 12, 1998.

The following table sets forth, for the periods indicated, the high and low sales prices for the Company's common stock as reported on The Nasdaq Stock Market. All sales price information below has been restated to reflect the effects of the three-for-two stock split.

<TABLE>
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High	Low
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<S>	<C>	<C>
FISCAL 1998		
Quarter ended December 26, 1998	\$ 17 3/4	\$ 5 7/8
Quarter ended September 26, 1998	27 5/8	7 1/8
Quarter ended June 27, 1998	23 1/2	12 5/64
Quarter ended March 28, 1998	15 3/4	10 21/64
FISCAL 1997		
Quarter ended December 27, 1997	12 11/64	7 43/64
Quarter ended September 27, 1997	9 1/2	6 1/2
Quarter ended June 28, 1997	7 1/2	4 1/2
Quarter ended March 29, 1997	\$5 27/64	\$ 2 27/64

</TABLE>

The Company has never declared or paid any cash dividends on its common stock. The Company currently intends to retain any earnings for use in the operation and expansion of its business and therefore does not anticipate paying any cash dividends in the foreseeable future.

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ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

The selected consolidated financial data of DM Management Company (the "Company") set forth below has been derived from the Company's consolidated financial statements for the periods indicated and should be read in conjunction with the discussion under "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Company's consolidated financial statements and footnotes.

The Company's fiscal year ends on the last Saturday in December. Prior to December 28, 1996, the Company's fiscal year had ended on the last Saturday in June. The Company's change in fiscal year end resulted in a six-month transition period ended December 28, 1996 (the "transition period"). Financial information for the twelve months ended December 28, 1996 has been presented for comparative purposes and is unaudited. On May 29, 1998, the Company announced a three-for-two stock split to be effected in the form of a stock dividend payable on June 30, 1998 to shareholders of record on June 12, 1998. All share and per share information below has been restated to reflect the effects of the three-for-two stock split.

<TABLE>
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	Twelve Months Ended			Transition Period Ended	Twelve Months Ended		
	Dec. 26, 1998	Dec. 27, 1997	Dec. 28, 1996 (2) (1)	Dec. 28, 1996 (2)	June 29, 1996 (1)	June 24, 1995 (1)	June 25, 1994
	-----	-----	-----	-----	-----	-----	-----
	(unaudited) (in thousands, except per share data)						
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Consolidated Statement of Operations Data:							
Net sales	\$218,730	\$135,533	\$ 84,642	\$ 43,324	\$ 80,585	\$ 72,691	\$ 63,337
Income from continuing operations before income taxes	13,774	6,392	1,956	1,072	261	851	3,604
Income from continuing operations	8,402	3,899	12,358	11,563	235	765	3,269
Net income (loss)	8,402	3,899	3,371	11,563	(9,350)	773	3,269
Income from continuing operations per share (diluted)	0.81	0.48	1.76	1.63	0.04	0.11	0.53
Net income (loss) per share (diluted)	\$ 0.81	\$ 0.48	\$ 0.48	\$ 1.63	\$ (1.40)	\$ 0.11	\$ 0.53
Weighted average shares outstanding (diluted) ..	10,378	8,073	7,019	7,105	6,661	6,914	6,115
Consolidated Balance Sheet Data:							
Total assets	\$115,492	\$ 75,381	\$ 38,109	\$ 38,109	\$ 27,069	\$ 31,612	\$ 26,923
Working capital	10,191	32,835	10,662	10,662	6,988	6,315	9,305
Long-term debt, less current portion	9,900	8,346	4,540	4,540	4,380	3,634	248
Stockholders' equity	\$ 53,596	\$ 43,142	\$ 21,223	\$ 21,223	\$ 9,480	\$ 18,851	\$ 17,861
Selected Operating Data:							
Catalog circulation (3)	73,800	50,500	37,900	18,400	41,600	40,300	32,400
Total twelve-month buyers (4)	1,022	681	455	455	498	479	415

</TABLE>

- (1) In December 1994 the Company purchased certain assets and assumed certain liabilities of Carroll Reed, Inc. and Carroll Reed International Limited. In connection with the purchase, the Company paid \$5,031,000 and

established accruals totaling \$1,180,000. On May 20, 1996, the Company announced its plan to divest its CARROLL REED segment and recorded a charge of \$8,511,000 for the loss on disposal of discontinued operations. The results of the CARROLL REED operations through May 20, 1996 have been classified as income (loss) from discontinued operations. See Note B to the accompanying consolidated financial statements.

- (2) During the six-month and twelve-month periods ended December 28, 1996, the Company recognized a deferred tax benefit of \$10,598,000. See Note H to the accompanying consolidated financial statements.
- (3) In order to more closely match net sales to catalog circulation, the Company calculates catalog circulation on a percentage of completion basis. This calculation takes into account the total number of catalogs mailed during all periods and the Company's estimate of the expected sales life of each catalog edition. As used throughout this Form 10-K, the term "catalog circulation" refers to circulation of the Company's catalogs calculated in such fashion.
- (4) As used throughout this Form 10-K, the term "twelve-month buyers" means customers who have made a purchase from the Company within the previous 12 months.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

THE FOLLOWING DISCUSSION CONTAINS FORWARD-LOOKING STATEMENTS WITHIN THE MEANING OF SECTION 21E OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED, WHICH INVOLVE RISKS AND UNCERTAINTIES. FOR THIS PURPOSE, ANY STATEMENTS CONTAINED HEREIN OR INCORPORATED HEREIN THAT ARE NOT STATEMENTS OF HISTORICAL FACT MAY BE DEEMED TO BE FORWARD-LOOKING STATEMENTS. WITHOUT LIMITING THE GENERALITY OF THE FOREGOING, THE WORDS "ANTICIPATES," "PLANS," "EXPECTS" AND SIMILAR EXPRESSIONS ARE INTENDED TO IDENTIFY FORWARD-LOOKING STATEMENTS. THE COMPANY'S ACTUAL RESULTS, PERFORMANCE OR ACHIEVEMENTS MAY DIFFER SIGNIFICANTLY FROM THE RESULTS DISCUSSED IN OR IMPLIED BY THE FORWARD-LOOKING STATEMENTS. FACTORS THAT MIGHT CAUSE SUCH A DIFFERENCE INCLUDE, BUT ARE NOT LIMITED TO THE FOLLOWING: THE SUCCESS OR FAILURE OF THE J.JILL RETAIL STORE INITIATIVE; DIFFICULTIES IN MANAGING THE TRANSITION OF OPERATIONS TO THE NEW TILTON, NEW HAMPSHIRE OPERATIONS AND FULFILLMENT CENTER; SIGNIFICANT CHANGES IN CUSTOMER RESPONSE RATES; CHANGE IN COMPETITION IN THE APPAREL INDUSTRY; GENERAL ECONOMIC AND BUSINESS CONDITIONS; SUCCESS OR FAILURE OF OPERATING INITIATIVES; THE ABILITY OF THE COMPANY TO EFFECTIVELY LIQUIDATE ITS OVERSTOCKED MERCHANDISE; CHANGES IN CONSUMER SPENDING AND CONSUMER PREFERENCES; FAILURE OF THE COMPANY OR ITS SIGNIFICANT VENDORS OR SUPPLIERS TO BECOME YEAR 2000 COMPLIANT; CHANGES IN BUSINESS STRATEGY; POSSIBLE FUTURE INCREASES IN EXPENSES; THE EXISTENCE OR ABSENCE OF BRAND AWARENESS; THE EXISTENCE OR ABSENCE OF PUBLICITY, ADVERTISING AND PROMOTIONAL EFFORTS; AVAILABILITY, TERMS AND DEPLOYMENT OF CAPITAL; QUALITY OF MANAGEMENT; BUSINESS ABILITIES AND JUDGMENT OF PERSONNEL; AVAILABILITY OF QUALIFIED PERSONNEL; LABOR AND EMPLOYEE BENEFIT COSTS; CHANGES IN, OR THE FAILURE TO COMPLY WITH, GOVERNMENT REGULATIONS, AND OTHER FACTORS.

RESULTS OF OPERATIONS

In January 1997 the Company changed its fiscal year end from the last Saturday in June to the last Saturday in December. References to fiscal 1998 and fiscal 1997 mean the Company's fiscal years ended December 26, 1998 and December 27, 1997, respectively. References to the transition period mean the six-month transition period ended December 28, 1996. The following table sets forth, for the fiscal periods indicated, certain items from the Company's consolidated statements of operations expressed as a percentage of net sales:

<TABLE>
<CAPTION>

	Twelve Months Ended			Transition	Twelve
	Dec. 26, 1998	Dec. 27, 1997	Dec. 28, 1996	Period Ended Dec. 28, 1996	Months Ended June 29, 1996
<S>	<C>	<C>	<C>	<C>	<C>
Net sales	100.0%	100.0%	100.0%	100.0%	100.0%
Costs and expenses:					
Product	44.8	44.1	44.0	44.9	43.5
Operations	20.0	18.9	16.5	15.9	17.3
Selling	22.3	24.7	28.0	27.1	30.3
General and administrative	6.8	7.6	8.8	9.3	8.2

Interest, net	(0.2)	--	0.4	0.3	0.4
	-----	-----	-----	-----	-----
Income from continuing operations					
before income taxes	6.3	4.7	2.3	2.5	0.3
Provision (benefit) for income taxes	2.5	1.8	(12.3)	(24.2)	--
	-----	-----	-----	-----	-----
Income from continuing operations	3.8	2.9	14.6	26.7	0.3
Loss from discontinued operations	--	--	(10.6)	--	(11.9)
	-----	-----	-----	-----	-----
Net income (loss)	3.8%	2.9%	4.0%	26.7%	(11.6)%
	=====	=====	=====	=====	=====

</TABLE>

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COMPARISON OF FISCAL 1998 TO FISCAL 1997

NET SALES

In fiscal 1998 net sales increased by 61.4%, or \$83.2 million, to \$218.7 million from \$135.5 million in fiscal 1997. The increase in net sales was attributable to significant sales volume increases from J. JILL. In fiscal 1998 J. JILL net sales and circulation increased by 123.7% and 101.5%, respectively, as compared to fiscal 1997. J. JILL net sales growth was attributable to the aforementioned circulation growth, as well as improved response rates and increased units per order. Although the Company plans to continue its aggressive customer acquisition strategy at J. JILL, it does not expect the same year over year percentage increase in circulation that it experienced in fiscal 1998 to continue. In fiscal 1998 net sales and circulation for NICOLE SUMMERS decreased by 12.9% and 17.8%, respectively, as compared to fiscal 1997. The Company expects slight decreases in net sales and circulation at NICOLE SUMMERS in 1999 as compared to fiscal 1998. Total Company catalog circulation increased by 46.1% to 73.8 million in fiscal 1998 from 50.5 million in fiscal 1997. The number of twelve-month buyers grew to 1,022,000 at December 26, 1998 from 681,000 at December 27, 1997, an increase of 50.1%.

PRODUCT

Product costs consist primarily of merchandise acquisition costs (net of term discounts and advertising allowances), including freight-in costs, and provisions for markdowns. In fiscal 1998 product costs increased by \$38.1 million, or 63.7%, to \$97.9 million from \$59.8 million in fiscal 1997. As a percentage of net sales, product costs increased to 44.8% in fiscal 1998 from 44.1% in fiscal 1997. Increased use of strategically designed promotional pricing in fiscal 1998 combined with increased markdown charges associated with NICOLE SUMMERS resulted in increased product costs as a percentage of net sales over the prior year. This increase in costs as a percentage of net sales was almost entirely offset by the shift in the mix of the business toward J. JILL, which experiences lower product costs as a percentage of net sales than NICOLE SUMMERS due to its higher concentration of private label merchandise. The Company does not expect product costs as a percentage of net sales to improve significantly in the near future.

OPERATIONS

Operating expenses consist primarily of order processing costs, such as telemarketing, customer service, fulfillment, shipping, warehousing and credit card processing costs, and merchandising costs. In fiscal 1998 operating expenses increased by \$18.2 million, or 71.2%, to \$43.8 million from \$25.6 million in fiscal 1997. As a percentage of net sales, operating expenses increased to 20.0% in fiscal 1998 from 18.9% in fiscal 1997. The Company's significant growth over the past two fiscal years and the corresponding operating infrastructure investment required to support this growth has resulted in operational inefficiencies. In fiscal 1998 the Company operated out of three distribution facilities while awaiting the completion of the new state-of-the-art, 400,000 square foot operations and fulfillment facility in Tilton, New Hampshire (the "Tilton facility"). Reduced productivity from operating out of these multiple facilities, inefficiencies attributable to implementing new order taking and warehouse management systems, increased costs associated with third party call center usage and growth in the product development division of merchandising all contributed to the increase in operating expenses as a percentage of net sales in fiscal 1998. The Company currently expects the ratio of operating expenses to net sales to improve in the second half of 1999 with further improvement in 2000.

SELLING

Selling expenses consist primarily of the cost to produce, print and distribute catalogs. In fiscal 1998 selling expenses increased by \$15.4 million, or 45.8%, to \$48.9 million from \$33.5 million in fiscal 1997. As a percentage of net sales, selling expenses decreased to 22.3% in fiscal 1998 from 24.7% in fiscal 1997. This decrease was primarily a result of improved catalog

productivity, offset by an increase in paper costs, in fiscal 1998 as compared to fiscal 1997. The Company expects the ratio of selling expenses to net sales to increase slightly in 1999 as a result of increased postage rates.

GENERAL AND ADMINISTRATIVE

General and administrative expenses consist primarily of executive, marketing, information systems and finance expenses. In fiscal 1998 general and administrative expenses increased by \$4.7 million, or 45.5%, to \$14.9 million from \$10.2 million in fiscal 1997. This increase is primarily attributable to increased salaries and performance bonuses and increased depreciation. As a percentage of net sales, general and administrative expenses decreased to 6.8% in fiscal 1998 from 7.6% in fiscal 1997.

INTEREST, NET

Interest income increased to \$1.1 million in fiscal 1998 from \$0.5 million in fiscal 1997, primarily due to higher cash and cash equivalent balances in fiscal 1998 due to proceeds from the Company's fiscal 1997 public offering. Interest expense increased to \$0.6 million in fiscal 1998 as compared to \$0.5 million in fiscal 1997 primarily as a result of increased use of the Company's credit facilities. Interest expense does not include capitalized interest of \$1.0 million and \$0.1 million in

fiscal 1998 and fiscal 1997, respectively. The Company expects a decrease in interest income and an increase in interest expense in 1999 as a result of using cash and cash equivalents and new borrowings to finance the Tilton facility.

COMPARISON OF FISCAL 1997 TO THE TWELVE MONTHS ENDED DECEMBER 28, 1996

NET SALES

In fiscal 1997 net sales increased by 60.1%, or \$50.9 million, to \$135.5 million from \$84.6 million during the twelve months ended December 28, 1996. The increase in net sales was attributable to significant sales volume increases from J. JILL. In fiscal 1997 J. JILL net sales and circulation increased by 225.5% and 147.3%, respectively, as compared to the twelve months ended December 28, 1996. J. JILL net sales growth was attributable to the aforementioned circulation growth, as well as improved response rates and increased units per order. In fiscal 1997 net sales and circulation for NICOLE SUMMERS decreased by 0.3% and 12.9%, respectively, as compared to the twelve months ended December 28, 1996. Total Company catalog circulation increased by 33.2% to 50.5 million in fiscal 1997 from 37.9 million during the twelve months ended December 28, 1996. The number of twelve-month buyers grew to 681,000 at December 27, 1997 from 455,000 at December 28, 1996, an increase of 49.7%.

PRODUCT

In fiscal 1997 product costs increased by \$22.6 million, or 60.7%, to \$59.8 million from \$37.2 million during the twelve months ended December 28, 1996. As a percentage of net sales, product costs increased to 44.1% in fiscal 1997 from 44.0% during the twelve months ended December 28, 1996. The slight increase in product costs as a percentage of net sales in fiscal 1997 was primarily attributable to increased promotional activity and was offset in part by lower markdown charges in fiscal 1997 as compared to the prior year.

OPERATIONS

In fiscal 1997 operating expenses increased by \$11.6 million, or 82.9%, to \$25.6 million from \$14.0 million during the twelve months ended December 28, 1996. As a percentage of net sales, operating expenses increased to 18.9% in fiscal 1997 from 16.5% during the twelve months ended December 28, 1996. The Company's dramatic growth in fiscal 1997 resulted in operational inefficiencies and capacity issues. Higher than anticipated call volume resulted in increased costs from greater use of the Company's third party call center. The need for more fulfillment capacity required the Company to lease two interim satellite facilities. This arrangement generated operational inefficiencies, as well as increased costs. Also during the second half of fiscal 1997, the Company experienced higher shipping costs due to the expiration of its contract with Airborne Express, which had favorable pricing terms, and its subsequent shift to the U.S. Postal Service for customer package delivery.

SELLING

In fiscal 1997 selling expenses increased by \$9.8 million, or 41.2%, to \$33.5 million from \$23.7 million during the twelve months ended December 28, 1996. As a percentage of net sales, selling expenses decreased to 24.7% in fiscal 1997 from 28.0% during the twelve months ended December 28, 1996. Increased catalog productivity as well as lower paper prices resulted in this decline in selling expenses as a percentage of net sales.

GENERAL AND ADMINISTRATIVE

In fiscal 1997 general and administrative expenses increased by \$2.8 million, or 37.5%, to \$10.2 million from \$7.4 million during the twelve months ended December 28, 1996. This increase was primarily attributable to increased management infrastructure, increased outside consulting fees related to various systems and facilities projects and increased depreciation and occupancy costs. As a percentage of net sales, general and administrative expenses decreased to 7.6% in fiscal 1997 from 8.8% during the twelve months ended December 28, 1996.

INTEREST, NET

Interest income increased to \$0.5 million in fiscal 1997 from \$0.2 million during the twelve months ended December 28, 1996 primarily due to earnings on the proceeds from the Company's public offering in October 1997. Interest expense was \$0.5 million in fiscal 1997 unchanged from the twelve months ended December 28, 1996. Interest expense does not include capitalized interest of \$0.1 million in fiscal 1997.

INCOME TAXES

The Company provides for income taxes at an effective tax rate that includes the full federal and state statutory tax rates. Prior to December 1996, the Company reduced the income tax provision recorded in its financial statements by recording a tax benefit associated with its net deferred tax assets, primarily net operating loss ("NOL") carryforwards. Because of the

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uncertainty surrounding the realizability of these assets, the Company placed a valuation allowance against the entire balance of its net deferred tax assets. As a result, the associated tax benefit was recognized as income was earned, resulting in a significantly lower effective tax rate for all periods reported prior to December 1996.

In December 1996, the Company performed a detailed analysis of the future taxable income levels required for the Company to fully realize the benefit of its net deferred tax assets. Based on this analysis, the Company determined that it was more likely than not that the Company would earn sufficient book and taxable income to fully realize the benefit of its net deferred tax assets. This determination required the Company to remove the valuation allowance and recognize the deferred tax benefit of \$10.6 million at December 28, 1996 in its entirety. No assurance can be given, however, that the Company will achieve taxable income sufficient to realize the full benefit of its net deferred tax assets.

Because, for financial statement purposes, the benefit associated with the Company's deferred tax assets has been fully realized, the Company's effective tax rate can no longer be reduced by the recognition of this tax benefit over future periods of income generation. As a result, the Company's effective tax rate is substantially larger in fiscal 1998 and fiscal 1997 than in prior periods. Cash payments for income taxes continue to be reduced by available NOL carryforwards. See Note H to the accompanying consolidated financial statements.

DISCONTINUED OPERATIONS

On May 20, 1996, the Company announced its plan to divest its CARROLL REED segment due to the incompatibility of the customer base and product line of this segment with those of its other segment. Accordingly, the CARROLL REED segment has been accounted for as a discontinued operation, and all assets, liabilities, results of operations and cash flows associated with the CARROLL REED segment have been segregated from those associated with continuing operations. In connection with this divestiture, the Company recorded a charge of \$8.5 million in fiscal 1996 for the loss on disposal of discontinued operations, consisting of \$5.3 million related to the write-off of the remaining unamortized intangible assets and \$3.2 million for expected losses during the phase-out period. The results of the CARROLL REED operations through May 20, 1996 have been classified as loss from discontinued operations. Since May 20, 1996, the results of this discontinued operation have been charged to the liability for expected losses established in connection with the divestiture and have had no impact on the Company's operating results. As of December 26, 1998, the Company had completed the phase-out of its CARROLL REED segment and had utilized its reserve for expected losses, including the recognition of certain tax benefits.

LIQUIDITY AND CAPITAL RESOURCES

DM Management's principal working capital needs arise from the need to support costs incurred in advance of revenue generation, primarily inventory acquisition and catalog development, production and mailing costs incurred prior to the beginning of each selling season. The Company has two selling seasons which correspond to the fashion seasons. The Fall season begins in July and ends

in January. The Spring season begins in January and ends in July. Capital needs arise from capital expenditures related to expansions and improvements to the Company's operating infrastructure. In fiscal 1998 these capital expenditures included costs related to the construction of the Tilton facility and the implementation of two major operating systems - a new order taking system and a new warehouse management system (the "new operating systems"). In fiscal 1998 the Company funded its operating and capital needs through its bank credit facilities, cash generated from operations, proceeds from its fiscal 1997 public offering and proceeds from the sale of its marketable securities.

The Company's operating activities provided net cash of \$7.7 million and \$5.7 million in fiscal 1998 and fiscal 1997, respectively. Net cash provided by operations in fiscal 1998 and fiscal 1997 was primarily the result of the significant net sales growth during these periods. This sales growth resulted in corresponding increases in net income and accrued customer returns. In order to support this sales growth and the projected future growth in the business, the Company used cash from operations to increase inventory levels. Inventory levels at December 26, 1998 were 30.5% higher than at December 27, 1997. Fiscal 1997 operating cash flows were also affected by an increase in prepaid catalog expenses which resulted from increased catalog circulation and page counts and higher paper inventory balances.

The Company's investing activities used net cash of \$31.4 million and \$8.5 million in fiscal 1998 and fiscal 1997, respectively. In fiscal 1998 and fiscal 1997 the use of cash in investing activities was primarily attributable to costs related to the construction of the new Tilton facility. Construction of the Tilton facility began in fiscal 1997 and was completed as of December 26, 1998. The estimated total cost of this facility including land, construction, equipment and furniture is approximately \$41.0 million, of which approximately \$37.2 million had been spent as of December 26, 1998. In fiscal 1998 the Company sold its marketable securities and generated cash from investing activities of approximately \$3.8 million. This cash was used to fund construction of the Tilton facility.

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DM Management's financing activities provided net cash of \$24.4 million and \$21.6 million in fiscal 1998 and fiscal 1997, respectively. Cash provided by financing activities in fiscal 1998 was primarily the result of borrowings used to finance the Tilton facility construction. In fiscal 1998 cash provided from financing activities also included \$1.9 million in cash provided from stock transactions, primarily the exercise of stock options. Cash provided by financing activities in fiscal 1997 was primarily due to proceeds received from the Company's \$17.5 million fiscal 1997 public offering.

During the twelve months ended December 28, 1996 net cash provided by operating activities was affected by two significant events - the recognition of a \$10.6 million reduction in the Company's valuation allowance on its deferred tax assets and the write off of its discontinued CARROLL REED segment. Net cash used in investing and financing activities included additions to property and equipment and payments made related to the CARROLL REED purchase and certain debt borrowings.

The Company's credit facilities at December 26, 1998 consisted of (i) a \$1.7 million real estate loan (the "Real Estate Loan"); (ii) a \$3.6 million term loan (the "Term Loan"); (iii) a \$9.5 million equipment loan (the "Equipment Loan"); (iv) a \$15.9 million revolving line of credit (the "Revolver"); (v) a \$17.0 million line of credit (the "Line of Credit"); and (vi) a \$4.3 million short-term note (the "Short-Term Note"). The Equipment Loan was collateralized by substantially all of the Company's materials handling equipment. The remaining credit facilities were collateralized by substantially all of the Company's remaining assets. All of these credit facilities contain various lending conditions and covenants, including restrictions on permitted liens and required compliance with certain debt coverage ratios.

The Real Estate Loan requires monthly payments, based on a 15-year amortization, with the balance payable on July 30, 2002. Interest on the Real Estate Loan is fixed at 6.81% per annum until August 31, 1999, at which time the Company may select from several interest rate options. The Term Loan requires quarterly payments through its maturity on June 1, 2002 and provides for several interest rate options (6.78% per annum at December 26, 1998). The Equipment Loan requires monthly payments through its maturity on December 1, 2005 with the interest rate fixed at 7.5% per annum. The Revolver is available for borrowings and for letters of credit. At December 26, 1998 there were no borrowings outstanding and \$11.6 million of outstanding letters of credit under the Revolver. At December 26, 1998 the Revolver bore interest at 7.75% per annum. The outstanding letters of credit do not bear interest. The Revolver matures June 1, 1999. The Company is required to pay a commitment fee of 1/8th of 1% per annum on the unused portion of the Revolver. The Line of Credit bears interest at LIBOR plus 125 basis points repriced monthly (6.81% per annum at December 26, 1998), expires on March 31, 1999 and does not require a commitment fee. The Short-Term Note bears interest at 7.06% per annum and matures on March 31, 1999.

Subsequent to December 26, 1998, the Company obtained long-term financing for the Tilton facility. In connection with the long-term financing, the Company contributed the new Tilton facility to Birch Pond Realty Corporation ("Birch Pond"), a wholly owned subsidiary of the Company, in exchange for all the outstanding shares of Birch Pond. On March 1, 1999, Birch Pond entered into a \$12.0 million loan (the "Loan") with a financial institution and granted a mortgage lien on the Tilton facility to the financial institution. Cash received from the Loan, cash from the Company's fiscal 1997 public offering and cash from operations were used to pay off the Short-Term Note and the Line of Credit and to release the existing mortgage on the Tilton facility.

Also during fiscal 1998, the Company entered into a lease agreement for office space intended to house its new corporate headquarters. The original term of the lease is ten years commencing on the date on which the premises are ready for occupancy. The current estimated completion date is in September 1999. Minimum annual lease payments due under the lease range from \$1.6 million to \$1.8 million. In October 1998 the Company placed \$1.3 million on deposit to secure this lease.

The Company expects that its cash and cash equivalents, existing credit facilities, anticipated new credit facilities and cash flows from operations will be sufficient to support the Company's capital and operating needs for the foreseeable future.

FUTURE CONSIDERATIONS

In 1999 the Company intends to mail four separate 48-page J. JILL catalogs featuring an assortment of bed, bath and accessory items entitled "peopleplacethings." Additionally, in an effort to continue to capitalize on the strength of the J. JILL brand, the Company is expanding its channels of distribution to include retail stores and the Internet. Currently, the Company plans to open five to ten specialty retail stores by the end of 2000. The Company also plans to have a fully-transactional website in operation in time for the 1999 holiday season. The Company may incur costs in excess of revenues generated by these new opportunities during the initial phases of their development. There can be no assurance that these new opportunities will be successful.

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YEAR 2000 READINESS DISCLOSURE

The Year 2000 issue affects most companies that rely on computer systems and involves the computer software and hardware changes necessary to handle the transition from the year 1999 to the Year 2000. During 1997, the Company formulated a plan to address the Year 2000 issue. The Company has assessed its status regarding its Year 2000 compliance in three components: internal information technology (IT) systems, internal non-information technology (non-IT) systems, and external Year 2000 issues related to the Company's vendors, suppliers and service providers ("third party providers").

As part of the Company's strategic business plan, the Company's major internal IT and non-IT systems have been replaced or upgraded. The Company has received assurances from the vendors of all of the Company's major internal IT and non-IT systems indicating the new systems and upgrades are designed to be Year 2000 compliant. Because these system improvements were primarily motivated by the Company's growth and technology needs, they are not considered to be costs directly attributable to the Year 2000 issue. Certain minor internal IT and non-IT systems have also been upgraded or are planned to be upgraded by June 1999. The Company has received assurances from the vendors of these upgrades indicating that the upgrades are designed to be Year 2000 compliant. These upgrades are part of the Company's continuing maintenance plans and are not considered to be costs directly attributable to the Year 2000 issue. Beginning in the Spring of 1999, the Company plans to run tests focused on verifying the assurances given by the vendors of its internal IT and non-IT systems. At this time there can be no assurance that all of the Company's internal IT and non-IT systems will be Year 2000 compliant. The total historical and estimated future costs to address the Year 2000 issue with respect to internal IT and non-IT systems is currently estimated to be less than \$500,000.

As part of the Company's plan to address the Year 2000 issue, the Company has begun contacting and receiving letters from its significant third party providers either certifying that their company is currently Year 2000 compliant or indicating a date that a compliance certificate is expected. The Company has begun to develop contingency plans to deal with possible non-compliance by the Company's significant third party providers. These plans include the possible replacement of the noncomplying third party providers. The current estimated impact to the Company for these replacements is approximately \$200,000. At this time there can be no assurance that all of the Company's third party providers will be Year 2000 compliant. The Company intends to further develop its contingency plans beginning in the first half of 1999.

The estimates mentioned above may change materially in the future as further information is obtained. Any failure of the Company or its significant third party providers to become Year 2000 compliant could have a material adverse effect on the Company's financial condition, results of operations, or cash flows.

RECENT ACCOUNTING STANDARDS

The Company reports segment information in accordance with Financial Accounting Standards Board issued Statement No. 131, "DISCLOSURES ABOUT SEGMENTS OF AN ENTERPRISE AND RELATED INFORMATION." This statement, which is based on the management approach to segment reporting establishes new standards for the way public companies report information about operating segments and requires companies to report selected segment information quarterly to stockholders. The Company holds assets and reports sales in one operating segment.

In April 1998 the American Institute of Certified Public Accountants issued Statement of Position No. 98-5, "REPORTING ON THE COSTS OF START-UP ACTIVITIES," which provides guidance on the financial reporting of start-up costs and organization costs. It requires costs of start-up activities and organization costs to be expensed as incurred. The Company adopted this statement in fiscal 1998. The adoption of this statement was immaterial to the accompanying consolidated financial statements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company's objective in managing its exposure to interest rate changes and foreign currency rate changes is to limit the material impact of the changes on cash flows and earnings and to lower its overall borrowing costs. To achieve its objectives, the Company identifies these risks and manages them through its regular operating and financing activities, including periodic refinancing of debt obligations to lower financing costs and adjust fixed and variable rate debt positions. The Company does not currently use derivative financial instruments or enter into foreign currency denominated contracts. Management has calculated the effect of a 10% change in interest rates over a month and determined the effect to be immaterial. Management does not foresee or expect any significant changes in the management of foreign currency or interest rate exposures or in the strategies it employs to manage such exposures in the near future.

ITEM 8. CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

DM MANAGEMENT COMPANY
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REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Stockholders of
DM Management Company:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, stockholders' equity and cash flows present fairly, in all material respects, the financial position of DM Management Company and its subsidiary at December 26, 1998 and December 27, 1997, and the results of their operations and their cash flows for each of the two years in the period ended December 26, 1998 and for the six month period ended December 28, 1996 and the twelve month period ended June 29, 1996, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements in accordance with generally accepted auditing standards, which 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

PricewaterhouseCoopers LLP

Boston, Massachusetts

February 5, 1999, except for Note D,
as to which the date is
March 1, 1999

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DM MANAGEMENT COMPANY

CONSOLIDATED BALANCE SHEETS

(in thousands)

<TABLE>
<CAPTION>

	December 26, 1998	December 27, 1997
	-----	-----
<S>	<C>	<C>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 19,996	\$ 19,260
Marketable securities, net of unrealized loss	--	3,890
Inventory	26,847	20,579
Prepaid catalog expenses	5,254	6,475
Deferred income taxes	6,934	5,295
Other current assets	3,156	1,229
	-----	-----
Total current assets	62,187	56,728
Property and equipment, net	47,485	14,174
Deferred income taxes	4,520	4,479
Other non-current assets	1,300	--
	-----	-----
Total assets	\$ 115,492	\$ 75,381
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 12,057	\$ 14,116
Accrued expenses	8,571	4,161
Accrued customer returns	8,333	4,779
Short-term borrowings	21,300	--
Current portion of long-term debt	1,735	837
	-----	-----
Total current liabilities	51,996	23,893
Long-term debt, less current portion	9,900	8,346
Commitments		
Stockholders' equity:		
Special preferred stock (par value \$0.01) 1,000,000 shares authorized	--	--
Common stock (par value \$0.01) 15,000,000 shares authorized, 9,631,401 and 6,098,480 shares issued and outstanding as of December 26, 1998 and December 27, 1997, respectively	96	61

Additional paid-in capital	59,953	58,041
Unrealized loss on marketable securities	--	(105)
Accumulated deficit	(6,453)	(14,855)
	-----	-----
Total stockholders' equity	53,596	43,142
	-----	-----
Total liabilities and stockholders' equity	\$ 115,492	\$ 75,381
	=====	=====

</TABLE>

The accompanying notes are an integral part of the consolidated financial statements.

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DM MANAGEMENT COMPANY

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share data)

<TABLE>

<CAPTION>

	Twelve Months Ended			Transition Period Ended	Twelve Months Ended
	Dec. 26, 1998 (52 weeks)	Dec. 27, 1997 (52 weeks)	Dec. 28, 1996 (52 weeks)	Dec. 28, 1996 (26 weeks)	June 29, 1996 (53 weeks)
			(unaudited)		
<S>	<C>	<C>	<C>	<C>	<C>
Net sales	\$ 218,730	\$ 135,533	\$ 84,642	\$ 43,324	\$ 80,585
Costs and expenses:					
Product	97,870	59,788	37,205	19,436	35,046
Operations	43,843	25,615	14,007	6,915	13,954
Selling	48,864	33,505	23,727	11,730	24,416
General and administrative	14,898	10,236	7,442	4,045	6,602
Interest, net	(519)	(3)	305	126	306
	-----	-----	-----	-----	-----
Income from continuing operations					
before income taxes	13,774	6,392	1,956	1,072	261
Provision (benefit) for income taxes	5,372	2,493	(10,402)	(10,491)	26
	-----	-----	-----	-----	-----
Income from continuing operations	8,402	3,899	12,358	11,563	235
Discontinued operations:					
Loss from operations	--	--	(476)	--	(1,074)
Loss on disposal	--	--	(8,511)	--	(8,511)
	-----	-----	-----	-----	-----
Loss from discontinued operations	--	--	(8,987)	--	(9,585)
	-----	-----	-----	-----	-----
Net income (loss)	\$ 8,402	\$ 3,899	\$ 3,371	\$ 11,563	\$ (9,350)
	=====	=====	=====	=====	=====
Net income (loss) per share:					
Basic:					
Continuing operations	\$ 0.89	\$ 0.54	\$ 1.90	\$ 1.77	\$ 0.04
Discontinued operations	--	--	(1.38)	--	(1.50)
	-----	-----	-----	-----	-----
Net income (loss) per share	\$ 0.89	\$ 0.54	\$ 0.52	\$ 1.77	\$ (1.46)
	=====	=====	=====	=====	=====
Weighted average shares outstanding	9,483	7,202	6,494	6,547	6,415
Diluted:					
Continuing operations	\$ 0.81	\$ 0.48	\$ 1.76	\$ 1.63	\$ 0.04
Discontinued operations	--	--	(1.28)	--	(1.44)
	-----	-----	-----	-----	-----
Net income (loss) per share	\$ 0.81	\$ 0.48	\$ 0.48	\$ 1.63	\$ (1.40)
	=====	=====	=====	=====	=====
Weighted average shares outstanding	10,378	8,073	7,019	7,105	6,661

</TABLE>

The accompanying notes are an integral part of the consolidated financial statements.

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DM MANAGEMENT COMPANY

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

(in thousands, except share data)

<TABLE>
<CAPTION>

	Common Stock	Additional Paid-In Capital	Unrealized Loss on Marketable Securities	Accumulated Deficit	Total Stockholders' Equity
<S>	<C>	<C>	<C>	<C>	<C>
Balance at June 24, 1995	\$ 42	\$ 39,827	\$ (51)	\$ (20,967)	\$ 18,851
Exercise of stock options	1	29	--	--	30
Stock granted under the 1993 Employee Stock Purchase Plan	--	34	--	--	34
Change in unrealized losses, net of tax	--	--	(85)	--	(85)
Net loss	--	--	--	(9,350)	(9,350)
Balance at June 29, 1996	43	39,890	(136)	(30,317)	9,480
Exercise of stock options	1	145	--	--	146
Tax benefit from exercise of stock options	--	13	--	--	13
Change in unrealized losses, net of tax	--	--	21	--	21
Net income	--	--	--	11,563	11,563
Balance at December 28, 1996	44	40,048	(115)	(18,754)	21,223
Issuance of 1,412,861 shares of common stock, net	14	17,440	--	--	17,454
Exercise of stock options	3	408	--	--	411
Tax benefit from exercise of stock options	--	87	--	--	87
Stock granted under the 1993 Employee Stock Purchase Plan	--	58	--	--	58
Change in unrealized losses, net of tax	--	--	10	--	10
Net income	--	--	--	3,899	3,899
Balance at December 27, 1997	61	58,041	(105)	(14,855)	43,142
Exercise of stock options	3	1,115	--	--	1,118
Tax benefit from exercise of stock options	--	734	--	--	734
Stock granted under 1993 Employee Stock Purchase Plan	--	96	--	--	96
Adjustment for stock split	32	(33)	--	--	(1)
Change in unrealized losses, net of tax	--	--	105	--	105
Net income	--	--	--	8,402	8,402
Balance at December 26, 1998	\$ 96	\$ 59,953	\$ --	\$ (6,453)	\$ 53,596

</TABLE>

The accompanying notes are an integral part of the consolidated financial statements.

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DM MANAGEMENT COMPANY

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

<TABLE>
<CAPTION>

	Twelve Months Ended			Transition Period Ended	Twelve Months Ended
<S>	Dec. 26, 1998 (52 weeks)	Dec. 27, 1997 (52 weeks)	Dec. 28, 1996 (52 weeks)	Dec. 28, 1996 (26 weeks)	June 29, 1996 (53 weeks)
	<C>	<C>	<C>	<C>	<C>
Cash flows from operating activities:			(unaudited)		

Net income (loss)	\$ 8,402	\$ 3,899	\$ 3,371	\$ 11,563	\$ (9,350)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:					
Depreciation and amortization	2,853	1,493	1,049	571	910
Loss on sale of marketable securities	159	--	--	--	--
Deferred income taxes	(1,680)	824	(10,598)	(10,598)	--
Liability for expected losses	--	(231)	231	(2,427)	2,658
Write-off of intangible assets	--	--	5,336	--	5,336
Amortization related to discontinued operations	--	--	189	--	415
Changes in assets and liabilities:					
Increase in inventory	(6,268)	(7,942)	(2,783)	(1,771)	(622)
(Increase) decrease in prepaid catalog expenses	1,221	(3,761)	2,952	1,440	270
(Increase) decrease in other current assets	(1,927)	(314)	795	182	(557)
Increase (decrease) in accounts payable and accrued expenses	1,408	8,257	2,084	(1,069)	3,432
Increase in accrued customer returns	3,554	3,470	444	78	40
(Increase) decrease in net current assets (liabilities) of discontinued operations	--	39	1,845	2,619	(2,265)
Net cash provided by operating activities	7,722	5,734	4,915	588	267
Cash flows used in investing activities:					
Additions to property and equipment	(35,221)	(8,494)	(1,512)	(834)	(796)
Proceeds from sale of marketable securities	3,836	--	6	--	6
Payments for purchase of CARROLL REED (Note B)	--	--	(907)	--	(907)
Net cash used in investing activities	(31,385)	(8,494)	(2,413)	(834)	(1,697)
Cash flows provided by (used in) financing activities:					
Deposit on lease	(1,300)	--	--	--	--
Borrowings under debt agreements	70,702	21,224	21,972	8,863	30,103
Payments of debt borrowings	(46,950)	(17,598)	(24,617)	(8,613)	(28,747)
Proceeds from stock transactions	1,947	556	186	159	64
Issuance of common stock, net	--	17,454	--	--	--
Net cash provided by (used in) financing activities	24,399	21,636	(2,459)	409	1,420
Net increase (decrease) in cash and cash equivalents	736	18,876	43	163	(10)
Cash and cash equivalents at:					
Beginning of period	19,260	384	341	221	231
End of period	\$ 19,996	\$ 19,260	\$ 384	\$ 384	\$ 221
Supplemental information:					
Non-cash investing activities:					
Construction in progress accrued, not paid	\$ 943	\$ --	\$ --	\$ --	\$ --
Cash paid for interest	\$ 557	\$ 493	\$ 545	\$ 252	\$ 506
Cash paid for income taxes.....	\$ 5,994	\$ 1,068	\$ --	\$ --	\$ 2

</TABLE>

The accompanying notes are an integral part of the consolidated financial statements.

DM MANAGEMENT COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

NATURE OF BUSINESS

DM Management Company and subsidiary (the "Company") is a specialty direct marketer. The Company's primary products include high quality women's apparel, accessories, shoes and gifts. In 1998 the Company also began featuring bed and bath items. The Company currently markets its products through two discrete catalog concepts, J. JILL and NICOLE SUMMERS.

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary. Intercompany balances and transactions have been eliminated.

FISCAL YEAR

The Company's fiscal year ends on the last Saturday in December. The twelve months ended December 26, 1998 ("fiscal 1998") and the twelve months ended December 27, 1997 ("fiscal 1997") were 52-week periods. Prior to December 28, 1996, the Company's fiscal year had ended on the last Saturday in June. The Company's change in fiscal year end resulted in a six-month transition period ended December 28, 1996 (a 26-week period) (the "transition period"). Financial information for the twelve months ended December 28, 1996 (a 52-week period) has been presented for comparative purposes and is unaudited. The twelve months ended June 29, 1996 ("fiscal 1996") was a 53-week period.

STOCK SPLIT

On May 29, 1998, the Company announced a three-for-two stock split to be effected in the form of a stock dividend payable on June 30, 1998 to shareholders of record on June 12, 1998. All historical earnings per share information has been restated to include the effects of the stock split. The consolidated balance sheet as of December 27, 1997 and the consolidated statements of changes in stockholders' equity for dates prior to the stock split have not been restated to include the effects of the stock split. All common stock amounts and activity after the date of the stock split reflect the three-for-two split.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

REVENUE RECOGNITION

The Company recognizes sales and the related cost of sales at the time the products are shipped to customers. The Company provides an allowance based on projected merchandise returns.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist primarily of cash on deposit in banks and may also include cash invested in money market mutual funds and overnight repurchase agreements. The Company considers all highly liquid instruments, including certificates of deposits, with maturity at time of purchase of three months or less to be cash equivalents.

DM MANAGEMENT COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (continued)

MARKETABLE SECURITIES

The Company sold its marketable securities during fiscal 1998 and recognized a loss of \$97,000 net of a deferred tax benefit of \$62,000. There were no realized gains or losses recorded in fiscal 1997.

At December 27, 1997 the Company's marketable securities consisted of investments in mutual funds which were primarily invested in U.S. Treasury, U.S. government and corporate bonds. The marketable securities were classified as available-for-sale and carried at fair market value based on quoted market prices at December 27, 1997. Unrealized holding losses at December 27, 1997 of \$105,000, net of a deferred tax benefit of \$65,000, were included as a separate component of stockholders' equity.

INVENTORY

Inventory, consisting of merchandise for sale, is stated at the lower of cost or market, with cost determined using the first-in, first-out method. The Company provides for markdown reserves based on expected net realizable market value.

SELLING EXPENSES

Selling expenses consist primarily of the cost to produce, print and distribute catalogs. These costs are considered direct-response advertising and as such are capitalized as incurred and amortized over the expected sales life of each catalog, which is generally a period not exceeding four months.

PROPERTY AND EQUIPMENT

Property and equipment are stated at cost. Depreciation expense is computed

using the straight-line method over the estimated useful lives of the assets, which are 30 years for buildings and 1-7 years for computers, computer software, equipment, furniture and fixtures. Improvements to leased premises are amortized on a straight-line basis over the shorter of the estimated useful life or the lease term. Maintenance and repairs are charged to expense as incurred. Upon retirement or sale, the cost of the assets disposed of and the related accumulated depreciation are removed from the accounts and any resulting gain or loss is credited or charged to income. Assets under capital leases are recorded at the present value of future lease payments and are depreciated over the term of the lease.

The Company accounts for its internal use software in accordance with American Institute of Certified Public Accountants issued Statement of Position No. 98-1 ("SOP 98-1"), "ACCOUNTING FOR THE COSTS OF COMPUTER SOFTWARE DEVELOPED OR OBTAINED FOR INTERNAL USE." SOP 98-1 requires that certain costs related to the development or purchase of internal-use software be capitalized and amortized over the estimated useful life of the software. SOP 98-1 also requires that costs related to the preliminary project stage and the post-implementation/operations stage of an internal-use computer software development project be expensed as incurred. The Company has determined the impact of SOP 98-1 to be immaterial to these consolidated financial statements.

LONG-LIVED ASSETS

Management periodically considers whether there has been a permanent impairment in the value of its long-lived assets, primarily property and equipment, by evaluating various factors, including current and projected future operating results and undiscounted cash flows. Based on this assessment, management concluded that as of December 26, 1998 and December 27, 1997, the Company's long-lived assets were not permanently impaired.

DM MANAGEMENT COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(continued)

NET INCOME PER SHARE

The Company calculates net income per share ("EPS") in accordance with Financial Accounting Standards Board issued Statement No. 128 ("SFAS 128"), "EARNINGS PER SHARE." A reconciliation of the numerators and denominators of the basic and diluted per share computation for income from continuing operations follows (in thousands, except per share data). All share and per share information below has been restated to reflect the effects of the three-for-two stock split.

<TABLE>
<CAPTION>

	Twelve Months Ended			Transition Period Ended	Twelve Months Ended
	Dec. 26, 1998 (52 weeks)	Dec. 27, 1997 (52 weeks)	Dec. 28, 1996 (52 weeks)	Dec. 28, 1996 (26 weeks)	June 29, 1996 (53 weeks)
			(unaudited)		
<S>	<C>	<C>	<C>	<C>	<C>
Numerator:					
Income from continuing operations	\$ 8,402	\$ 3,899	\$12,358	\$11,563	\$ 235
Denominator (shares):					
Basic weighted average shares outstanding .	9,483	7,202	6,494	6,547	6,415
Assumed exercise of stock options	895	871	525	558	246
Diluted weighted average shares outstanding	10,378	8,073	7,019	7,105	6,661
Income from continuing operations per share:					
Basic	\$ 0.89	\$ 0.54	\$ 1.90	\$ 1.77	\$ 0.04
Diluted	\$ 0.81	\$ 0.48	\$ 1.76	\$ 1.63	\$ 0.04

</TABLE>

Options to purchase 447,500, 129,000, 306,810, and 153,810 shares of common stock were outstanding at December 26, 1998, December 27, 1997, December 28, 1996 and June 29, 1996, respectively, but were not included in the computation of diluted EPS because the options' exercise price was greater than the average market price of the common shares during the respective periods.

Between December 26, 1998 and March 12, 1999 options to purchase 50,000 shares of the Company's common stock were granted pursuant to the Company's stock option plans and options to purchase 92,597 shares of common stock were exercised pursuant to the Company's stock option plans.

COMPREHENSIVE INCOME

The Company calculates comprehensive income in accordance with Financial Accounting Standards Board issued Statement No. 130 ("SFAS 130"), "REPORTING COMPREHENSIVE INCOME," which establishes standards for reporting and display of comprehensive income. The Company's comprehensive income (loss) includes net income (loss) as reported in the accompanying consolidated statements of operations plus the change in unrealized losses on marketable securities, net of deferred tax benefit. Comprehensive income (loss) totaled \$8,507,000 in fiscal 1998, \$3,909,000 in fiscal 1997, \$11,584,000 during the transition period and (\$9,435,000) in fiscal 1996. The unrealized loss on marketable securities represents accumulated other comprehensive income. There was no accumulated other comprehensive income at December 26, 1998.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company periodically assesses the fair value of its financial instruments. Based on a detailed analysis, the Company's long-term debt, including current maturities, approximates fair value.

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DM MANAGEMENT COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(continued)

CONCENTRATIONS OF CREDIT RISK

Financial instruments, which potentially subject the Company to significant concentrations of credit risk, consist principally of cash investments. The Company maintains cash and cash equivalents with various major financial institutions. The Company performs periodic evaluations of the relative credit standing of these financial institutions.

RECLASSIFICATIONS

Certain financial statement amounts have been reclassified to be consistent with the presentation for fiscal 1998.

RECENT ACCOUNTING STANDARDS

The Company reports segment information in accordance with Financial Accounting Standards Board issued Statement No. 131, "DISCLOSURES ABOUT SEGMENTS OF AN ENTERPRISE AND RELATED INFORMATION." This statement, which is based on the management approach to segment reporting establishes new standards for the way public companies report information about operating segments and requires companies to report selected segment information quarterly to stockholders. The Company holds assets and reports sales in one operating segment.

In April 1998 the American Institute of Certified Public Accountants issued Statement of Position No. 98-5, "REPORTING ON THE COSTS OF START-UP ACTIVITIES," which provides guidance on the financial reporting of start-up costs and organization costs. It requires costs of start-up activities and organization costs to be expensed as incurred. The Company adopted this statement in fiscal 1998. The adoption of this statement was immaterial to these consolidated financial statements.

B. DISCONTINUED OPERATIONS:

On May 20, 1996, the Company announced its plan to divest its CARROLL REED segment due to the incompatibility of the customer base and product line of this segment with those of its other segment. Accordingly, the CARROLL REED segment has been accounted for as a discontinued operation, and all assets, liabilities, results of operations and cash flows associated with the CARROLL REED segment have been segregated from those associated with continuing operations. In connection with this divestiture, the Company recorded a charge of \$8,511,000 in fiscal 1996 for the loss on disposal of discontinued operations, consisting of \$5,336,000 related to the write-off of the remaining unamortized intangible assets and \$3,175,000 for expected losses during the phase-out period. The results of the CARROLL REED operations through May 20, 1996, including fiscal 1996 net sales through May 20, 1996 of \$12,415,000, have been classified as loss from discontinued operations in the accompanying consolidated statements of operations. Since May 20, 1996, the results of this discontinued operation have been charged to the liability for expected losses established in connection with the divestiture and have had no impact on the Company's operating results. As of December 26, 1998, the Company had completed the phase-out of its CARROLL

REED segment and had utilized its reserve for expected losses, including the recognition of certain tax benefits.

DM MANAGEMENT COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(continued)

C. PROPERTY AND EQUIPMENT:

Property and equipment consists of the following (in thousands):

<TABLE>

<CAPTION>

	December 26, 1998	December 27, 1997
	-----	-----
<S>	<C>	<C>
Land and building	\$ 9,657	\$ 9,657
Equipment	8,704	4,176
Furniture, fixtures and leasehold improvements	1,870	1,684
Construction in progress	34,124	2,674
	-----	-----
Total property and equipment	54,355	18,191
Less accumulated depreciation and amortization	(6,870)	(4,017)
	-----	-----
Property and equipment, net	\$ 47,485	\$ 14,174
	=====	=====

</TABLE>

At December 26, 1998 construction in progress was comprised primarily of costs of constructing the new operations and fulfillment center in Tilton, New Hampshire (the "Tilton Facility"). This facility was placed in full operation in early 1999. Included in construction in progress at December 26, 1998 and December 27, 1997 was \$1,071,000 and \$50,000, respectively, of capitalized interest.

D. DEBT:

The Company's credit facilities at December 26, 1998 consisted of (i) a \$1,650,000 real estate loan (the "Real Estate Loan"); (ii) a \$3,600,000 term loan (the "Term Loan"); (iii) a \$9,500,000 equipment loan (the "Equipment Loan"); (iv) a \$15,910,000 revolving line of credit (the "Revolver"); (v) a \$17,000,000 line of credit (the "Line of Credit"); and (vi) a \$4,300,000 short-term note (the "Short-Term Note"). The Equipment Loan was collateralized by substantially all of the Company's materials handling equipment. The remaining credit facilities were collateralized by substantially all of the Company's remaining assets. All of these credit facilities contain various lending conditions and covenants, including restrictions on permitted liens and required compliance with certain debt coverage ratios.

The Real Estate Loan requires monthly payments, based on a 15-year amortization, with the balance payable on July 30, 2002. Interest on the Real Estate Loan is fixed at 6.81% per annum until August 31, 1999, at which time the Company may select from several interest rate options. The Term Loan requires quarterly payments through its maturity on June 1, 2002 and provides for several interest rate options (6.78% per annum at December 26, 1998). The Equipment Loan requires monthly payments through its maturity on December 1, 2005 with the interest rate fixed at 7.5% per annum. The Revolver is available for borrowings and for letters of credit. At December 26, 1998 there were no borrowings outstanding under the Revolver. At December 26, 1998 the Revolver bore interest at 7.75% per annum. The outstanding letters of credit do not bear interest. The Revolver matures on June 1, 1999. The Company is required to pay a commitment fee of 1/8th of 1% per annum on the unused portion of the Revolver. The Line of Credit bears interest at LIBOR plus 125 basis points repriced monthly (6.81% per annum at December 26, 1998), expires on March 31, 1999 and does not require a commitment fee. There was \$17,000,000 outstanding under the Line of Credit at December 26, 1998. The Short-Term Note bears interest at 7.06% per annum and matures on March 31, 1999. There was \$4,300,000 outstanding under the Short-Term Note at December 26, 1998.

DM MANAGEMENT COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(continued)

A summary of the Company's outstanding long-term debt follows (in thousands):

<TABLE>
<CAPTION>

	December 26, 1998	December 27, 1997
	-----	-----
<S>	<C>	<C>
Real estate loans	\$ 1,503	\$ 1,613
Term loans	2,520	7,540
Equipment loans	7,590	--
Capitalized lease obligations	22	30
	-----	-----
Total long-term debt	11,635	9,183
Less current maturities	1,735	837
	-----	-----
Long-term debt, less current portion	\$ 9,900	\$ 8,346
	=====	=====

</TABLE>

Subsequent to December 26, 1998, the Company obtained long-term financing for the Tilton facility. In connection with the long-term financing, the Company contributed the new Tilton facility to Birch Pond Realty Corporation ("Birch Pond"), a wholly owned subsidiary of the Company, in exchange for all the outstanding shares of Birch Pond. On March 1, 1999, Birch Pond entered into a \$12,000,000 loan (the "Loan") with a financial institution and granted a mortgage lien on the Tilton facility to the financial institution. Cash received from the Loan, cash from the Company's fiscal 1997 public offering and cash from operations were used to pay off the Short-Term Note and the Line of Credit and to release the existing mortgage on the Tilton facility.

At December 26, 1998, aggregate maturities of long-term debt for the next five fiscal years and thereafter were as follows: 1999--\$1,735,000; 2000--\$1,756,000; 2001--\$1,826,000; 2002--\$2,599,000; 2003 --\$1,148,000; and thereafter --\$2,571,000.

Import letters of credit are for commitments issued through the Company's bank to guarantee payment of foreign-sourced merchandise within agreed upon time periods according to the terms of the agreements. Outstanding import letters of credit totaled approximately \$11,612,000 and \$3,993,000 at December 26, 1998 and December 27, 1997, respectively.

E. STOCKHOLDERS' EQUITY:

COMMON STOCK

In fiscal 1997 the Company completed its second offering of common stock to the public, issuing 1,412,861 shares of common stock at a price to the public of \$13.50 per share. The Company received approximately \$17,454,000 in net proceeds from the offering, after underwriting discounts and commissions and expenses. Expenses incurred by the Company in connection with the offering totaled approximately \$567,000. Also in connection with this public offering, 1,752,404 shares of the Company's common stock were sold by selling stockholders. The Company did not receive any of the proceeds from the sale of shares by selling stockholders. The information in this paragraph has not been restated to reflect the effects of the three-for-two stock split.

SPECIAL PREFERRED STOCK

The Company has 1,000,000 shares of special preferred stock, \$0.01 par value per share, authorized. No special preferred stock was outstanding at either of the reported balance sheet dates.

DM MANAGEMENT COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(continued)

F. STOCK-BASED PLANS:

At December 26, 1998, the Company had three stock-based plans--the 1988 Incentive Stock Option Plan (the "1988 Stock Option Plan"), the 1993 Incentive and Nonqualified Stock Option Plan (the "1993 Stock Option Plan") and the 1998 Employee Stock Purchase Plan (the "1998 Stock Purchase Plan"). The Company applies Accounting Principles Board Opinion No. 25 ("APB 25"), "ACCOUNTING FOR STOCK ISSUED TO EMPLOYEES," and related interpretations to account for its stock option plans and employee stock purchase plans. No compensation cost has been recognized for these plans.

STOCK OPTION PLANS

The 1988 Stock Option Plan provides for the grant of options to purchase common stock intended to qualify as incentive stock options as defined in Section 422 of the Internal Revenue Code of 1986, as amended ("ISO's"). During fiscal 1994, the Board of Directors voted not to issue any additional options under the 1988 Stock Option Plan. The maximum term of options granted under the 1988 Stock Option Plan is ten years.

The 1993 Stock Option Plan authorizes (i) the grant of options to purchase common stock intended to qualify as ISO's, and (ii) the grant of options that do not so qualify. At December 26, 1998, the 1993 Stock Option Plan authorized the issuance of options to purchase up to 2,400,000 shares of common stock (as adjusted to reflect the effects of the three-for-two stock split). The Compensation Committee of the Board of Directors administers the 1993 Stock Option Plan and within certain limits has discretion to determine the terms and conditions of options granted under the plan. The 1993 Stock Option Plan also provides for the automatic grant of options to purchase a specified number of shares to non-employee directors. The maximum term of options granted under the 1993 Stock Option Plan is ten years.

STOCK PURCHASE PLANS

Under the Company's stock purchase plans, eligible employees may be granted the opportunity to purchase common stock of the Company at 85% of market value on the first or last business day of the calendar year, whichever is lower. The 1993 Stock Purchase Plan authorized the issuance of up to 150,000 shares (as adjusted to reflect the effects of the three-for-two stock split) of the Company's common stock to eligible employees. Issuances of common stock under the 1993 Stock Purchase Plan have been made as follows. All share information below has been restated to reflect the effects of the three-for-two stock split.

<TABLE>
<CAPTION>

	Shares	Aggregate Purchase Price
	-----	-----
<S>	<C>	<C>
December 31, 1997	45,156	\$ 96,000
December 31, 1996	51,267	58,000
December 30, 1995	29,078	34,000
Prior Periods	13,702	\$ 37,000

</TABLE>

Immediately following the December 31, 1997 issuance, the 1993 Stock Purchase Plan was terminated.

The 1998 Stock Purchase Plan authorizes the issuance of up to 150,000 shares (as adjusted to reflect the effects of the three-for-two stock split) of the Company's common stock to eligible employees. A total of 150,000 shares of common stock were available for issuance under the 1998 Stock Purchase Plan at December 26, 1998. On December 31, 1998, 23,891 shares of common stock were issued under the 1998 Stock Purchase Plan at an aggregate purchase price of \$211,000.

DM MANAGEMENT COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(continued)

The following table reflects the activity under the 1988 Stock Option Plan and the 1993 Stock Option Plan. All amounts have been restated to reflect the effects of the three-for-two stock split:

<TABLE>
<CAPTION>

	1988 Stock Option Plan			1993 Stock Option Plan		
	Number of Shares	Exercise Price Per Share	Wtd. Avg. Exercise Price	Number of Shares	Exercise Price Per Share	Wtd. Avg. Exercise Price
	-----	-----	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Balance at June 24, 1995	734,016	\$ 0.11-4.07	\$ 1.03	183,000	\$ 1.83-10.00	\$ 6.84

Granted	--	--	--	631,500	1.38-3.33	1.93
Exercised	(37,275)	0.11-1.11	0.77	--	--	--
Canceled	(2,250)	1.11	1.11	(34,500)	2.67-7.25	5.57

Balance at June 29, 1996	694,491	0.11-4.07	1.04	780,000	1.38-10.00	2.92
Granted	--	--	--	93,750	2.09-2.17	2.13
Exercised	(224,695)	0.11-1.11	0.63	(2,727)	1.83	1.83
Canceled	(4,245)	1.11	1.11	(37,500)	10.00	10.00

Balance at December 28, 1996	465,551	0.11-4.07	1.24	833,523	1.38-10.00	2.51
Granted	--	--	--	648,750	2.42-10.75	6.31
Exercised	(255,702)	0.11-4.07	1.35	(36,098)	1.50 - 3.33	1.81
Canceled	(2,250)	1.11	1.11	(11,700)	1.83 - 3.33	2.29

Balance at December 27, 1997	207,599	1.11	1.11	1,434,475	1.38-10.75	4.25
Granted	--	--	--	595,000	10.13-20.83	16.02
Exercised	(194,099)	1.11	1.11	(244,475)	1.38 - 10.00	3.69
Canceled	--	--	--	(38,250)	2.08 - 7.46	5.51

Balance at December 26, 1998	13,500	\$ 1.11	\$ 1.11	1,746,750	\$ 1.38-20.83	\$ 8.32
=====						

</TABLE>

Options exercisable under the 1988 Stock Option Plan and the 1993 Stock Option Plan were as follows. Amounts as of December 27, 1997 have been restated to reflect the effects of the three-for-two stock split.

<TABLE>
<CAPTION>

	December 26, 1998	December 27, 1997
	-----	-----
<S>	<C>	<C>
1988 Stock Option Plan	13,500	207,599
1993 Stock Option Plan	567,099	410,073
	-----	-----
Total	580,599	617,672
	=====	=====
Weighted average exercise price per share	\$ 4.53	\$ 2.45
	=====	=====

</TABLE>

DM MANAGEMENT COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(continued)

The following table summarizes information about options outstanding under the 1988 Stock Option Plan and the 1993 Stock Option Plan at December 26, 1998:

<TABLE>
<CAPTION>

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding at December 26, 1998	Wtd. Avg. Remaining Contractual Life	Wtd. Avg. Exercise Price	Number Exercisable at December 26, 1998	Wtd. Avg. Exercise Price
-----	-----	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>	<C>
\$ 1.11-- 1.50	310,500	3.3 years	\$ 1.46	205,875	\$ 1.45
1.83-- 2.42	253,400	4.5 years	2.30	122,975	2.31
2.83-- 3.83	152,000	4.6 years	3.13	60,000	3.08
5.00-- 7.25	290,350	5.3 years	6.46	118,300	6.07
7.79-- 10.75	406,500	6.1 years	10.27	35,949	10.09
14.13-- 20.83	347,500	6.5 years	20.08	37,500	20.83
	-----			-----	
Total	1,760,250	5.2 years	\$ 8.26	580,599	\$ 4.53
	=====			=====	

</TABLE>

The Company discloses stock-based compensation information in accordance with Financial Accounting Standards Board issued Statement No. 123 ("SFAS 123"), "ACCOUNTING FOR STOCK-BASED COMPENSATION," which requires disclosure of pro forma net income, EPS and other information as if the fair value method of accounting for stock options and other equity instruments described in SFAS 123

had been adopted. Pro forma disclosures include the effects of all options granted after December 25, 1994. The effects of applying SFAS 123 in this pro forma disclosure are not indicative of future amounts. SFAS 123 does not apply to awards made prior to December 25, 1994. Additional awards in future years are anticipated.

Had compensation cost for the Company's stock-based plans been based on the fair value at the grant dates for awards made under these plans consistent with SFAS 123, the Company's net income (loss) and EPS would have been as follows (in thousands, except per share data). Prior period EPS amounts have been restated to reflect the effects of the three-for-two stock split:

<TABLE>
<CAPTION>

	Twelve Months Ended			Transition	Twelve
	Dec. 26,	Dec. 27,	Dec. 28,	Period	Months
	1998	1997	1996	Ended	Ended
	(52 weeks)	(52 weeks)	(52 weeks)	(26 weeks)	(53 weeks)
	(unaudited)				
<S>	<C>	<C>	<C>	<C>	<C>
Net income (loss):					
As reported	\$ 8,402	\$ 3,899	\$ 3,371	\$ 11,563	\$ (9,350)
Pro forma	7,135	3,478	3,233	11,498	(9,420)
Basic EPS:					
As reported	0.89	0.54	0.52	1.77	(1.46)
Pro forma	0.75	0.48	0.50	1.76	(1.47)
Diluted EPS:					
As reported	0.81	0.48	0.48	1.63	(1.40)
Pro forma	\$ 0.69	\$ 0.43	\$ 0.46	\$ 1.62	\$ (1.41)

</TABLE>

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DM MANAGEMENT COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(continued)

The Black-Scholes option-pricing model is used to estimate the fair value on the date of grant of each option granted after December 25, 1994. The Black-Scholes model is also used to estimate the fair value of the employees' purchase rights. In each case, the following assumptions were used for stock option grants and employee purchase right grants in fiscal 1998:

<TABLE>
<CAPTION>

	1993 Stock	1998 Stock
	Option Plan	Purchase Plan
	-----	-----
<S>	<C>	<C>
Dividend yield.....	0.0%	0.0%
Expected volatility.....	75.0%	75.0%
Risk free interest rate.....	5.3%	5.7%
Expected lives.....	4.5 years	1 year

</TABLE>

The weighted average fair value of stock options granted and the average fair value of the employee purchase rights granted were as follows. All prior period amounts have been restated to reflect the effects of the three-for-two stock split.

<TABLE>
<CAPTION>

	Twelve Months Ended			Transition	Twelve
	Dec. 26,	Dec. 27,	Dec. 28,	Period	Months
	1998	1997	1996	Ended	Ended
	(52 weeks)	(52 weeks)	(52 weeks)	(26 weeks)	(53 weeks)
	(unaudited)				
<S>	<C>	<C>	<C>	<C>	<C>
Fair value of stock options granted.....	\$ 10.11	\$ 3.53	\$ 1.17	\$ 1.22	\$ 1.08
Fair value of employee purchase rights granted	\$ 4.73	\$ 0.91	\$ 0.45	\$ --	\$ 0.45

</TABLE>

G. BENEFIT PLANS:

The Company offers a savings plan (the "Savings Plan") to its employees, which permits participants to make contributions by salary reduction pursuant to Section 401(k) of the Internal Revenue Code. At the discretion of the Board of Directors, the Company may also make contributions dependent on profits each year for the benefit of all eligible employees under the Savings Plan. Employee eligibility is based on minimum age and employment requirements. The Company contributed approximately \$200,000, \$100,000, \$10,000 and \$0 to the Savings Plan for fiscal 1998, fiscal 1997, the transition period and fiscal 1996, respectively.

H. INCOME TAXES:

The Company accounts for income taxes in accordance with of Financial Accounting Standards Board issued Statement No. 109 ("SFAS 109"), "ACCOUNTING FOR INCOME TAXES." Under SFAS 109, deferred tax assets and liabilities are recognized based on temporary differences between the financial statement and tax basis of assets and liabilities using enacted tax rates in effect in the years in which the differences are expected to reverse. SFAS 109 requires current recognition of net deferred tax assets to the extent that it is more likely than not that such net assets will be realized. To the extent that the Company believes that its net deferred tax assets will not be realized, a valuation allowance must be placed against those assets.

DM MANAGEMENT COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(continued)

Significant components of the Company's deferred tax assets and liabilities are as follows (in thousands):

<TABLE>

<CAPTION>

	December 26, 1998	December 27, 1997
	-----	-----
<S>	<C>	<C>
Deferred tax assets:		
Net operating losses.....	\$ 4,333	\$ 4,787
Inventory.....	4,123	2,593
Reserve for customer returns.....	3,316	1,743
Discontinued segment.....	--	1,947
Property and equipment.....	708	229
Other.....	745	539
	-----	-----
Total deferred tax assets.....	13,225	11,838
	-----	-----
Deferred tax liabilities:		
Prepaid catalogs.....	1,771	1,899
Other.....	--	165
	-----	-----
Total deferred tax liabilities.....	1,771	2,064
	-----	-----
Net deferred tax assets.....	\$ 11,454	\$ 9,774
	=====	=====

</TABLE>

Prior to December 28, 1996, management believed that the uncertainty surrounding the realizability of its net deferred tax assets was sufficient to require a valuation allowance to be placed against the entire balance of those assets. However, as of December 28, 1996, management determined, based on the Company's recent profitability trends and anticipated future profitability, that it was more likely than not that sufficient book and taxable income would be generated to fully realize the benefit of its net deferred tax assets. This determination required the Company to remove the valuation allowance and recognize the deferred tax benefit of \$10,598,000 at December 28, 1996 in its entirety.

At December 26, 1998, the Company had available net operating loss ("NOL") carryforwards of approximately \$12,379,000, of which \$7,466,000 expires in 2004, \$2,530,000 expires in 2005 and \$2,383,000 expires in 2006.

Section 382 of the Internal Revenue Code of 1986, as amended, restricts a corporation's ability to use its NOL carryforwards following certain "ownership changes." The Company determined that such an ownership change occurred as a result of its initial public offering ("IPO") and accordingly the amount of the Company's pre-IPO NOL carryforwards available for use in any particular taxable year is limited to approximately \$1.5 million annually. To the extent that the

Company does not utilize the full amount of the annual NOL limit, the unused amount may be used to offset taxable income in future years. NOL carryforwards expire 15 years after the tax year in which they arise, and the last of the Company's current NOL carryforwards will expire in its 2006 tax year.

DM MANAGEMENT COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(continued)

The components of the Company's provision (benefit) for income taxes for continuing operations are as follows (in thousands):

<TABLE>
<CAPTION>

	Twelve Months Ended			Transition	Twelve
	Dec. 26, 1998 (52 weeks)	Dec. 27, 1997 (52 weeks)	Dec. 28, 1996 (52 weeks)	Period Ended Dec. 28, 1996 (26 weeks)	Months Ended June 29, 1996 (53 weeks)
			(unaudited)		
<S>	<C>	<C>	<C>	<C>	<C>
Current:					
Federal.....	\$5,717	\$1,379	\$ 98	\$ 53	\$ 8
State.....	1,335	750	98	54	18
Deferred:					
Federal.....	(1,365)	213	(9,164)	(9,164)	--
State.....	(315)	151	(1,434)	(1,434)	--
Provision (benefit) for income taxes.....	\$5,372	\$2,493	\$ (10,402)	\$ (10,491)	\$ 26

</TABLE>

The difference in income taxes at the U. S. federal statutory rate and the income tax provision (benefit) reported in the accompanying consolidated statements of operations is as follows (in thousands):

<TABLE>
<CAPTION>

	Twelve Months Ended			Transition	Twelve
	Dec. 26, 1998 (52 weeks)	Dec. 27, 1997 (52 weeks)	Dec. 28, 1996 (52 weeks)	Period Ended Dec. 28, 1996 (26 weeks)	Months Ended June 29, 1996 (53 weeks)
			(unaudited)		
<S>	<C>	<C>	<C>	<C>	<C>
Provision for income taxes at the U.S. federal statutory rate.....	\$ 4,821	\$ 2,173	\$ 665	\$ 364	\$ 89
State taxes, net of federal tax benefits.....	551	320	88	35	12
Valuation allowance change.....	--	--	(10,598)	(10,598)	--
Utilization of NOL carryforward.....	--	--	(557)	(275)	(75)
Other.....	--	--	--	(17)	--
Provision (benefit) for income taxes at effective rate.....	\$ 5,372	\$ 2,493	\$ (10,402)	\$ (10,491)	\$ 26

</TABLE>

I. COMMITMENTS:

The Company leases certain of its facilities under noncancellable operating leases having initial or remaining terms of more than one year. The majority of these real estate leases require the Company to pay maintenance, insurance and real estate taxes. Total rent expense, including these costs, amounted to approximately \$1,622,000 in fiscal 1998, \$1,052,000 in fiscal 1997, \$362,000 during the transition period and \$666,000 in fiscal 1996.

At December 26, 1998, future minimum lease payments for operating leases having a remaining term in excess of one year at such date totaled \$19,458,000 and for the next five fiscal years and thereafter were as follows: 1999--\$1,733,000; 2000-- \$2,061,000; 2001-- \$1,944,000; 2002--\$1,911,000; 2003--\$1,834,000; and thereafter--\$9,975,000.

J. RELATED PARTY:

In fiscal 1996 the Company terminated its relationship with Shannon North America, Limited ("Shannon"), a joint venture between the Company and Aer Rianta cpt. The Company's investment in Shannon was immaterial. In fiscal 1998 and fiscal 1997 the Company continued to provide various operational services to Shannon. Amounts charged to Shannon totaled approximately \$86,000 in fiscal 1998, \$174,000 in fiscal 1997, \$180,000 during the transition period and \$690,000 in fiscal 1996.

DM MANAGEMENT COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(continued)

K. QUARTERLY FINANCIAL DATA (UNAUDITED): (in thousands, except per share data)

<TABLE>
<CAPTION>

	Fiscal 1998 Quarter Ended			
	March 28, 1998	June 27, 1998	Sept. 26, 1998	Dec. 26, 1998
<S>	<C>	<C>	<C>	<C>
Net sales.....	\$ 44,792	\$ 59,359	\$ 46,580	\$ 67,999
Net income.....	1,175	2,973	1,407	2,847
Income per share (basic).....	0.13	0.31	0.15	0.30
Income per share (diluted).....	\$ 0.11	\$ 0.28	\$ 0.14	\$ 0.28

<TABLE>
<CAPTION>

	Fiscal 1997 Quarter Ended			
	March 29, 1997	June 28, 1997	Sept. 27, 1997	Dec. 27, 1997
<S>	<C>	<C>	<C>	<C>
Net sales.....	\$ 24,543	\$ 32,885	\$ 31,649	\$ 46,456
Net income.....	541	1,205	691	1,462
Net income per share (basic).....	0.08	0.18	0.10	0.18
Net income per share (diluted).....	\$ 0.07	\$ 0.16	\$ 0.09	\$ 0.16

<TABLE>
<CAPTION>

	Transition Period Quarter Ended	
	Sept. 28, 1996	Dec. 28, 1996
<S>	<C>	<C>
Net sales.....	\$ 20,541	\$ 22,783
Net income.....	250	11,313
Net income per share (basic).....	0.04	1.71
Net income per share (diluted).....	\$ 0.04	\$ 1.59

<TABLE>
<CAPTION>

	Fiscal 1996 Quarter Ended			
	Sept. 30, 1995	Dec. 30, 1995	March 30, 1996	June 29, 1996
<S>	<C>	<C>	<C>	<C>
Net sales.....	\$ 22,312	\$ 16,955	\$ 19,736	\$ 21,582
Income (loss) from continuing operations.....	(274)	(286)	250	545
Net income (loss).....	(667)	(491)	264	(8,456)
Income (loss) from continuing operations per share (basic).....	(0.04)	(0.04)	0.04	0.08
Income (loss) from continuing operations per share (diluted).....	(0.04)	(0.04)	0.04	0.08
Net income (loss) per share (basic).....	(0.10)	(0.08)	0.04	(1.31)
Net income (loss) per share (diluted).....	\$ (0.10)	\$ (0.08)	\$ 0.04	\$ (1.19)

On May 29, 1998, the Company announced a three-for-two stock split to be effected in the form of a stock dividend payable on June 30, 1998 to shareholders of record on June 12, 1998. All per share information above has been restated to reflect the effects of the three-for-two stock split.

During the transition period the Company recorded a deferred tax benefit of \$10,598,000 (see Note H).

On May 20, 1996, the Company announced its plan to discontinue the operations of its CARROLL REED segment and recorded a charge of \$8,511,000 for the loss on disposal of discontinued operations (see Note B).

The sum of the quarterly EPS amounts may not equal the full year amount since the computations of the weighted average shares outstanding for each quarter and the full year are made independently.

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Stockholders of
DM Management Company:

Our audits of the consolidated financial statements referred to in our report dated February 5, 1999, except for Note D, as to which the date is March 1, 1999, appearing on page 19 of the 1998 Annual Report to Shareholders of DM Management Company (which report and consolidated financial statements are incorporated by reference in this Annual Report on Form 10-K) also included an audit of the financial statement schedule listed in Item 14(a)(2) of this Form 10-K. In our opinion, this financial statement schedule presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements.

PricewaterhouseCoopers LLP

Boston, Massachusetts

February 5, 1999, except for Note D,
as to which the date is
March 1, 1999

DM MANAGEMENT COMPANY

SCHEDULE II

VALUATION AND QUALIFYING ACCOUNTS

(in thousands)

<TABLE>
<CAPTION>

	Balance, Beginning of Period -----	Amounts Charged to Net Income -----	Write-Offs Against Reserve -----	Balance, End of Period -----
Accrued Customer Returns:				
<S>	<C>	<C>	<C>	<C>
Year ended December 26, 1998.....	\$ 4,779 =====	\$ 63,838 =====	\$ 60,284 =====	\$ 8,333 =====
Year ended December 27, 1997.....	\$ 1,309 =====	\$ 40,276 =====	\$ 36,806 =====	\$ 4,779 =====
Six months ended December 28, 1996.....	\$ 1,231 =====	\$ 11,634 =====	\$ 11,556 =====	\$ 1,309 =====
Year ended June 29, 1996.....	\$ 1,191 =====	\$ 22,534 =====	\$ 22,494 =====	\$ 1,231 =====

</TABLE>

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND CONSOLIDATED FINANCIAL DISCLOSURE

Not applicable.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information set forth under the captions "Directors and Executive Officers" and "Section 16(a) Beneficial Ownership Reporting Compliance" appearing in the Company's definitive Proxy Statement to be delivered to stockholders in connection with the Annual Meeting of Stockholders to be held on May 25, 1999, which will be filed with the Securities and Exchange Commission not later than 120 days after December 26, 1998, is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION

The information set forth under the caption "Remuneration of Executive Officers and Directors" appearing in the Company's definitive Proxy Statement to be delivered to stockholders in connection with the Annual Meeting of Stockholders to be held on May 25, 1999, which will be filed with the Securities and Exchange Commission not later than 120 days after December 26, 1998, is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information set forth under the caption "Security Ownership of Certain Beneficial Owners and Management" appearing in the Company's definitive Proxy Statement to be delivered to stockholders in connection with the Annual Meeting of Stockholders to be held on May 25, 1999, which will be filed with the Securities and Exchange Commission not later than 120 days after December 26, 1998, is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

None.

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PART IV

ITEM 14. EXHIBITS, CONSOLIDATED FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(1) FINANCIAL STATEMENTS

The financial statements filed as part of this report are listed on the Index to Consolidated Financial Statements on Page 18.

(2) FINANCIAL STATEMENT SCHEDULE

<TABLE>

<CAPTION>

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Report of Independent Accountants	37
Schedule II - Valuation and Qualifying Accounts	38

</TABLE>

(3) EXHIBITS

Exhibits 10.11 through 10.26 include the Company's compensatory plans or arrangements required to be filed as exhibits pursuant to Item 14(c) of Form 10-K.

CERTIFICATE OF INCORPORATION AND BY-LAWS

3.1 Restated Certificate of Incorporation of the Company (included as Exhibit 4.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 25, 1993, File No. 0-22480, and incorporated herein by reference)

3.2 By-Laws of the Company, as amended (included as Exhibit 3.2 to the Company's Current Report on Form 8-K dated January 14, 1997, File No.

MATERIAL CONTRACTS

- 10.1 Lease Agreement dated September 14, 1989, between the Company and Richard D. Matthews and Richard J. Valentine, Trustees of Bare Cove Realty Trust established u/d/t dated January 10, 1984, as amended (included as Exhibit 10.13 to the Company's Registration Statement on Form S-1, Registration No. 33-67512, and incorporated herein by reference)
- 10.2 Third Amendment to Lease Agreement dated September 14, 1989, between the Company and Richard D. Matthews and Richard J. Valentine, Trustees of Bare Cove Realty Trust established u/d/t dated January 10, 1984, as previously amended (included as Exhibit 10.3 to the Company's Transition Report on Form 10-K for the transition period from June 30, 1996 to December 28, 1996, File No. 0-22480, and incorporated herein by reference)
- 10.3 Fourth Amendment to Lease Agreement dated September 14, 1989, between the Company and Richard D. Matthews and Richard J. Valentine, Trustees of Bare Cove Realty Trust established u/d/t dated January 10, 1984, as previously amended (included as Exhibit 10.4 to the Company's Transition Report on Form 10-K for the transition period from June 30, 1996 to December 28, 1996, File No. 0-22480, and incorporated herein by reference)
- 10.4 Fifth Amendment to Lease Agreement dated August 27, 1998, between the Company and Richard D. Matthews and Richard J. Valentine, as Trustees of Bare Cove Realty Trust established u/d/t dated January 10, 1984, as amended
- 10.5 Lease dated August 15, 1997 between the Company and Central NH Realty, Inc. (included as Exhibit 10.27 to the Company's Registration Statement on Form S-2 dated September 10, 1997, File No. 0-22480, and incorporated herein by reference)
- 10.6 Lease Agreement dated June 11, 1998 between the Company and Reading Outlet Center Associates D/B/A Mass Realty Company (included as Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter year ended June 27, 1998, File No. 0-22480, and incorporated herein by reference)
- 10.7 Lease Agreement dated September 18, 1998, between the Company and National Fire Protection Association (included as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 26, 1998, File No. 0-22480, and incorporated herein by reference)
- 10.8 Lease Agreement dated October 5, 1998, between the Company and Chelsea GCA Realty Partnership, L.P. (included as Exhibit 10.11 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 26, 1998, File No. 0-22480, and incorporated herein by reference)
- 10.9 Lease Agreement dated October 23, 1998, between the Company and Tanger Properties Limited Partnership (included as Exhibit 10.13 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 26, 1998, File No. 0-22480, and incorporated herein by reference)
- 10.10 Lease dated March 1, 1999 between the Company and Birch Pond Realty Corporation
- 10.11 1988 Incentive Stock Option Plan (included as Exhibit 10.17 to the Company's Registration Statement on Form S-1, Registration No. 33-67512, and incorporated herein by reference)
- 10.12 Amended and Restated 1993 Incentive and Nonqualified Stock Option Plan
- 10.13 1998 Employee Stock Purchase Plan (included as Appendix B to the Company's definitive Proxy Statement for its annual meeting of stockholders held on May 28, 1998, File No. 0-22480, and incorporated herein by reference)
- 10.14 1998 Incentive Compensation Plan (included as Exhibit 10.11 to the Company's Annual Report on Form 10-K for the fiscal year ended December

- 10.15 1999 Incentive Compensation Plan
- 10.16 Employment Letter Agreement dated December 21, 1995, between the Company and Gordon R. Cooke (included as Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q for the quarter ended December 30, 1995, File No. 0-22480, and incorporated herein by reference)
- 10.17 Employment Letter Agreement dated May 7, 1996, between the Company and John J. Hayes (included as Exhibit 10.12 to the Company's Annual Report on Form 10-K for the year ended June 29, 1996, File No. 0-22480, and incorporated herein by reference)
- 10.18 Employment Letter Agreement between the Company and Kevin E. Burns (included as Exhibit 10.7 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 27, 1997, File No. 0-22480, and incorporated herein by reference)
- 10.19 Split Dollar Agreement and Assignment of Life Insurance Policy as Collateral dated October 1, 1998 between the Company and Gordon R. Cooke (included as Exhibit 10.12 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 26, 1998, File No. 0-22480, and incorporated herein by reference)
- 10.20 Split Dollar Agreement and Assignment of Life Insurance Policy as Collateral dated February 22, 1999 between the Company and Kevin Burns
- 10.21 Split Dollar Agreement and Assignment of Life Insurance Policy as Collateral dated February 24, 1999 between the Company and Olga Conley
- 10.22 Split Dollar Agreement and Assignment of Life Insurance Policy as Collateral dated February 24, 1999 between the Company and Gordon Cooke
- 10.23 Split Dollar Agreement and Assignment of Life Insurance Policy as Collateral dated February 24, 1999 between the Company and John Hayes
- 10.24 Split Dollar Agreement and Assignment of Life Insurance Policy as Collateral dated February 24, 1999 between the Company and Patricia Lee
- 10.25 Split Dollar Agreement and Assignment of Life Insurance Policy as Collateral dated February 24, 1999 between the Company and Peter Tulp
- 10.26 Split Dollar Agreement and Assignment of Life Insurance Policy as Collateral dated March 3, 1999 between the Company and Jane Dunning
- 10.27 Merchant Services Agreement between the Company and Hurley State Bank, dated July 18, 1995 (included as Exhibit 10.21 to the Company's Annual Report on Form 10-K for the fiscal year ended June 24, 1995, File No. 0-22480, and incorporated herein by reference)
- 10.28 Construction Agreement dated October 24, 1997 between the Company and Clayco Construction Company, Inc. (included as Exhibit 10.39 to the Company's Annual Report on Form 10-K for the fiscal year ended December 27, 1997, File No. 0-22480, and incorporated herein by reference)
- 10.29 Contract dated April 1, 1998, between the Company and Designed Conveyor Systems, Inc. (included as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 28, 1998, File No. 0-22480, and incorporated herein by reference)
- 10.30 Grant of Security Interest in Trademarks dated June 5, 1997 between the Company and Citizens Bank of Massachusetts (included as Exhibit 10.6 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 28, 1997, File No. 0-22480, and incorporated herein by reference)
- 10.31 Account Control Agreement dated June 5, 1997 between the Company, Citizens Bank of Massachusetts and Fleet National Bank (included as Exhibit 10.7 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 28, 1997, File No. 0-22480, and incorporated herein by reference)
- 10.32 Real Estate Note dated July 30, 1997 between the Company and Citizens Bank of Massachusetts (included as Exhibit 10.8 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 28, 1997, File No. 0-22480, and incorporated herein by reference)
- 10.33 Mortgage dated July 30, 1997 between the Company and Citizens Bank of Massachusetts (included as Exhibit 10.9 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 28, 1997, File No. 0-22480, and incorporated herein by reference)

- 10.34 Mortgage (Bridge Mortgage) dated October 31, 1997 between the Company and

- Citizens Bank of Massachusetts (included as Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 27, 1997, File No. 0-22480, and incorporated herein by reference)
- 10.35 First Amendment to Security Agreement dated October 31, 1997 between the Company and Citizens Bank of Massachusetts (included as Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 27, 1997, File No. 0-22480, and incorporated herein by reference)
- 10.36 First Amendment to Mortgage dated October 31, 1997 between the Company and Citizens Bank of Massachusetts (included as Exhibit 10.5 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 27, 1997, File No. 0-22480, and incorporated herein by reference)
- 10.37 Replacement Revolving Note dated October 31, 1997 between the Company and Citizens Bank of Massachusetts (included as Exhibit 10.6 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 27, 1997, File No. 0-22480, and incorporated herein by reference)
- 10.38 Second Amended and Restated Loan Agreement dated March 5, 1998 between the Company and Citizens Bank of Massachusetts (included as Exhibit 10.27 to the Company's Annual Report on Form 10-K for the fiscal year ended December 27, 1997, File No. 0-22480, and incorporated herein by reference)
- 10.39 New Bridge Note dated March 5, 1998 between the Company and Citizens Bank of Massachusetts (included as Exhibit 10.28 to the Company's Annual Report on Form 10-K for the fiscal year ended December 27, 1997, File No. 0-22480, and incorporated herein by reference)
- 10.40 Short Term Revolving Note dated March 5, 1998 between the Company and Citizens Bank of Massachusetts (included as Exhibit 10.29 to the Company's Annual Report on Form 10-K for the fiscal year ended December 27, 1997, File No. 0-22480, and incorporated herein by reference)
- 10.41 Second Amendment to Security Agreement dated March 5, 1998 between the Company and Citizens Bank of Massachusetts (included as Exhibit 10.30 to the Company's Annual Report on Form 10-K for the fiscal year ended December 27, 1997, File No. 0-22480, and incorporated herein by reference)
- 10.42 Assignment of Certificate of Deposit dated March 5, 1998 between the Company and Citizens Bank of Massachusetts (included as Exhibit 10.31 to the Company's Annual Report on Form 10-K for the fiscal year ended December 27, 1997, File No. 0-22480, and incorporated herein by reference)
- 10.43 Amended Bridge Mortgage dated March 5, 1998 between the Company and Citizens Bank of Massachusetts (included as Exhibit 10.32 to the Company's Annual Report on Form 10-K for the fiscal year ended December 27, 1997, File No. 0-22480, and incorporated herein by reference)
- 10.44 Second Amendment to Mortgage (Meredith) dated March 5, 1998 between the Company and Citizens Bank of Massachusetts (included as Exhibit 10.33 to the Company's Annual Report on Form 10-K for the fiscal year ended December 27, 1997, File No. 0-22480, and incorporated herein by reference)
- 10.45 First Amendment to Second Amended and Restated Loan Agreement dated June 30, 1998 between the Company and Citizens Bank of Massachusetts (included as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 27, 1998, File No. 0-22480, and incorporated herein by reference)
- 10.46 Second Amendment to Second Amended and Restated Loan Agreement dated September 4, 1998, between the Company and Citizens Bank of Massachusetts (included as Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 26, 1998, File No. 0-22480, and incorporated herein by reference)
- 10.47 Third Amendment to Second Amended and Restated Loan Agreement dated September 4, 1998, between the Company and Citizens Bank of Massachusetts (included as Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 26, 1998, File No. 0-22480, and incorporated herein by reference)
- 10.48 First Amendment to Assignment of Certificate of Deposit dated September 4, 1998, between the Company and Citizens Bank of Massachusetts (included as Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 26, 1998, File No. 0-22480, and incorporated herein by reference)
- 10.49 Second Amendment to Bridge Mortgage dated September 4, 1998, between the Company and Citizens Bank of Massachusetts (included as Exhibit 10.5 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 26, 1998, File No. 0-22480, and incorporated herein by reference)

reference)

- 10.50 Third Amendment to Mortgage (Meredith) dated September 4, 1998, between the Company and Citizens Bank of Massachusetts (included as Exhibit 10.6 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 26, 1998, File No. 0-22480, and incorporated herein by reference)
- 10.51 Replacement New Bridge Note dated September 4, 1998, between the Company and Citizens Bank of Massachusetts (included as Exhibit 10.7 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 26, 1998, File No. 0-22480, and incorporated herein by reference)

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- 10.52 Replacement Short Term Revolving Note dated September 4, 1998, between the Company and Citizens Bank of Massachusetts (included as Exhibit 10.8 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 26, 1998, File No. 0-22480, and incorporated herein by reference)
- 10.53 Second Replacement Revolving Note dated September 4, 1998, between the Company and Citizens Bank of Massachusetts (included as Exhibit 10.9 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 26, 1998, File No. 0-22480, and incorporated herein by reference)
- 10.54 Third Amendment to Security Agreement dated September 4, 1998, between the Company and Citizens Bank of Massachusetts (included as Exhibit 10.10 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 26, 1998, File No. 0-22480, and incorporated herein by reference)
- 10.55 Fourth Amendment to Second Amended and Restated Loan Agreement, dated as of December 31, 1998, by and between the Company and Citizens Bank of Massachusetts
- 10.56 Second Amendment to Assignment of Certificate of Deposit, dated as of December 31, 1998, by and between the Company and Citizens Bank of Massachusetts
- 10.57 Second Replacement New Bridge Note, dated as of December 31, 1998, by and between the Company and Citizens Bank of Massachusetts
- 10.58 Second Replacement Short Term Revolving Note, dated as of December 31, 1998, by and between the Company and Citizens Bank of Massachusetts
- 10.59 Master Security Agreement, dated as of December 23, 1998, by and between the Company and Citizens Leasing Corporation
- 10.60 Amendment No. 1 to the Master Security Agreement, dated as of December 23, 1998, by and between the Company and Citizens Leasing Corporation
- 10.61 Secured Promissory Note, dated as of December 23, 1998, by and between the Company and Citizens Leasing Corporation
- 10.62 Secured Promissory Note, dated as of December 23, 1998, by and between the Company and Citizens Leasing Corporation
- 10.63 Mortgage Note dated March 1, 1999 between Birch Pond Realty Corporation and John Hancock Real Estate Finance, Inc.
- 10.64 Assignment of Leases and Rents dated March 1, 1999 between Birch Pond Realty Corporation and John Hancock Real Estate Finance, Inc.
- 10.65 Mortgage, Assignment of Leases and Rents and Security Agreement dated March 1, 1999 between Birch Pond Realty Corporation and John Hancock Real Estate Finance, Inc.
- 10.66 Assignment of Agreements, Permits and Contracts dated March 1, 1999 between Birch Pond Realty Corporation and John Hancock Real Estate Finance, Inc.
- 10.67 Indemnification Agreement dated March 1, 1999 between the Company, Birch Pond Realty Corporation and John Hancock Real Estate Finance, Inc.
- 10.68 Guaranty Agreement dated March 1, 1999 between the Company and John Hancock Real Estate Finance, Inc.
- 10.69 Replacement Reserve Agreement dated March 1, 1999 by and between Birch Pond Realty Corporation and John Hancock Real Estate Finance, Inc.

10.70 Tenant Improvement and Leasing Commissions Agreement dated March 1, 1999 between Birch Pond Realty Corporation and John Hancock Real Estate Finance, Inc.

10.71 Consent Agreement dated March 1, 1999 between the Company and Citizens Bank of Massachusetts

CONSENT OF EXPERTS AND COUNSEL

23.1 Consent of PricewaterhouseCoopers LLP dated March 24, 1999

FINANCIAL DATA SCHEDULE

27.1 Financial Data Schedule for the year ended December 26, 1998

(4) REPORTS ON FORM 8-K
There were no reports on Form 8-K filed during the quarter ended December 26, 1998.

SIGNATURES

Pursuant to the requirements of Section 13 of 15(d) 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.

DM Management Company

Dated: March 25, 1999

By: /s/ Gordon R. Cooke

Gordon R. Cooke
President, Chief Executive Officer,
Chairman of the Board of Directors and
Director (Principal Executive Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<TABLE> <CAPTION> Signature -----	Title -----	Date ----
<S> /s/ Gordon R. Cooke ----- Gordon R. Cooke	<C> President, Chief Executive Officer, Chairman of the Board of Directors and Director (PRINCIPAL EXECUTIVE OFFICER)	<C> March 25, 1999
/s/ Olga L. Conley ----- Olga L. Conley	Senior Vice President-- Finance, Chief Financial Officer and Treasurer (PRINCIPAL FINANCIAL OFFICER)	March 25, 1999
/s/ Peter J. Tulp ----- Peter J. Tulp	Vice President Finance, Corporate Controller (PRINCIPAL ACCOUNTING OFFICER)	March 25, 1999
/s/ William E. Engbers ----- William E. Engbers	Director	March 25, 1999
/s/ Walter J. Levison ----- Walter J. Levison	Director	March 25, 1999
/s/ Thomas J. Litle ----- Thomas J. Litle	Director	March 25, 1999
/s/ Ruth M. Owades ----- Ruth M. Owades	Director	March 25, 1999
/s/ Samuel L. Shanaman ----- Samuel L. Shanaman	Director	March 25, 1999

</TABLE>

DM MANAGEMENT COMPANY

FORM 10-K

FOR THE FISCAL YEAR ENDED DECEMBER 26, 1998

EXHIBIT INDEX

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<CAPTION>

Exhibit No. -----	Description -----
	MATERIAL CONTRACTS
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10.4	Fifth Amendment to Lease Agreement dated August 27, 1998, between the Company and Richard D. Matthews and Richard J. Valentine, as Trustees of Bare Cove Realty Trust established u/d/t dated January 10, 1984, as amended
10.10	Lease dated March 1, 1999 between the Company and Birch Pond Realty Corporation
10.12	Amended and Restated 1993 Incentive and Nonqualified Stock Option Plan
10.15	1999 Incentive Compensation Plan
10.20	Split Dollar Agreement and Assignment of Life Insurance Policy as Collateral dated February 22, 1999 between the Company and Kevin Burns
10.21	Split Dollar Agreement and Assignment of Life Insurance Policy as Collateral dated February 24, 1999 between the Company and Olga Conley
10.22	Split Dollar Agreement and Assignment of Life Insurance Policy as Collateral dated February 24, 1999 between the Company and Gordon Cooke
10.23	Split Dollar Agreement and Assignment of Life Insurance Policy as Collateral dated February 24, 1999 between the Company and John Hayes
10.24	Split Dollar Agreement and Assignment of Life Insurance Policy as Collateral dated February 24, 1999 between the Company and Patricia Lee
10.25	Split Dollar Agreement and Assignment of Life Insurance Policy as Collateral dated February 24, 1999 between the Company and Peter Tulp
10.26	Split Dollar Agreement and Assignment of Life Insurance Policy as Collateral dated March 3, 1999 between the Company and Jane Dunning
10.55	Fourth Amendment to Second Amended and Restated Loan Agreement, dated as of December 31, 1998, by and between the Company and Citizens Bank of Massachusetts
10.56	Second Amendment to Assignment of Certificate of Deposit, dated as of December 31, 1998, by and between the Company and Citizens Bank of Massachusetts
10.57	Second Replacement New Bridge Note, dated as of December 31, 1998, by and between the Company and Citizens Bank of Massachusetts
10.58	Second Replacement Short Term Revolving Note, dated as of December 31, 1998, by and between the Company and Citizens Bank of Massachusetts
10.59	Master Security Agreement, dated as of December 23, 1998, by and between the Company and Citizens Leasing Corporation
10.60	Amendment No. 1 to the Master Security Agreement, dated as of December 23, 1998, by and between the Company and Citizens Leasing Corporation
10.61	Secured Promissory Note, dated as of December 23, 1998, by and between the Company and Citizens Leasing Corporation
10.62	Secured Promissory Note, dated as of December 23, 1998, by and between the Company and Citizens Leasing Corporation
10.63	Mortgage Note dated March 1, 1999 between Birch Pond Realty Corporation and John Hancock Real Estate Finance, Inc.
10.64	Assignment of Leases and Rents dated March 1, 1999 between Birch Pond Realty Corporation and John Hancock Real Estate Finance, Inc.

10.65 Mortgage, Assignment of Leases and Rents and Security Agreement dated March 1, 1999 between Birch Pond Realty Corporation and John Hancock Real Estate Finance, Inc.

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<S> <C>

10.66 Assignment of Agreements, Permits and Contracts dated March 1, 1999 between Birch Pond Realty Corporation and John Hancock Real Estate Finance, Inc.

10.67 Indemnification Agreement dated March 1, 1999 between the Company, Birch Pond Realty Corporation and John Hancock Real Estate Finance, Inc.

10.68 Guaranty Agreement dated March 1, 1999 between the Company and John Hancock Real Estate Finance, Inc.

10.69 Replacement Reserve Agreement dated March 1, 1999 by and between Birch Pond Realty Corporation and John Hancock Real Estate Finance, Inc.

10.70 Tenant Improvement and Leasing Commissions Agreement dated March 1, 1999 between Birch Pond Realty Corporation and John Hancock Real Estate Finance, Inc.

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23.1 Consent of PricewaterhouseCoopers LLP dated March 24, 1999

FINANCIAL DATA SCHEDULE

27.1 Financial Data Schedule for the year ended December 26, 1998

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FIFTH AMENDMENT TO LEASE

Reference is made to certain lease dated September 14, 1989, as amended by Amendment to Lease dated December 5, 1991, as further amended by Second Amendment to Lease dated December 16, 1992, as further amended by Third Amendment to Lease dated February 28, 1994 as further amended by Fourth Amendment to Lease dated December 18, 1995 (collectively, "Lease") between D.M. MANAGEMENT COMPANY, INC., a Delaware corporation ("Tenant"), and Richard D. Matthews and Richard J. Valentine, as Trustees of Bare Cove Realty Trust u/d/t dated January 10, 1984 recorded in the Plymouth County Registry of Deeds in Book 5608, Page 292 as amended to date ("Landlord") for office space on the first and second floor of Bare Cove Executive Park II, 25 Recreation Park Drive, Hingham, Massachusetts.

AGREEMENT

In consideration of the mutual benefits and obligations described in this Fourth Amendment, and for other good and valuable consideration, Landlord and Tenant agree to amend the Lease as follows:

1. Section 1 of the Lease is amended, as of the Fifth Amendment Commencement Date (defined below), so that the demised premises will include an additional 1,935 square feet of floor area (the "Fifth Amendment Additional Space"), thus bringing the total floor area to 21,577 square feet as shown on the attached Fifth Amendment Exhibit A. Section 1 is further amended so that "the computation square footage" will include an additional 2,163 square feet, thus bringing the total computation square footage to 25,882 square feet.

2. Tenant agrees to accept the Fifth Amendment Additional Space in substantially its present "as is" condition.

3. Section 3.1 of the Lease is amended so that the term of the Lease with respect to the Fifth Amendment Additional Space only is five years from the Fifth Amendment Commencement Date.

4. Exhibit C to the Lease is amended by adding, with respect to the Fifth Amendment Additional Space only, the minimum rent schedule as follows:

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PERIOD	MINIMUM RENT PER COMPUTATION SQUARE FOOT	ANNUAL MINIMUM RENT	MONTHLY MINIMUM RENT
<S> Entire Term	<C> \$19.50 for Fifth Amendment Additional Space (2,163)	<C> \$42,178.50	<C> \$3,514.88

</TABLE>

5. With respect only to the Fifth Amendment Additional Space, the Tax Excess referred to in Section 6.1 of the Lease shall be based on \$3,244.50, (being the product of \$1.50 and the Fifth Amendment Additional Space Computation Square Footage)

6. With respect only to the Fifth Amendment Additional Space, the Operating Excess referred to in Section 8.3 of the Lease shall be based on \$8,652.00 (being the product of \$4.00 and the Fifth Amendment Additional Space Computation Square Footage)

7. Tenant acknowledges that the Fifth Amendment Additional Space currently is occupied by the Rheinner Group, Inc. under a lease that is scheduled to expire on December 31, 1998. Tenant agrees to accept the Fifth Amendment Additional Space earlier if for any reason The Rheinner Group vacates earlier. The Fifth Amendment Commencement Date shall be January 1, 1999, or, if earlier, 30 days after notice from Landlord that the Fifth Amendment Additional Space is available to Tenant. (If Landlord is unable to give possession on January 1, 1999, for any reason, Landlord shall not have any liability whatsoever for the failure to give possession on such date, nor shall such failure in any way

affect the validity of this Fifth Amendment or the obligations of Tenant hereunder. However, rent attributable to the Fifth Amendment Additional Space shall be abated for any period during which Landlord shall be unable to deliver possession.

Except as specifically amended by this Fifth Amendment, all provisions of the Lease are hereby ratified by Landlord and Tenant and remain in full force and effect.

Executed as a document under seal on 27th August, 1998.

/s/ RICHARD D. MATTHEWS

Richard D. Matthews, as Trustee

of Bare Cove Realty Trust, and
not individually

/s/ RICHARD J. VALENTINE

Richard J. Valentine, as
Trustee of Bare Cove Realty
Trust, and not individually

D.M. MANAGEMENT COMPANY, INC.

By: /s/ OLGA L. CONLEY

Its: Chief Financial Officer

hereunto duly authorized

FIFTH AMENDMENT EXHIBIT "A"

See attached floor plan. (ommitted)

ADDENDUM TO FIFTH AMENDMENT TO LEASE:

With reference to item #2 in the Agreement, DM Management will have the opportunity to tour and review the condition of the "Fifth Amendment Additional Space" prior to taking occupancy to ensure that the space is in "substantially" the same condition as it was during the DM Management walk-through on August 14, 1998. If it is determined that the space is not in "substantially" the same condition, Landlord agrees to perform, at its sole cost, any and all repairs to restore the space to its 8/14/98 condition.

ACCEPTED AND AGREED TO:

/s/ RICHARD B. MATTHEWS

8/27/98

Bare Cove Realty Trust

Date

/s/ OLGA L. CONLEY

8/24/98

DM Management Company, Inc.

Date

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EXHIBIT A: Property Description

EXECUTION COPY

LEASE

LEASE dated as of March 1, 1999 between Birch Pond Realty Corporation, a Delaware corporation with an address at 25 Recreation Park Drive, Hingham, MA 02043 (the "Landlord"), and DM Management Company, a Delaware corporation, doing business as BPRC in the State of New Hampshire, with an address at 25 Recreation Park Drive, Hingham, MA 02043 (the "Tenant").

1. LEASED PROPERTY; TERM OF LEASE

1.1. LEASED PROPERTY; LEASE TERM

Upon and subject to the conditions and limitations set forth below, Landlord leases to Tenant, and Tenant rents from Landlord, for a term of eighteen (18) years (herein sometimes referred to as the "Term") commencing on the date hereof (the "Commencement Date") and expiring at midnight on the day prior to the eighteenth (18th) anniversary of the Commencement Date, the land and all rights appurtenant thereto (the "Land") described in Exhibit A hereto and the buildings and other improvements now or hereafter erected thereon (the "Improvements"; the Land and the Improvements being hereinafter collectively referred to as the "Property"); subject, however, to (a) real estate taxes for the current and subsequent years, not yet due and payable; (b) any facts an accurate survey or personal inspection of the Property would disclose; (c) present and future building restrictions and zoning and environmental laws and other applicable laws; and (d) all easements, restrictions, encumbrances and other matters of record.

1.2. HOLD OVER. If Tenant should hold over after the end of the term, the term of this Lease shall continue on a month-to-month basis until terminated by either party by not less than thirty (30) days' prior written notice to the other. All of the terms and provisions of this Lease in effect immediately prior to such holdover shall be applicable during any holdover period and for any further time following the end of the term hereof during which Tenant continues to use or occupy the Property.

1.4. DEFINITIONS. Unless otherwise defined herein, capitalized words and phrases used in this Lease shall have the meanings set forth in Section 34 hereof.

2. BASIC RENT.

2.1. TERM. During the Initial Term, Tenant shall pay to Landlord annual basic rent of \$1,990,746.00.

2.2. TIME OF PAYMENT. The Basic Rent shall be payable, in advance, in equal monthly installments of \$165,895.00 .on the first day of each month during the Term. Basic Rent for any period of less than a full calendar month included in the Term shall be prorated on a per diem basis. Basic Rent for the month in which the Term commences shall be payable on the date of execution of this Lease by Tenant.

2.3. MANNER OF PAYMENT OF RENT. The Basic Rent and other sums payable to Landlord hereunder shall be paid to Landlord at Landlord's address set forth in Section 35 hereof or to such agent or person or persons or at such other address as Landlord from time to time may designate as provided herein. Basic Rent shall be absolutely net to Landlord so that this Lease shall yield to

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Landlord the full amount of the installments of Basic Rent throughout the term of this Lease without abatement, deduction, or offset, except as otherwise provided herein.

2.4. ADDITIONAL RENT. Tenant shall also pay, from time to time as provided in this Lease, as additional rent ("Additional Rent") all other amounts, liabilities and obligations which Tenant herein assumes or agrees to pay. In the event of any failure on the part of Tenant to pay any Additional Rent, Landlord shall have all the rights, powers and remedies provided for in this Lease or at law, in equity, or otherwise in the case of non-payment of Basic Rent.

2.5. NO TERMINATION, ABATEMENT, ETC. Except as otherwise specifically provided herein, this Lease shall not terminate, nor shall Tenant be entitled to any abatement, deduction, deferment or reduction of rent, or set-off against the rent, nor shall the respective obligations of Landlord and Tenant be otherwise

affected, by reason of damage to or destruction of the Property from whatever cause, any Taking or Takings, the lawful or unlawful prohibition of Tenant's use of the Property, the interference with such use by any private person, corporation or other entity, or by reason of any eviction by paramount title, or by reason of Tenant's acquisition of the Property (otherwise than pursuant to an express provision of this Lease), or by any claim which Tenant has or might have against the Landlord, or by reason of any default or breach of any warranty by Landlord under this Lease or any other agreement between Landlord and Tenant or to which Landlord and Tenant are parties, or for any other cause whether similar or dissimilar to the foregoing, any present or future law to the contrary notwithstanding; it being the intention that the obligations of Landlord and Tenant hereunder shall be separate and independent covenants and agreements and that the Basic Rent and Additional Rent and all other sums payable by Tenant

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hereunder shall continue to be payable in all events unless the obligations to pay the same shall be terminated pursuant to the express provisions of this Lease; and Tenant covenants and agrees that it will remain obligated under this Lease in accordance with its terms, and that it will not take any action to terminate, rescind or avoid this Lease, notwithstanding the bankruptcy, insolvency, incapacity, death or other proceedings affecting Landlord or any assignee of Landlord, and notwithstanding any action with respect to this Lease that may be taken by a trustee or receiver of Landlord or any assignee of Landlord or by any court in any such proceeding.

3. CONDITION OF PROPERTY

Tenant is fully familiar with the physical condition of the Property. Landlord makes no representation or warranty with respect to the condition of the Property or its fitness or availability for any particular use, and Landlord shall not be liable for any latent or patent defect therein and has received the same in good order and condition, and agrees that the Property complies in all respects with the requirements of this Lease. Tenant acknowledges that Landlord shall not be required to make any repairs, alterations or improvements to the Property except as otherwise expressly provided herein.

4. USE OF PROPERTY

The Property shall not be used for any purpose other than for office, warehouse and distribution purposes and as otherwise permitted as of right under applicable zoning laws and any purposes incidental to the foregoing without the prior written consent of Landlord, which consent shall not be unreasonably withheld or delayed. Tenant will not do or permit any act or thing which is contrary to any Legal Requirement or Insurance Requirement (unless, in the case of an

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Insurance Requirement, (x) such act or thing would be permitted upon payment of a higher insurance premium, (y) such higher premium has been paid by Tenant and (z) such act or thing becomes, upon such payment, so permitted), or which constitutes a public or private nuisance or waste.

5. MAINTENANCE AND REPAIRS

5.1. BY TENANT. During the Term, Tenant shall, at Tenant's sole cost and expense, keep and maintain the Property in the same condition as on the Commencement Date, or as it may be put in thereafter, reasonable wear and tear excepted, and shall further keep and maintain all portions of the Property, and all sidewalks and curbs located upon or appurtenant or adjacent to the Property, in a clean and orderly condition, free of snow and ice, accumulation of dirt, rubbish and debris. Tenant shall not commit or suffer to be committed any waste upon or about the Property, and shall promptly at its cost and expense make all required replacements, restorations, renewals and repairs to the Property, and appurtenances thereto, whether interior or exterior, structural or non-structural, ordinary or extraordinary, foreseen as well as unforeseen, necessary to keep the Property in the foregoing order and condition, and such repairs, replacements, restorations and renewals shall, to the maximum extent possible, be equivalent in quality to the quality of the original work or the property replaced, as the case may be. Tenant shall undertake preventive maintenance as well, and a reasonable policy of inspection to ascertain the need for repairs and replacements shall be adhered to by Tenant throughout the entire term of this Lease.

5.2. BY LANDLORD. Landlord shall have absolutely no liability or obligation whatsoever to build any further improvements on the Property, or to make any repairs, replacements, alterations,

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restorations or renewals of any nature or description to the Property, whether interior or exterior, ordinary or extraordinary, structural or non-structural, foreseen or unforeseen, or to make any expenditure whatsoever in connection with this Lease or to inspect or maintain the Property.

6. ALTERATIONS, ADDITIONS AND REPLACEMENTS.

So long as no Event of Default shall have occurred and be continuing, Tenant shall have the right, at any time and from time to time after providing Landlord with written notice, to make or cause to be made reasonable alterations of and additions to the Property or any part thereof, provided that any alteration or addition (a) shall not change the general character of the Property or reduce the fair market value thereof below its value immediately before such alteration or addition or impair the usefulness of the Property, (b) is effected with due diligence, in a good and workmanlike manner and in compliance with all Legal Requirements and Insurance Requirements, (c) is

promptly and fully paid for, or caused to be paid for, by Tenant, (d) is estimated to cost not more than \$600,000, and (e) is made under the supervision of a qualified architect or engineer. Upon completion of such alteration or addition, Tenant shall provide Landlord with (i) a satisfactory final improvement survey if the footprint of the building has been altered, (ii) any final occupancy permit which may be required for the Improvements, (iii) all other governmental permits, certificates and approvals and all other permits, certificates and approvals of fire underwriters, which are required with respect to the alterations and (iv) final lien waivers from all contractors, subcontractors and materialmen.

7. TENANT'S EQUIPMENT

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All Tenant's Equipment shall be and remain the property of Tenant and Tenant shall have the right to remove Tenant's Equipment at any time, provided that Tenant shall repair any damage caused by such removal. In the event that Tenant fails to remove Tenant's Equipment on or before the expiration or other termination of this Lease, such Tenant's Equipment shall be deemed to have been abandoned and Landlord shall have the right at Landlord's option to retain or remove such Tenant's Equipment.

8. UTILITY SERVICES

Tenant will pay or cause to be paid all charges for all public or private utility services and all sprinkler systems and protective services at any time rendered to or in connection with the Property or any part thereof, will comply with all contracts relating to any such services, and will do all other things required for the maintenance and continuance of all such services.

9. NO CLAIMS AGAINST LANDLORD, ETC.

Nothing contained in this Lease shall constitute any consent or request by Landlord, express or implied, for the performance of any labor or services or for the furnishing of any materials or other property in respect of the Property or any part thereof, nor as giving Tenant any right, power or authority to contract for or permit the performance of any labor or services or the furnishing of any materials or other property in such fashion as would permit the making of any claim against Landlord in respect thereof. None of the agreements herein contained are intended, nor shall the same be construed, to create a partnership between Landlord and Tenant, to make them joint venturers, or to make either party in any way responsible for the business, debts or losses of the other party.

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10. INDEMNIFICATION BY TENANT

Tenant will protect and indemnify Landlord and save Landlord harmless from and against all liabilities, obligations, claims, damages, penalties, causes of action, costs and expenses (including, without limitation, reasonable attorneys' fees and expenses) imposed upon or incurred by or asserted against Landlord by reason of (a) any accident, injury to or death of persons or loss of or damage to property occurring on or about the Property or any part thereof, or (b) any use, non-use or condition of the Property or any part thereof, except, in the case of (a) or (b) above, if arising from the gross negligence or willful misconduct of Landlord or its agents or employees, or (c) any failure on the part of Tenant to perform or comply with any of the terms of this Lease, or (d) any breach of any representation or warranty of Tenant contained herein or incorporated herein by reference, or (e) performance of any labor or services or the furnishing of any materials or other property in respect of the Property or any part thereof, except if the same has been provided, performed or furnished at the express request of Landlord. The obligations of Tenant under this section shall survive the termination of this Lease. In case any action, suit or proceeding is brought against Landlord by reason of any such occurrence, Tenant, upon Landlord's request, will at Tenant's expense resist and defend such action, suit or proceeding, or cause the same to be resisted and defended by counsel designated by Tenant and reasonably approved by Landlord.

11. INSPECTION.

Landlord and its authorized representatives may, upon reasonable advance oral or written notice (except in the event of emergencies when no prior notice shall be required), enter the

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Property or any part thereof at all reasonable times upon reasonable notice for the purpose of inspecting the same, making the alterations and repairs, if any, required to be made by it hereunder or as may reasonably be deemed necessary by Landlord, exhibiting the same to prospective mortgagees and purchasers, and, during the last six (6) months of the Term, exhibiting the same to prospective tenants. Landlord shall not have any duty to make any such inspection or do any such work nor shall it incur any liability or obligation for not making any such inspection or doing any such work.

12. PAYMENT OF IMPOSITIONS, ETC.

Except as provided in Section 15 relating to contests, Tenant will pay all Impositions when due, before any fine, penalty, interest or cost may be added for non-payment, and will furnish to Landlord, upon request, official receipts or other reasonably satisfactory proof evidencing such payments. To the extent that the same may be permitted by law, Tenant shall have the right to apply for the conversion of any betterment assessment during the Term in order to cause the same to be payable in annual installments during the useful life of such improvements and upon such conversion Tenant shall pay and discharge punctually said installments as they shall become due and payable during the Term. Landlord agrees to permit the application for the foregoing conversion to be filed in Landlord's name, if necessary, and shall execute any and all

documents requested by Tenant which are necessary to accomplish the foregoing result. In the event that the foregoing conversion is not permitted under law, and the useful life of any improvements made during the Term extends beyond the Term, any betterment assessment therefor shall be equitably apportioned between Landlord and Tenant.

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13. COMPLIANCE WITH LEGAL AND INSURANCE REQUIREMENTS, INSTRUMENTS, ETC.

Except in provided in Section 15 relating to contests, Tenant at its expense will promptly (a) comply with all Legal Requirements and Insurance Requirements, whether or not compliance therewith shall require structural changes in the Improvements or interfere with the use and enjoyment of the Property or any part thereof, (b) procure, maintain and comply with all permits, licenses and other authorizations required for any use of the Property or any part thereof then being made, and for the proper erection, installation, operation and maintenance of the Improvements and Tenant's Equipment or any part thereof, and (c) comply with any instruments of record at the time in force affecting the Property or any part thereof.

14. LIENS, ETC.

Tenant will not directly or indirectly create or permit to be created or to remain, and will discharge any lien, encumbrance or charge on, pledge of, or conditional sale or other title retention agreement with respect to the Property or any part thereof, Tenant's interest therein, or the Basic Rent, Additional Rent or any other sum payable under this Lease, other than (a) this Lease and any assignment hereof or sublease hereunder permitted by the terms hereof, and (b) liens for Impositions not yet payable, or payable without the addition of any fine, penalty, interest or cost for non-payment, or being contested as permitted by Section 15; provided, however, that nothing herein is intended to impose upon Tenant the duty to discharge any lien, encumbrance or charge created by Landlord with respect to the Property.

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15. PERMITTED CONTESTS

Tenant, at its expense, upon prior notice to Landlord, and, if legally required, in the name of Landlord, may contest by appropriate legal proceedings conducted in good faith and with due diligence, the amount or validity or application, in whole or in part, of any Imposition or lien therefor or any Legal Requirement or the application of any instrument of record referred to in Section 13, provided that (a) in the case of any such contest, the prosecution of such proceedings shall suspend the collection thereof from Landlord or the Property, (b) neither the Property nor any part thereof or interest therein or

Basic or Additional Rent would be in any immediate danger of being sold, forfeited or lost, (c) in the case of a Legal Requirement, Landlord would not be in any danger of any additional civil or any criminal liability for failure to comply therewith and the Property would not be subject to the immediate imposition of any lien as a result of such failure, and (d) Tenant shall have furnished such security, if any, as may be required in the proceedings and/or reasonably requested by Landlord. Landlord, at the expense of Tenant, will cooperate with Tenant and execute any documents or pleadings reasonably required for any such contest, provided that any such cooperation or execution will not impose any obligation on Landlord.

16. INSURANCE

16.1. RISKS TO BE INSURED. Tenant, at its expense, will maintain or cause to be maintained with insurers reasonably satisfactory, from time to time, to Landlord:

16.1.1. All-Risk insurance, without exclusion for vandalism, flood, water damage, collapse, earthquake, debris removal and demolition, in an amount at least equal to one hundred (100%) percent of the replacement cost of the Improvements, as such replacement cost may from

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time to time be determined by agreement of the parties or if the parties cannot agree, by an accredited insurance appraiser selected by Tenant and approved by Landlord (the expense of such appraisal shall be shared equally by the parties) with endorsements for contingent liability from operation of building laws, increased cost of construction and demolition costs which may be necessary to comply with building laws, but in any event such insurance shall include an agreed amount endorsement and in no event shall the amount of such insurance be less than the amount necessary to avoid coinsurance. Any deductible applicable to such insurance shall not exceed \$10,000 (or such other amount as Landlord and Tenant may agree upon in writing from time to time).

16.1.2. Comprehensive liability insurance insuring Landlord and Tenant against all claims and demands for any injury to person or property, and for death to persons resulting from such injuries, which may be claimed to have occurred on or about the Property or any part thereof, or on the sidewalk or ways adjoining the Property or any part thereof, in a combined single limit of not less than Ten Million (\$10,000,000) Dollars.

16.1.3. Appropriate workmen's compensation insurance in respect of any work on or about the Property.

16.1.4. Insurance in such other amounts, against such other hazards, in such forms and with such companies as may from time to time be reasonably required by Landlord or as may be customarily required by any bank, insurance company or other lending institution holding a mortgage on the Property or any part thereof.

16.2. POLICY PROVISIONS. All insurance maintained by Tenant pursuant to section 16.1 shall: (a) except for workmen's compensation insurance, name Landlord and Tenant and the Landlord's mortgagees as mortgagee, loss payee and additional insured, as their respective interests may appear, (b) provide that all insurance proceeds shall be adjusted by Tenant, except as otherwise expressly provided in this Section 17, and, except in the case of public liability, workmen's compensation insurance and insurance with respect to Tenant's Equipment, be payable to Landlord, or any such mortgagee on behalf of Landlord, as their respective interests may appear, (c) provide to the extent that such provision is available, regardless of premium, that any losses shall be payable notwithstanding any act or negligence of Landlord or Tenant, (d) provide, to the extent that such provision is available, regardless of premium, that no cancellation thereof shall be effective until at least ten (10) days after receipt by Landlord and any such mortgagee of written notice thereof, and (e) be reasonably satisfactory to Landlord in all other respects.

16.3. SUBROGATION. Landlord and Tenant shall, when it can be arranged without affecting such party's right to settle losses and receive proceeds, cause the insurance maintained or caused to be maintained by each such party to be written so that the insurer will not have rights of subrogation against the other party. Landlord and Tenant hereby waive any right of recovery against the other for loss or injury to the extent the waiving party is protected by insurance so written.

16.4. DELIVERY OF POLICIES; INSURANCE CERTIFICATE. Tenant shall deliver to Landlord with this Lease a certificate evidencing the insurance required by this subsection and any additional insurance which shall be taken out on the Property. Tenant shall deliver to Landlord certificates

from the applicable insurer or its authorized agent of renewals or replacements of all such policies of insurance at least five (5) days before any such insurance shall expire and provide a true and certified copy of the property policy once issued by the insurer.

16.5. ADJUSTMENT. In the event any of the Property is destroyed or damaged by any casualty insured against hereunder (i) Landlord may, but shall not be obligated to, make proof of loss if not made promptly by Tenant and (ii) each insurance company concerned is hereby authorized and directed to make payment for such loss directly to Landlord for application as required by Section 17 hereof.

17. DAMAGE TO OR DESTRUCTION OF PROPERTY

17.1. TENANT TO GIVE NOTICE. In case of any material damage to or

destruction of the Property or any part thereof by fire or other casualty, Tenant will promptly give written notice thereof to Landlord, generally describing the nature and extent of such damage or destruction.

17.2. CASUALTY RESTORATION. In case of any damage to or destruction of the Property or any part thereof by fire or other casualty, Landlord shall promptly make the proceeds of the insurance carried by Tenant pursuant to Section 16.1.1 available to Tenant, in accordance with the provisions of Sections 3(d) and (e) of the Mortgage, and Tenant shall promptly and with diligence, subject to the then applicable statutes, building codes, zoning ordinances, and regulations of any governmental authority, proceed with the repair, alteration, restoration, replacement or rebuilding (such repair, alteration, restoration, replacement and rebuilding herein the "Restoration") of the Property as near as practicable to its value, utility, condition and character prior to such damage or destruction. If the Property or any part thereof shall have been

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rendered unfit for use and occupation hereunder by reason of such damage the Basic Rent and Additional Rent or a just and equitable part thereof, according to the nature and extent to which the Property shall have been so rendered unfit, shall be suspended or abated until the Property shall have been restored as nearly as practicable to its condition immediately prior to such fire or other casualty, except that the Basic Rent and Additional Rent payable hereunder by Tenant shall never be less than the sum (the "Carrying Costs") of (i) an amount equal to the principal and interest payments due with respect to the applicable period under the Note, as defined in Section 34 below, and (ii) an amount equal to Impositions due with respect to the applicable period.

17.3. INSURANCE ON TENANT'S EQUIPMENT Landlord shall have no interest in any policy of insurance carried with respect to Tenant's Equipment.

18. TAKING OF PROPERTY

18.1. TENANT TO GIVE NOTICE. In case of a Taking of all or any part of the Property, or the commencement of any proceedings or negotiations which might result in any such Taking, Tenant will promptly give written notice thereof to Landlord.

18.2. TAKING RESTORATION In the event of a Taking which is less than a Total Taking, this Lease shall remain in effect and Tenant shall promptly and with diligence, subject to the then applicable statutes, building codes, zoning ordinances, and regulations of any governmental authority, proceed with the Restoration of the Property as near as possible to its value, utility, condition and character prior to the Taking, except for any reduction in area caused thereby. If the Property or any part thereof shall have been rendered unfit for use and occupation by reason of the Taking, the Basic Rent and Additional Rent or a just and equitable part thereof, according

to the nature and extent to which the Property shall have been so rendered unfit, shall be suspended or abated until the Property shall have been restored as nearly as practicable to its condition immediately prior to the Taking, except that in the case of the Taking of any portion of the Improvements, the Basic Rent and Additional Rent payable hereunder by Tenant shall never be less than the Carrying Costs.

18.3. TOTAL TAKING In the event of a Taking of all or substantially all of the Property (a "Total Taking"), this Lease shall remain in effect until the Mortgagee has received an amount, from the awards or proceeds of the Taking or otherwise, sufficient to pay the Note in full and elected to apply such sum to the discharge of the indebtedness under the Lease. From and after the date on which Tenant is required to vacate all or any portion of the Property, the Basic Rent and Additional Rent or a just and equitable part thereof, according to the nature and extent to which Tenant shall have been required to vacate the Property shall be suspended or abated, except that the Basic Rent and Additional Rent payable hereunder by Tenant shall never be less than the Carrying Costs. All awards or proceeds of a Total Taking shall be paid as follows:

(A) First, to the Mortgagee, in an amount sufficient to pay the Note in full;

(B) Then to Tenant, in an amount equal to the sum of amounts, if any, paid by Tenant to Landlord as Basic and Additional Rent as set forth above in this Section from and after the date on which Tenant is required to vacate all or any portion of the Property;

(C) The balance, if any to Landlord.

18.4. SEPARATE AWARD Nothing herein contained shall be construed to prevent Tenant from obtaining and applying as it deems, appropriate any separate award from any condemning

authority for a taking of or damage to Tenant's personal property not included in the Property or for moving expenses or business interruption, provided, such award is not combined with and does not reduce the award for any taking of the Property, including Tenant's interest therein.

19. EVENTS OF DEFAULT; TERMINATION; LANDLORD'S REMEDIES

19.1. EVENTS OF DEFAULT AND TERMINATION. If any one or more of the following events ("Events of Default") shall occur:

- (a) if Tenant shall fail to pay any Basic Rent, Additional Rent, or other sum payable hereunder by Tenant within 15 days following the date such sum is due and payable; or
- (b) if Tenant shall fail to perform or comply with any term hereof other than the payments covered pursuant to section 19.1(a) above, and such failure shall continue for more than 30 days after receipt of written notice thereof from Landlord or if such default cannot reasonably be corrected within such 45 day period, if Tenant shall fail, within such period, to commence with due diligence and dispatch to cure such default and thereafter to prosecute and complete with due diligence and dispatch the curing of such default; or
- (c) if Tenant shall file a petition in bankruptcy or for reorganization or for an arrangement pursuant to any present or future federal or state bankruptcy law or under any similar federal or state law, or shall be adjudicated a bankrupt or insolvent or shall make an assignment for the benefit of its creditors or shall admit in writing its inability to pay its debts generally as they become due, or if a petition

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or answer proposing the adjudication of Tenant as a bankrupt or its reorganization under any present or future federal or state bankruptcy law or any similar federal or state law shall be filed in any court and Tenant shall have consented to or acquiesced therein; or

- (d) if an involuntary petition in bankruptcy or for a reorganization or for the appointment of a receiver or trustee of all or substantially all of the property of Tenant shall be filed in any court and the same shall not be dismissed or discharged within sixty (60) days of the date of such filing; or
- (e) if a receiver, trustee or liquidator of Tenant or of all or substantially all of the assets of Tenant shall be constituted or appointed in any proceeding brought by Tenant, or if any such receiver, trustee or liquidator shall be appointed in any proceeding brought against Tenant and shall not be discharged within sixty (60) days after such appointment, or if Tenant shall consent to or acquiesce in such appointment;

then and in any such event Landlord at any time thereafter may either (i) without further demand or notice enter into and upon the Property or any part thereof in the name of the whole and by such entry terminate this Lease or (ii) give a written termination notice to Tenant specifying a date, not less than 30

days from the date of giving such notice, on which this Lease shall terminate, and on such date the term of this Lease shall expire and terminate by limitation and all rights of Tenant under this Lease shall cease, unless the default(s) permitting such termination shall have been cured before the termination date specified in such notice.

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19.2. REMEDIES OF LANDLORD. In the event of a termination of this Lease pursuant to Section 19.1, Tenant covenants that, in case of such termination or in case of termination under the provisions of statute by reason of the default of Tenant, Tenant will, at the election of Landlord (which election may be made at any time), either:

- (a) pay to Landlord, on account of the unexpired portion of the term, sums equal to the Basic Rent and Additional Rent at the same times and in the same installments as such payments would be due hereunder. If the Property or any portion thereof shall have been relet, the sums so payable by Tenant shall be abated in an amount equal to the excess of moneys actually received from the new lessee over Landlord's reasonable expenses of such reletting, including, without limiting the generality of the foregoing, the cost of remodeling and attorneys' and realtors' fees; or
- (b) pay to Landlord, as liquidated damages, a sum which at the time of such termination represents the present value of the difference between the Basic Rent and Additional Rent for the residue of the term and the then current rental value of the Property for the same period.

Nothing herein contained shall limit or prejudice the right of Landlord to prove for and obtain in proceedings for bankruptcy or insolvency by reason of termination, an amount equal to the maximum allowed by any statute or rule of law in effect at the time when, and governing the proceedings in which, the damages are to be proved, whether or not the amount be greater, equal to, or less than the amount of the loss or damage referred to above.

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19.3. RELETTING OF PROPERTY. In case of any termination of this Lease by re-entry, expiration or dispossession by summary proceedings or otherwise, Landlord may (i) relet the Property, or any part or parts thereof, for a term or

terms which may at Landlord's option be equal to or less than or exceed the period which would otherwise have constituted the balance of the term of this Lease and may grant concessions to the extent that Landlord, in its reasonable judgment, considers advisable or necessary to relet the same and (ii) make such alterations and repairs to the Property as Landlord, in its reasonable judgment, considers advisable or necessary for the purpose of reletting the Property; and the making of such alterations and repairs shall not operate or be construed to release Tenant from any liability hereunder. Landlord shall not be liable for failure to relet the Property, or, in the event that the Property is relet, for failure to collect the rent under such reletting, provided that Landlord uses reasonable efforts to relet the Property and to collect such rent.

19.4. LANDLORD'S RIGHT TO CURE. If Tenant shall default in the performance or observance of any agreement, condition or other provision in this Lease contained on its part to be performed or observed, Landlord may, at its option, without waiving any claim for breach of this Lease, at any time thereafter upon not less than forty-five (45) days' advance written notice to Tenant, cure such default at the expense of Tenant. However, if it is necessary in the reasonable judgment of Landlord to protect the real estate or Landlord's interest therein or to prevent injury or damage to persons or property that certain action be taken in less than such period to cure, Landlord shall have the right to immediately cure such default on behalf of Tenant at Tenant's expense. If by reason of any breach Landlord is compelled to pay, or reasonably elects to pay, any sum of money

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or do any act which will require the payment of any sum of money, or incurs any reasonable expense, including reasonable attorneys' fees, in instituting or prosecuting any proceeding to enforce Landlord's rights hereunder, any reasonable amounts so paid or paid on account of such expense shall be deemed to be due from Tenant to Landlord as Additional Rent within fifteen (15) days following demand therefor by Landlord and interest thereon shall accrue commencing on the date of payment at the Default Rate until Landlord is reimbursed by Tenant for such amounts.

19.5. WAIVER OF REDEMPTION. Tenant hereby waives and surrenders all rights and privileges which it might have under or by reason of any present or future New Hampshire law to redeem the Property or to have a continuance of this Lease after the term hereof has been terminated, or Tenant has been dispossessed or ejected therefrom, by process of law, or pursuant to the terms of this Lease or otherwise.

20. ESTOPPEL CERTIFICATES

20.1. BY TENANT. Tenant will execute, acknowledge and deliver to Landlord, promptly upon request, a certificate in the form attached hereto as Exhibit B, certifying (a) that this Lease is unmodified and in full force and effect (or, if there have been modifications, that the Lease is in full force and effect, as modified, and stating the modifications), (b) the dates, if any, to which the Basic Rent has been paid, (c) whether or not there are then

existing any offsets or defenses against the enforcement of any term hereof on the part of Tenant to be performed or complied with (and, if so, specifying the same), and (d) that no notice has been received by Tenant of any default which has not been cured.

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20.2. BY LANDLORD. Landlord will execute, acknowledge and deliver to Tenant, promptly upon request, a certificate certifying (a) that this Lease is unmodified and in full force and effect (or, if there have been modifications, that this Lease is in full force and effect, as modified, and stating the modifications), (b) the dates, if any, to which the Basic Rent, and other sums payable hereunder have been paid, and (c) whether or not there are, to the knowledge of Landlord, then existing any defaults under this Lease (and, if so, specifying the same).

21. NO WAIVER, ETC.

No failure by Landlord or Tenant to insist upon the strict performance of any term hereof or to exercise any right, power or remedy consequent upon a breach thereof, and no acceptance of full or partial rent during the continuance of any such breach, shall constitute a waiver of any such breach or of any such term. No waiver of any breach shall affect or alter this Lease, which shall continue in full force and effect, or the rights of Landlord or Tenant with respect to any other then existing or subsequent breach.

22. REMEDIES, ETC., CUMULATIVE

Each right, power and remedy of Landlord provided for in this Lease or now or hereafter existing at law or in equity or by statute or otherwise shall be cumulative and concurrent and shall be in addition to every other right, power or remedy provided for in this Lease or now or hereafter existing at law or in equity or by statute or otherwise, and the exercise or beginning of the exercise by Landlord of any one or more of the rights, powers or remedies provided for in this Lease or now or hereafter existing at law or in equity or by statute or otherwise shall not preclude the simultaneous or later exercise by Landlord of any or all such other rights, powers or remedies.

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23. ACCEPTANCE OF SURRENDER

No modification, termination or surrender of this Lease or surrender of the Property or any part thereof or of any interest therein by Tenant shall be valid or effective unless agreed to and accepted in writing by Landlord, and no act by any representative or agent of Landlord, other than such a written agreement and acceptance by Landlord, shall constitute an acceptance thereof.

24. CONVEYANCE BY LANDLORD

In case the original Landlord hereunder, or any successor Landlord shall convey or otherwise dispose of its entire interest hereunder, such original Landlord or successor Landlord, as the case may be, shall thereupon be released from all liabilities and obligations of the Landlord under this Lease occurring after the time of such conveyance or disposition and all such liabilities and obligations shall thereupon become binding upon the new Landlord.

25. ASSIGNMENT; SUBLEASE.

Tenant may not assign this Lease or sublet the Property, in whole or in part, or permit the same, whether by operation of law or otherwise, without obtaining, in each instance, the prior written consent of Landlord. Landlord's consent in one instance hereunder shall not relieve Tenant of the requirement of obtaining Landlord's consent in any other instance.

26. LIMITATION OF LIABILITY

Tenant specifically agrees to look solely to Landlord's then equity interest in the Property, at the time owned, for recovery of any judgment from Landlord, it being specifically agreed that Landlord (original or successor) shall never be personally liable for any such judgment, or for the payment of any monetary obligation to Tenant. The provision contained in the foregoing sentence

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is not intended to, and shall not, limit any right that Tenant might otherwise have to obtain injunctive relief against Landlord or Landlord's successors in interest, or to take any action not involving the personal liability of Landlord (original or successor) to respond in monetary damages from Landlord's assets other than Landlord's equity interest in the Property. In no event shall Landlord be liable to Tenant for indirect or consequential damages.

27. NOTICE TO MORTGAGEE

After receiving notice from any person, firm or other entity that it holds a mortgage which includes the Property, or any part thereof, as part of the mortgaged premises, no notice from Tenant to Landlord shall be effective unless and until a copy of the same is given to such holder (provided Tenant shall have been furnished with the name and address of such holder), and the curing of any of Landlord's defaults by such holder shall be treated as performance by Landlord.

28. ASSIGNMENT OF RENTS

With reference to any assignment by Landlord of Landlord's interest in

this Lease, or the rents payable hereunder, conditional in nature or otherwise, which assignment is made to the holder of a mortgage of property which includes the Property or any part thereof, Tenant agrees that the execution thereof by Landlord, and the acceptance thereof by the holder of such mortgage, shall never be treated as an assumption by such holder of any of the obligations of Landlord hereunder unless such holder shall, by notice sent to Tenant, specifically otherwise elect and that, except as aforesaid, such holder shall be treated as having assumed Landlord's obligations hereunder only upon foreclosure of such holder's mortgage or the taking of possession of the Property.

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29. SUBORDINATION, NON-DISTURBANCE AND ATTORNMENT.

29.1. BY TENANT. Tenant will, on request from time to time by one or more holders of a mortgage that may hereafter be placed upon the Property or any part thereof, subordinate this Lease and all of Tenant's rights and estate hereunder to each such mortgage, and agree with each such holder that Tenant will attorn to and recognize such holder or the purchaser at any foreclosure sale or any sale under a power of sale contained in any such mortgage as Landlord under this Lease for the balance of the then remaining term of this Lease, subject to all of the terms and provisions of this Lease; provided, however, that each such holder agrees to recognize the rights of the Tenant hereunder and not to disturb the possession of the Tenant hereunder, upon any such foreclosure or other sale, such agreement to be in the customary form and reasonably satisfactory to both parties.

29.2. BY LANDLORD. If the holder of any mortgage on the Property or any part thereof executed and recorded prior to the date of this Lease shall so elect, this Lease, and the rights of Tenant hereunder, shall be superior in rights to the rights of such mortgagee, with the same force and effect as if this Lease had been executed, delivered and recorded, or a statutory notice hereof recorded, prior to the execution, delivery and recording of such mortgage. Any such election shall become effective upon either notice from such mortgagee to Tenant in the same fashion as notices from Landlord to Tenant are to be given hereunder, or by the recording in the appropriate registry of deeds of an instrument in which such mortgagee subordinates its rights under such mortgage to this Lease.

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30. END OF TERM

Upon the expiration or other termination of this Lease, Tenant shall quit and surrender to Landlord the Property, broom clean, in the same order and condition as on the date hereof, or as it may be put in during the Term, ordinary wear and tear and damage by fire or other casualty and Taking excepted, and Tenant shall remove all of Tenant's Equipment therefrom no later than the

expiration or other termination of the Lease.

31. QUIET ENJOYMENT

Landlord agrees that if Tenant shall pay the rent and perform, fulfill and observe the other obligations and liabilities of Tenant herein, Tenant shall peacefully and quietly have, hold and enjoy the Property without any manner of hindrance or molestation by Landlord or anyone lawfully claiming by, through or under Landlord.

32. NOTICE OF LEASE

Landlord and Tenant are, simultaneously with the execution and delivery of this Lease, executing a Notice of Lease in recordable form which Tenant may record at Tenant's sole cost and expense in the appropriate registry of deeds.

33. NO BROKER REPRESENTATION

Landlord and Tenant represent and warrant each to the other that they have dealt with no broker in connection with this Lease or the transactions contemplated hereby or referred to herein. Landlord and Tenant hereby each agree to indemnify the other and to hold it harmless from and against any and all loss, liability, claim, cost or expense (including, without limitation,

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reasonable attorneys' fees) arising from a breach of the aforesaid representation and warranty by Landlord or Tenant, as the case may be.

34. CERTAIN DEFINITIONS

As used in this Lease the following terms have the following respective meanings:

BASIC RENT: the basic rent due and payable pursuant to Section 2.1 hereof.

DEFAULT: any condition which constitutes or which, after notice or lapse of time or both, would constitute an Event of Default.

DEFAULT RATE: an annual rate of interest equal to the lesser of (a) the maximum rate of interest permitted under applicable law and (b) two (2%) percentage points above the publicly announced base rate of BankBoston, Boston, Massachusetts, in effect from time to time.

ESCROWED FUNDS: any insurance proceeds or awards as a result of a Taking that are received by Landlord from time to time during the Term (and any interest earned thereon), which Landlord is holding for the purposes specified in Section 17 or Section 18 above, provided that the Escrowed Funds shall be held in an interest bearing account.

EVENT OF DEFAULT: as defined in Section 19.1 of this Lease.

IMPOSITIONS: all taxes, assessments (including, without limitation, all assessments for public improvements or betterments, whether or not commenced or completed prior to the date hereof), ground water, sewer or other rents, rates and charges, excises, levies, license fees, permit fees, inspection fees and other authorization fees and other charges, in each case whether general or special, ordinary or extraordinary, foreseen or unforeseen, of every character (including all interest and penalties thereon), which at any time during or in respect of the Term may be

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assessed, levied, confirmed or imposed on or in respect of or be a lien upon (a) the Property or any part thereof or any rent therefrom or any estate, right or interest therein, or (b) any occupancy, use or possession of or activity conducted on the Property or any part thereof, other than any income or excess profits tax of Landlord determined on the basis of its general income or revenues, provided, however, that, if at any time during the Term the methods of taxation prevailing at the commencement of the Term shall be altered so that in addition to or in lieu of or as a substitute for the whole or any part of the taxes now levied, assessed or imposed on real estate as such, there shall be levied, assessed or imposed (i) a tax on the rents received from such real estate, or (ii) a license fee measured by the rents receivable by Landlord for the Property or any portion thereof, or (iii) a tax or license fee imposed upon Landlord which is otherwise measured by or based in whole or in part upon rents of the Property or any portion thereof, then the same shall be included in the computation of taxes, computed as if the amount of such tax or fee so payable were that due if the Property were the only property of Landlord subject thereto.

INDEMNIFIED PARTY: Landlord and any holder of a first mortgage on the Property, and its and their respective officers, directors, agents and employees.

INSURANCE REQUIREMENTS: all terms of any insurance policy covering or applicable to the Property or any part thereof, all requirements of the issuer of any such policy, and all orders, rules, regulations and other requirements of the National Board of Fire Underwriters (or any other body exercising similar functions) applicable to or affecting the Property or any part thereof or any use or condition of the Property or any part thereof.

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LEGAL REQUIREMENTS: all laws, statutes, codes, acts, ordinances, orders, judgments, decrees, injunctions, rules, regulations, permits, licenses, authorizations, directions and requirements of and agreements with all

governments, departments, commissions, boards, courts, authorities, agencies, officials and officers, foreseen or unforeseen, ordinary or extraordinary, which now or at any time hereafter may be applicable to the Property or any part thereof, or any of the adjoining sidewalks, streets or ways, or any use or condition of the Property or any part thereof.

LOAN: the loan evidenced by the Note.

LOCKOUT PERIOD EXPIRATION DATE: Lockout Period Expiration Date as defined in the Note.

MORTGAGE: the Mortgage, Assignment of Leases & Rents and Security Agreement given by Landlord to secure its obligations under the Note.

MORTGAGEE: the holder of the Note secured by the Mortgage.

NOTE: the Mortgage Note in the amount of Twelve Million (\$12,000,000.00) Dollars made by Birch Pond Realty Corporation d/b/a in the State of New Hampshire as BPRC to the order of John Hancock Real Estate Finance, Inc. ("Hancock") dated March 1, 1999;

OPTION PRICE: the greater of (i) the fair market value of the Property on the date of the Tenant's Exercise Notice, as determined pursuant to Section 40.3 below, or (ii) the amount (the "Loan Prepayment Amount") required to pay the Loan in full on the Closing Date, as defined in Section 40.2 below.

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TENANT'S EQUIPMENT: all machinery, apparatus, furniture, furnishings and other equipment and all temporary or removable auxiliary structures installed by Tenant in or about the Property or any part thereof.

TAKING: a taking during the Term of all or any part of the Property, or any interest therein or right accruing thereto, as the result of, or a deed in lieu or in anticipation of, the exercise of the right of condemnation or eminent domain, or a change of grade affecting the Property or any part thereof.

35. NOTICES, ETC.

All notices and other communications hereunder shall be in writing and shall be deemed to have been given when delivered or within 4 days of being mailed by first class registered or certified mail, postage prepaid, addressed:

- (a) if to Tenant, DM Management Company, 25 Recreation Park Drive, Hingham, MA 02043 Attn: Chief Financial Officer, or at such other address as Tenant shall have furnished to Landlord in writing, or
- (b) if to Landlord, to Birch Pond Realty Corporation, 25

Recreation Park Drive, Hingham, MA 02043 Attn: Treasurer, or at such other address as Landlord shall have furnished to Tenant in writing.

36. ENVIRONMENTAL MATTERS.

36.1. HAZARDOUS MATERIAL. Tenant shall not use, generate, store, transport or dispose of Hazardous Materials on, under, about, or from the Property (collectively, "HAZARDOUS MATERIALS ACTIVITIES") except in accordance with Legal Requirements. Landlord shall not be liable to

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Tenant for any loss, cost, expense, claims, damage or liability arising out of any Hazardous Materials Activities by Tenant, Tenant's employees, agents, contractors, licensees, customers or invitees and Tenant shall indemnify and defend Landlord, and hold Landlord harmless, in accordance with the provisions of Section 36.2 below, from and against any and all loss, costs, expenses, claims, damages or liabilities (hereinafter "Environmental Losses") arising out of all Hazardous Materials Activities on the Property. For purposes hereof, "Hazardous Materials" shall mean any hazardous or toxic wastes, hazardous or toxic substances or hazardous or toxic materials, and shall include but not be limited to substances defined as "HAZARDOUS SUBSTANCES", "TOXIC SUBSTANCES", or "HAZARDOUS WASTES" in the federal Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended; the federal Hazardous Materials Transportation Act, as amended; and the federal Resource Conservation and Recovery Act, as amended ("RCRA"); those substances defined as "hazardous materials" or "hazardous wastes" under the laws of the State of New Hampshire and those substances so defined in any other Legal Requirements. If Tenant's activities violate any Legal Requirements with respect to Hazardous Materials, Tenant shall cease such activities immediately upon notice from Landlord. Tenant shall immediately notify Landlord both by telephone and in writing of any spill, discharge or release of Hazardous Materials in or about the Property or of any condition in or about the Property constituting an "IMMINENT HAZARD" under any Legal Requirement. Landlord, Landlord's representatives and employees may enter the Property at any reasonable time, and on reasonable notice, to inspect Tenant's compliance herewith.

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36.2. ENVIRONMENTAL INDEMNIFICATION. Tenant hereby agrees to assume liability for and to pay, indemnity, defend, and hold harmless each and every Indemnified Party from and against any and all Environmental Losses, subject only to the provisions of Sections 3.6.2 below.

36.2.1 ASSUMPTION OF DEFENSE. If an Indemnified Party notifies Tenant of any claim, demand, action, administrative or legal proceeding, investigation

or allegation as to which the indemnity provided for in this Section 36.2 applies, Tenant shall assume on behalf of the Indemnified Party and conduct with due diligence and in good faith the investigation and defense thereof and the response thereto with counsel selected by Tenant but reasonably satisfactory to the Indemnified Party; provided, that the Indemnified Party shall have the right to be represented by advisory counsel of its own selection and at its own expense; and provided further, that if any such claim, demand, action, proceeding, investigation or allegation involves both Tenant and the Indemnified Party and the Indemnified Party shall have been advised in writing by counsel that there may be legal defenses available to it which are inconsistent with those available to Tenant, then the Indemnified Party shall have the right to select separate counsel to participate in the investigation and defense of and response to such claim, demand, action, proceeding, investigation or allegation on its own behalf, and Tenant shall pay or reimburse the Indemnified Party for all reasonable attorney's fees incurred by the Indemnified Party because of the selection of such separate counsel.

36.2.2 DEFENSE BY INDEMNIFIED PARTY. If any claim, demand, action, proceeding, investigation or allegation arises as to which the indemnity provided for in this Section 36.2 applies, and Tenant fails to assume promptly (and in any event within fifteen (15) days after being

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notified of the claim, demand, action, proceeding, investigation or allegation) the defense of the Indemnified Party, then the Indemnified Party may contest (or settle, with the prior written consent of Tenant, which consent will not be unreasonably withheld) the claim, demand, action, proceeding, investigation or allegation at Tenant's expense using counsel selected by the Indemnified Party.

36.2.3 NOTICE OF ENVIRONMENTAL LOSSES. If an Indemnified Party receives a written notice of Environmental Losses that such Indemnified Party believes are covered by this Section 36.2, then such Indemnified Party will be expected to promptly furnish a copy of such notice to Tenant. The failure to so provide a copy of the notice to Tenant shall not excuse Tenant from its obligations under this Section 36.2; provided, that if Tenant is unaware of the matters described in the notice and such failure renders unavailable defenses that Tenant might otherwise assert, or precludes actions that Tenant might otherwise take, to minimize its obligations hereunder, then Tenant shall be excused from its obligation to indemnify such Indemnified Party against Environmental Losses, if any, which would not have been incurred but for such failure. For example, if Landlord fails to provide Tenant with the required notice of an obligation covered by the indemnity set out in Section 36.2 and Tenant is not otherwise already aware of such obligation, and if as a result of such failure Landlord becomes liable for penalties and interest covered by the indemnity in excess of the penalties and interest that would have accrued if Tenant had been promptly provided with a copy of the notice, then Tenant will be excused from any obligation to Landlord to pay the excess.

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36.2.4. RIGHTS CUMULATIVE. The rights of each Indemnified Party under this Section 36.2 shall be in addition to any other rights and remedies of such Indemnified Party against Tenant under the other provisions of this Lease or under any other document or instrument now or hereafter executed by Tenant, or at law or in equity.

36.2.5. SURVIVAL OF THE INDEMNITY. Tenant's obligations under this Section 36.2 shall survive the termination or expiration of this Lease.

37. FORCE MAJEURE.

Whenever in this Lease either party is required to perform, fulfill or observe any agreement set forth herein (other than payment of money), delays caused by or resulting from act of God, war, fire, casualty, eminent domain, strike, governmental restrictions, shortage of labor or materials, collection of insurance or Taking proceeds or other cause beyond such party's reasonable control shall not be counted in determining the time when such performance, fulfillment or observance must be completed.

38. GOVERNING LAW.

This Lease shall be deemed made under, and shall be governed and construed in accordance with, the laws of the State of New Hampshire.

39. MISCELLANEOUS.

If any term of this Lease or any application thereof shall be invalid or unenforceable, the remainder of this Lease and any other application of such term shall not be affected thereby. Whenever in this Lease it is provided that any document or matter is to be satisfactory to Landlord or may be required by Landlord, it shall be deemed to mean reasonably satisfactory or

reasonably required, as the case may be, in an ordinary business sense. Any approval or consent of Landlord required hereunder shall not be unreasonably (in an ordinary business sense) withheld or delayed. This Lease may be changed, waived, discharged or terminated only by an instrument in writing signed by the party against which enforcement of such change, waiver, discharge or termination is sought. This Lease shall be binding upon and inure to the benefit of and be enforceable by the respective successors and assigns of the parties hereto. The headings in this Lease are for purposes of reference only and shall not limit or define the meaning hereof. This Lease may be executed in any number of counterparts, each of which shall be an original, but all of which shall together constitute one and the same instrument. This Lease embodies the entire agreement and understanding between the parties hereto with respect to the subject matter hereof and supersedes all prior agreements and understandings relating to the subject matter hereof.

WITNESS the execution hereof under seal the day and year first above written.

LANDLORD: BIRCH POND REALTY
CORPORATION d/b/a in
New Hampshire as BPRC

By: /s/Olga L.Conley

Name: Olga L. Conley
Title: Treasurer and Secretary

TENANT: DM MANAGEMENT COMPANY

By: /s/Olga L. Conley

Name: Olga L. Conley
Title: Chief Financial Officer

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EXHIBIT A

That certain lot or tract of land, with the buildings and improvements thereon, located in Tilton, Belknap County, New Hampshire, and being bounded and described as follows:

Beginning at the northeast corner of the described premises at land now or formerly of the State of New Hampshire and at a re-bar on the westerly sideline of Route 132, Sanborn Road:

1. S 19(Degree)20'44" E 45.87' by said Route 132 to a point; then
2. By a curve to the right having a Delta of 17(Degree)00'15", a radius of 930.00 feet, an arc distance of 276.00 feet, and a chord bearing of S 10(Degree) 50' 37" E and a chord distance of 274.99 feet by said Route to a re-bar; then
3. S 02(Degree)20'29" E 155.23' by said Route to a re-bar; then
4. S 03(Degree)47'32" W 86.83' by said Route to a re-bar; then
5. S 03(Degree)05'40" W 523.55' by said Route to a re-bar; then
6. By a curve to the left having a Delta of 01(Degree)40'53" and a radius of 11,489.16 feet, an arc distance of 337.18 feet, and a chord bearing of S 02(Degree)15' 13" W and a chord distance of 337.17 feet by said Route to a re-bar; then

7. By a curve to the left having a Delta of 02(Degree)59'59" and a radius of 11,492.87 feet, an arc distance of 601.71 feet, and a chord bearing of S 01(Degree) 03' 20" W and a chord distance of 601.64 feet, by said Route to a re-bar; then
8. By a curve to the left having a Delta of 01(Degree)52'45" and a radius of 11,501.15 feet, an arc distance of 377.22 feet, and a chord bearing of S 02(Degree) 31' 31" W and a chord distance of 377.20 feet, by said Route to a re-bar; then
9. S 03(Degree)27'54" E 248.12' by said Route to a point at now or formerly of Oliver; then
10. S 89(Degree)39'25" W 287.08' by said land of Oliver to a re-bar, then
11. S 08(Degree)48'25" W 225.00' by said land of Oliver to a re-bar; then
12. S 08(Degree)48'25" W, a distance of 20.00' to a point at land now or formerly of the State of New Hampshire; then

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13. N70(Degree)50'37"W 54.78' by land of the State; then
14. N 81(Degree)42'19" W 58.01' by land of the State; then
15. S 82(Degree)53'59" W142.27' by land of the State; then
16. S76(Degree)57'22"W 157.00' by land of the State; then
17. S 89(Degree)46'48"W 67.18' by land of the State; then
18. N65(Degree)59'17"W 79.43' by land of the State; then
19. N47(Degree)43'27"W 87.84' by land of the State; then
20. N27(Degree)29'46"W 83.28' by land of the State; then
21. S73(Degree)59'49"W 53.30' by land of the State; then
22. N45(Degree)19'18"W 43.24' by land of the State; then
23. N26(Degree)13'08" W16.85'by land of the State; then
24. S83(Degree)49'28"W 29.65' by land of the State; then
25. N60(Degree)40'11"W 56.97' by land of the State; then

26. N38 (Degree) 05'58"W 37.81' by land of the State; then
27. N60 (Degree) 17'32"W 38.15' by land of the State; then
28. N31 (Degree) 50'23"W 27.09' by land of the State; then
29. N74 (Degree) 42'14"W 22.80' by land of the State; then
30. S74 (Degree) 47'09" W 91.21' by land of the State; then
31. N87 (Degree) 39'11"W 149.12' by land of the State; then
32. S72 (Degree) 41'13"W 67.05' by land of the State; then
33. N72 (Degree) 57'33" W 454.56' by land of the State; then
34. N29 (Degree) 36'39"W 498.10' by land of the State; then

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35. N29 (Degree) 36'39"W 56.30' by land of the State; then
36. N16 (Degree) 46'49"W 348.61' by land of the State to a concrete bound; then
37. N14 (Degree) 31'44"E 885.88' by land of the State to a concrete bound; then
38. N58 (Degree) 29'32"E 430.73' by land of the State to a re-bar; then
39. N05 (Degree) 11'37"W 335.93' by land of the State to a re-bar; then
40. S76 (Degree) 46'28"W 55.90' by land of the State to a concrete bound; then
41. N85 (Degree) 46'21"W 3.96' by land of the State to a point at land now or formerly of DM Management Company ("DM") ; then
42. N66 (Degree) 32'51"E 1044.50 feet by land of said DM, then
43. N85 (Degree) 07'38"E 305.57' by land of said DM to a stone wall; then
44. S25 (Degree) 23'01"E 51.24' by land now or formerly of Miller and said wall to a re-bar at land of the State; then
45. S66 (Degree) 06'34"W 50.17' by land of the State and a stone wall to a drill hole in the wall; then
46. S21 (Degree) 06'31"E 95.43' by land of the State; then

47. S18(Degree)16'00"E 175.19' by land of the State to a re-bar; then
48. N69(Degree)11'55"E 499.88' by land of the State to the point of beginning.

Meaning and intending to describe and convey the land shown on Plan entitled, "ALTA/ACSM LAND TITLE SURVEY, Plan of Land Prepared for DM Management Company, Route 132 (Sanborn Road), Tilton, NH," dated November 19, 1998, by Yerkes Surveying Consultants and recorded in the Belknap County Registry of Deeds (the "Registry") on February 16, 1999, in Drawer L-31 #'s 61 and 62.

DM MANAGEMENT COMPANY

AMENDED AND RESTATED
1993 INCENTIVE AND NONQUALIFIED STOCK OPTION PLAN

SECTION 1. PURPOSE

This Amended and Restated 1993 Incentive and Nonqualified Stock Option Plan (the "Plan") of DM Management Company (the "Company"), is designed to provide additional incentive to executives and other key employees of the Company, and any parent or subsidiary of the Company, and for certain other individuals providing services to or acting as directors of the Company or any such parent or subsidiary. The Company intends that this purpose will be effected by the granting of incentive stock options ("Incentive Stock Options") as defined in Section 422 of the Internal Revenue Code of 1986, as amended (the "Code"), and nonqualified stock options ("Nonqualified Options") under the Plan which afford such executives, key employees or other individuals an opportunity to acquire or increase their proprietary interest in the Company through the acquisition of shares of its Common Stock. The Company intends that Incentive Stock Options issued under the Plan will qualify as "incentive stock options" as defined in Section 422 of the Code and the terms of the Plan shall be interpreted in accordance with this intention. The terms "parent" and "subsidiary" shall have the respective meanings set forth in Section 424 of the Code.

SECTION 2. ADMINISTRATION

2.1 THE COMMITTEE. The Plan shall be administered by the Compensation Committee of the Board of Directors (the "Board") or another committee consisting of at least two members of the Company's Board (in either case, the "Committee"). None of the members of the Committee shall be an officer or other employee of the Company. It is the intention of the Company that the Plan shall be administered by "Non-Employee Directors" within the meaning of Rule 16b-3 under the Securities Exchange Act of 1934 and by "outside directors" within the meaning of Section 162(m) of the Code and the regulations promulgated thereunder, but the authority and validity of any act taken or not taken by the Committee shall not be affected if any person administering the Plan is not a "Non-Employee Director" or "outside director." Except as specifically reserved to the Board under the terms of the Plan, the Committee shall have full and final authority to operate, manage and administer the Plan on behalf of the

Company. Action by the Committee shall require the affirmative vote of a majority of all members thereof.

2.2 POWERS OF THE COMMITTEE. Subject to the terms and conditions of the Plan, the Committee shall have the power:

(a) To determine from time to time the persons eligible to receive options and the options to be granted to such persons under the Plan and to prescribe the terms, conditions, restrictions, if any, and provisions (which need not be identical) of each option granted under the Plan to such persons;

(b) To construe and interpret the Plan and options granted thereunder and to establish, amend, and revoke rules and regulations for administration of the Plan. In this connection, the Committee may correct any defect or supply any omission, or reconcile any inconsistency in the Plan, or in any option agreement, in the manner and to the extent it shall deem necessary or expedient to make the Plan fully effective. All decisions and

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determinations by the Committee in the exercise of this power shall be final and binding upon the Company and optionees;

(c) To make, in its sole discretion, changes to any outstanding option granted under the Plan, including:

(i) to reduce the exercise price, (ii) to accelerate the vesting schedule or (iii) to extend the expiration date; and

(d) Generally, to exercise such powers and to perform such acts as are deemed necessary or expedient to promote the best interests of the Company with respect to the Plan.

SECTION 3. STOCK

3.1 STOCK TO BE ISSUED. The stock subject to the options granted under the Plan shall be shares of the Company's authorized but unissued common stock, \$.01 par value (the "Common Stock"), or shares of the Company's Common Stock held in treasury. The total number of shares that may be issued pursuant to options granted under the Plan shall not exceed an aggregate of 2,400,000 shares of Common Stock; provided, however, that the class and aggregate number of shares which may be subject to options granted under the Plan shall be subject to adjustment as provided in Section 8 hereof.

3.2 EXPIRATION, CANCELLATION OR TERMINATION OF OPTION. Whenever any outstanding option under the Plan expires, is cancelled or is otherwise terminated (other than by exercise), the shares of Common Stock allocable to the unexercised portion of such option may again be the subject of options under the Plan.

3.3 LIMITATION ON GRANTS. In no event may any person be granted options under the Plan in any calendar year to purchase more than 150,000 shares of Common Stock. The number of shares

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of Common Stock issuable pursuant to an option granted under the Plan that is subsequently forfeited, cancelled or otherwise terminated shall continue to count toward the foregoing limitation in the calendar year of grant. In addition, for purposes of applying the foregoing limitation, if the exercise price of an option granted under the Plan is subsequently reduced, the transaction shall be deemed a cancellation of the original option and the grant of a new one.

SECTION 4. ELIGIBILITY

4.1 PERSONS ELIGIBLE. Incentive Stock Options under the Plan may be granted only to officers and other employees of the Company or any parent or subsidiary of the Company. Nonqualified Options may be granted to officers or other employees of the Company or any parent or subsidiary of the Company, and to members of the Board and consultants or other persons who render services to the Company or any such parent or subsidiary (regardless of whether they are also employees), provided, however, that options may be granted to members of the Board who are not employees of the Company or any such parent or subsidiary ("Outside Directors") only as provided in Section 4.4.

4.2 GREATER-THAN-TEN-PERCENT STOCKHOLDERS. Except as may otherwise be permitted by the Code or other applicable law or regulation, no Incentive Stock Option shall be granted to an individual who, at the time the option is granted, owns (including ownership attributed pursuant to Section 425 of the Code) more than ten percent of the total combined voting power of all classes of stock of the Company or any parent or subsidiary (a "greater-than-ten-percent stockholder"), unless such Incentive Stock Option provides that (i) the purchase price per share shall not be less than one hundred ten percent of the fair market value of the Common Stock at the time such option is granted, and (ii) that such option shall not be exercisable to any extent after the expiration of five years from

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the date it is granted.

4.3 MAXIMUM AGGREGATE FAIR MARKET VALUE. The aggregate fair market value (determined at the time the option is granted) of the Common Stock with respect to which Incentive Stock Options are exercisable for the first time by any optionee during any calendar year (under the Plan and any other plans of the Company or any parent or subsidiary for the issuance of incentive stock options) shall not exceed \$100,000 (or such greater amount as may from time to time be permitted with respect to incentive stock options by the Code or any other applicable law or regulation).

4.4 OPTION GRANTS TO OUTSIDE DIRECTORS.

(a) GRANT OF OPTIONS.

(i) On the date each new Outside Director first joins the Board, such Outsider Director shall automatically be granted a Nonqualified Option to purchase 20,000 shares of Common Stock. Such Nonqualified Option shall be immediately vested in full unless otherwise determined by the Committee prior to the grant of such Nonqualified Option.

(ii) On the date of each annual meeting of the Company's stockholders or special meeting in lieu thereof, each Outside Director who has served for at least six months and continues to serve at that meeting shall automatically be granted a Nonqualified Option to purchase 7,500 shares of Common Stock. Such Nonqualified Option shall be immediately vested in full.

(b) PURCHASE PRICE. The purchase price per share of Common Stock under each Nonqualified Option granted pursuant to this Section 4.4 shall be equal to the fair market value of the Common Stock on the date the Nonqualified Option is granted, such fair market value to be determined in accordance with the provisions of Section 6.3.

(c) EXPIRATION. Each Nonqualified Option granted to an Outside Director under

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this Section 4.4 shall expire on the seventh anniversary of the date of grant.

SECTION 5. TERMINATION OF EMPLOYMENT OR DEATH OF OPTIONEE

5.1 TERMINATION OF EMPLOYMENT. Except as may be otherwise expressly provided herein, options shall terminate on the earlier of:

(a) the date of expiration thereof;

(b) immediately upon the termination of the optionee's employment with or performance of services for the Company (or any parent or subsidiary of the Company) by the Company (or any such parent or subsidiary) for cause (as determined by the Company or such parent or subsidiary); or

(c) thirty days after the date of termination of the optionee's employment with or performance of services for the Company (or any parent or subsidiary of the Company) by the Company (or any such parent or subsidiary) without cause or voluntarily by the optionee; PROVIDED, that Nonqualified Options granted to persons who are not employees of the Company (or any parent or subsidiary of the Company) need not, unless the Committee determines otherwise, be subject to the provisions set forth in clauses (b) and (c) above.

An employment relationship between the Company (or any parent or subsidiary of the Company) and the optionee shall be deemed to exist during any period in which the optionee is employed by the Company (or any such parent or subsidiary). Whether authorized leave of absence, or absence on military or government service, shall constitute termination of the employment relationship between the Company (or any parent or subsidiary of the Company) and the optionee

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shall be determined by the Committee at the time thereof. As used herein, "cause" shall mean (x) any material breach by the optionee of any agreement to which the optionee and the Company (or any parent or subsidiary of the Company) are both parties, (y) any act or omission to act by the optionee which may have a material and adverse effect on the business of the Company (or any such parent or subsidiary) or on the optionee's ability to perform services for the Company (or any such parent or subsidiary), including, without limitation, the commission of any crime (other than ordinary traffic violations), or (z) any material misconduct or material neglect of duties by the optionee in connection with the business or affairs of the Company (or any such parent or subsidiary) or any affiliate of the Company (or any such parent or subsidiary).

5.2 DEATH OR RETIREMENT OF OPTIONEE. In the event of the death of the holder of an option that is subject to clause (b) or (c) of Section 5.1 above prior to termination of the optionee's employment with or performance of services for the Company (or any parent or subsidiary of the Company) and before the date of expiration of such option, such option shall terminate on the earlier of such date of expiration or one year following the date of such death. After the death of the optionee, his executors, administrators or any person or persons to whom his option may be transferred by will or by the laws of descent and distribution, shall have the right, at any time prior to such termination, to exercise the option to the extent the optionee was entitled to exercise such option at the time of his death.

If, before the date of the expiration of an option that is subject to clause (b) or (c) of Section 5.1 above, the optionee shall be retired in good standing from the Company for reasons of age or disability under the then established rules of the Company, the option shall terminate on the earlier of such date of expiration or ninety (90) days after the date of such retirement. In the event of such retirement, the optionee shall have the right prior to the termination of such option to exercise the

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option to the extent to which he was entitled to exercise such option immediately prior to such retirement.

SECTION 6. TERMS OF THE OPTION AGREEMENTS

Each option agreement shall be in writing and shall contain such terms, conditions, restrictions, if any, and provisions as the Committee shall from time to time deem appropriate. Such provisions or conditions may include without limitation restrictions on transfer, repurchase rights, or such other provisions as shall be determined by the Committee; PROVIDED THAT such additional provisions shall not be inconsistent with any other term or condition of the Plan and such additional provisions shall not cause any Incentive Stock Option granted under the Plan to fail to qualify as an incentive option within the meaning of Section 422 of the Code. The shares of stock issuable upon exercise of an option by any executive officer, director or beneficial owner of more than ten percent of the Common Stock of the Company may not be sold or transferred (except that such shares may be issued upon exercise of such option) by such officer, director or beneficial owner for a period of six months following the grant of such option.

Option agreements need not be identical, but each option agreement by appropriate language shall include the substance of all of the following provisions:

6.1 EXPIRATION OF OPTION. Notwithstanding any other provision of the Plan or of any option agreement, each option shall expire on the date specified in the option agreement, which date shall not, in the case of an Incentive Stock Option, be later than the tenth anniversary (fifth anniversary in the case of a greater-than-ten-percent stockholder) of the date on which the option was granted, or as specified in Section 5 of this Plan.

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6.2 EXERCISE. Each option may be exercised, so long as it is valid and outstanding, from time to time in part or as a whole, subject to any limitations

with respect to the number of shares for which the option may be exercised at a particular time and to such other conditions as the Committee in its discretion may specify upon granting the option.

6.3 PURCHASE PRICE. The purchase price per share under each option shall be determined by the Committee at the time the option is granted; provided, however, that the option price of any Incentive Stock Option shall not, unless otherwise permitted by the Code or other applicable law or regulation, be less than the fair market value of the Common Stock on the date the option is granted (110% of the fair market value in the case of a greater-than-ten-percent stockholder) and the option price of any Nonqualified Option shall not be less than 85% of the fair market value of the Common Stock on the date the option is granted. For the purpose of the Plan the fair market value of the Common Stock shall be the closing price per share on the date of grant of the option as reported by a nationally recognized stock exchange, or, if the Common Stock is not listed on such an exchange, as reported by the National Association of Securities Dealers Automated Quotation System ("Nasdaq") National Market System, or if the Common Stock is not listed on the Nasdaq National Market System, the mean of the bid and asked prices per share on the date of grant of the option or, if the Common Stock is not traded over the counter, the fair market value as determined by the Committee.

6.4 TRANSFERABILITY OF OPTIONS. Options shall not be transferable by the optionee otherwise than by will or under the laws of descent and distribution, and shall be exercisable, during his lifetime, only by him/her.

6.5 RIGHTS OF OPTIONEES. No optionee shall be deemed for any purpose to be the owner of any shares of Common Stock subject to any option unless and until the option shall have been

exercised pursuant to the terms thereof, and the Company shall have issued and delivered the shares to the optionee.

6.6 REPURCHASE RIGHT. The Committee may in its discretion provide upon the grant of any option hereunder that the Company shall have an option to repurchase upon such terms and conditions as determined by the Committee all or any number of shares purchased upon exercise of such option. The repurchase price per share payable by the Company shall be such amount or be determined by such formula as is fixed by the Committee at the time the option for the shares subject to repurchase is granted. In the event the Committee shall grant options subject to the Company's repurchase option, the certificates representing the shares purchased pursuant to such option shall carry a legend satisfactory to counsel for the Company referring to the Company's repurchase option.

6.7 "LOCKUP" AGREEMENT. The Committee may in its discretion specify upon granting an option that the optionee shall agree for a period of time (not

to exceed 180 days) from the effective date of any registration of securities of the Company (upon request of the Company or the underwriters managing any underwritten offering of the Company's securities), not to sell, make any short sale of, loan, grant any option for the purchase of, or otherwise dispose of any shares issued pursuant to the exercise of such option, without the prior written consent of the Company or such underwriters, as the case may be.

SECTION 7. METHOD OF EXERCISE; PAYMENT OF PURCHASE PRICE

7.1 METHOD OF EXERCISE. Any option granted under the Plan may be exercised by the optionee by delivering to the Company on any business day a written notice specifying the number of shares of Common Stock the optionee then desires to purchase and specifying the address to which the certificates for such shares are to be mailed (the "Notice"), accompanied by payment for

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such shares.

7.2 PAYMENT OF PURCHASE PRICE. Payment for the shares of Common Stock purchased pursuant to the exercise of an option shall be made either by (i) cash or check equal to the option price for the number of shares specified in the Notice, or (ii) with the consent of the Committee, other shares of Common Stock which (a) either have been owned by the optionee for more than six (6) months on the date of surrender or were not acquired, directly or indirectly, from the Company, and (b) have a fair market value on the date of surrender not greater than the aggregate option price of the shares as to which such option shall be exercised, (iii) with the consent of the Committee, delivery of such documentation as the Committee and the broker, if applicable, shall require to effect an exercise of the option and delivery to the Company of the sale or loan proceeds required to pay the option price, (iv) with the consent of the Committee, such other consideration which is acceptable to the Committee and which has a fair market value equal to the option price of such shares, or (v) with the consent of the Committee, a combination of (i), (ii) (iii), (iv) and/or (v). For the purpose of the preceding sentence, the fair market value per share of Common Stock so delivered to the Company shall be determined in the manner specified in Section 6.3. As promptly as practicable after receipt of the Notice and accompanying payment, the Company shall deliver to the optionee certificates for the number of shares with respect to which such option has been so exercised, issued in the optionee's name; provided, however, that such delivery shall be deemed effected for all purposes when the Company or a stock transfer agent of the Company shall have deposited such certificates in the United States mail, addressed to the optionee, at the address specified in the Notice.

SECTION 8. CHANGES IN COMPANY'S CAPITAL STRUCTURE

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8.1 RIGHTS OF COMPANY. The existence of outstanding options shall not affect in any way the right or power of the Company or its stockholders to make or authorize, without limitation, any or all adjustments, recapitalizations, reorganizations or other changes in the Company's capital structure or its business, or any merger or consolidation of the Company, or any issue of Common Stock, or any issue of bonds, debentures, preferred or prior preference stock or other capital stock ahead of or affecting the Common Stock or the rights thereof, or the dissolution or liquidation of the Company, or any sale or transfer of all or any part of its assets or business, or any other corporate act or proceeding, whether of a similar character or otherwise.

8.2 RECAPITALIZATION, STOCK SPLITS AND DIVIDENDS. If the Company shall effect a subdivision or consolidation of shares or other capital readjustment, the payment of a stock dividend, or other increase or reduction of the number of shares of the Common Stock outstanding, in any such case without receiving compensation therefor in money, services or property, then (i) the number, class, and price per share of shares of stock subject to outstanding options hereunder shall be appropriately adjusted in such a manner as to entitle an optionee to receive upon exercise of an option, for the same aggregate cash consideration, the same total number and class of shares as he would have received as a result of the event requiring the adjustment had he exercised his option in full immediately prior to such event; and (ii) the number and class of shares set forth in Sections 3.1, 3.3 and 4.4 shall be adjusted by substituting therefor that number and class of shares of stock that the owner of an equal number of outstanding shares of Common Stock would own as the result of the event requiring the adjustment. The number of shares set forth in Sections 3.1, 3.3 and 4.4 have been so adjusted to reflect the 3-for-2 stock split in the form of a stock dividend that was paid on June 30, 1998, and, notwithstanding the foregoing provisions, there shall be no further adjustments to such numbers to reflect such stock split.

8.3 MERGER WITHOUT CHANGE OF CONTROL. After a merger of one or more corporations into the Company, or after a consolidation of the Company and one or more corporations in which (i) the Company shall be the surviving corporation, and (ii) the stockholders of the Company immediately prior to such merger or consolidation own after such merger or consolidation shares representing at least fifty percent of the voting power of the Company, each holder of an outstanding option shall, at no additional cost, be entitled upon exercise of such option to receive in lieu of the number of shares as to which such option shall then be so exercisable, the number and class of shares of stock or other securities to which such holder would have been entitled pursuant to the terms of the agreement of merger or consolidation if, immediately prior to such merger or consolidation, such holder had been the holder of record of a number of shares of Common Stock equal to the number of shares for which such

option was exercisable.

8.4 SALE OR MERGER WITH CHANGE OF CONTROL. If the Company is merged into or consolidated with another corporation under circumstances where the Company is not the surviving corporation, or if there is a merger or consolidation where the Company is the surviving corporation but the stockholders of the Company immediately prior to such merger or consolidation do not own after such merger or consolidation shares representing at least fifty percent of the voting power of the Company, or if the Company is liquidated, or sells or otherwise disposes of substantially all of its assets to another corporation while unexercised options remain outstanding under the Plan, (i) subject to the provisions of clause (iii) below, after the effective date of such merger, consolidation, liquidation, sale or disposition, as the case may be, each holder of an outstanding option shall be entitled, upon exercise of such option, to receive, in lieu of shares of Common Stock, shares of such stock or other securities, cash or property as the holders of shares of Common Stock received pursuant to the terms of the merger, consolidation, liquidation, sale or disposition; (ii) the

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Committee may accelerate the time for exercise of all unexercised and unexpired options to and after a date prior to the effective date of such merger, consolidation, liquidation, sale or disposition, as the case may be, specified by the Committee; or (iii) all outstanding options may be cancelled by the Committee as of the effective date of any such merger, consolidation, liquidation, sale or disposition provided that (x) notice of such cancellation shall be given to each holder of an option and (y) each holder of an option shall have the right to exercise such option to the extent that the same is then exercisable or, if the Committee shall have accelerated the time for exercise of all unexercised and unexpired options, in full during the 30-day period preceding the effective date of such merger, consolidation, liquidation, sale or disposition.

8.5 ADJUSTMENTS TO COMMON STOCK SUBJECT TO OPTIONS. Except as hereinbefore expressly provided, the issue by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, for cash or property, or for labor or services, either upon direct sale or upon the exercise of rights or warrants to subscribe therefor, or upon conversion of shares or obligations of the Company convertible into such shares or other securities, shall not affect, and no adjustment by reason thereof shall be made with respect to, the number or price of shares of Common Stock then subject to outstanding options.

8.6 MISCELLANEOUS. Adjustments under this Section 8 shall be determined by the Committee, and such determinations shall be conclusive. No fractional shares of Common Stock shall be issued under the Plan on account of any adjustment specified above.

SECTION 9. GENERAL RESTRICTIONS

9.1 INVESTMENT REPRESENTATIONS. The Company may require any person to whom an option is granted, as a condition of exercising such option, to give written assurances in substance and form

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satisfactory to the Company to the effect that such person is acquiring the Common Stock subject to the option for his own account for investment and not with any present intention of selling or otherwise distributing the same, and to such other effects as the Company deems necessary or appropriate in order to comply with federal and applicable state securities laws.

9.2 COMPLIANCE WITH SECURITIES LAWS. The Company shall not be required to sell or issue any shares under any option if the issuance of such shares shall constitute a violation by the optionee or by the Company of any provisions of any law or regulation of any governmental authority. In addition, in connection with the Securities Act of 1933, as now in effect or hereafter amended (the "Act"), upon exercise of any option, the Company shall not be required to issue such shares unless the Committee has received evidence satisfactory to it to the effect that the holder of such option will not transfer such shares except pursuant to a registration statement in effect under such Act or unless an opinion of counsel satisfactory to the Company has been received by the Company to the effect that such registration is not required. Any determination in this connection by the Committee shall be final, binding and conclusive. In the event the shares issuable on exercise of an option are not registered under the Act, the Company may imprint upon any certificate representing shares so issued the following legend or any other legend which counsel for the Company considers necessary or advisable to comply with the Act and with applicable state securities laws:

The shares of stock represented by this certificate have not been registered under the Securities Act of 1933 or under the securities laws of any State and may not be sold or transferred except upon such registration or upon receipt by the Corporation of an opinion of counsel satisfactory to the Corporation, in form and substance satisfactory to the Corporation, that registration is not required for such sale or transfer.

The Company may, but shall in no event be obligated to, register any securities covered hereby pursuant to the Act; and in the event any shares are so registered the Company may remove

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any legend on certificates representing such shares. The Company shall not be obligated to take any other affirmative action in order to cause the exercise of an option or the issuance of shares pursuant thereto to comply with any law or regulation of any governmental authority.

9.3 EMPLOYMENT OBLIGATION. The granting of any option shall not impose upon the Company (or any parent or subsidiary of the Company) any obligation to employ or continue to employ any optionee; and the right of the Company (or any such parent or subsidiary) to terminate the employment of any officer or other employee shall not be diminished or affected by reason of the fact that an option has been granted to him/her.

9.4 WITHHOLDING TAX. Whenever under the Plan shares of Common Stock are to be delivered upon exercise of an option, the Company shall be entitled to require as a condition of delivery that the optionee remit an amount sufficient to satisfy all federal, state and other governmental withholding tax requirements related thereto.

SECTION 10. AMENDMENT OR TERMINATION OF THE PLAN

The Board of Directors may modify, revise or terminate this Plan at any time and from time to time, except that (i) the class of persons eligible to receive options and the aggregate number of shares issuable pursuant to this Plan shall not be changed or increased, other than by operation of Section 8 hereof, without the consent of the stockholders of the Company and (ii) the provisions of Section 4.4 shall not be amended more than once every six (6) months, other than to comport with changes in the Code, the Employee Retirement Income Security Act, or the rules thereunder.

SECTION 11. NONEXCLUSIVITY OF THE PLAN

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Neither the adoption of the Plan by the Board of Directors nor the submission of the Plan to the stockholders of the Company for approval shall be construed as creating any limitations on the power of the Board of Directors to adopt such other incentive arrangements as it may deem desirable, including, without limitation, the granting of stock options otherwise than under the Plan, and such arrangements may be either applicable generally or only in specific cases.

SECTION 12. EFFECTIVE DATE AND DURATION OF PLAN

The Plan shall become effective upon its adoption by the Board of Directors provided that the stockholders of the Company shall have approved the

Plan within twelve months prior to or following the adoption of the Plan by the Board. No option may be granted under the Plan after the tenth anniversary of the effective date. The Plan shall terminate (i) when the total amount of Common Stock with respect to which options may be granted shall have been issued upon the exercise of options or (ii) by action of the Board of Directors pursuant to Section 10 hereof, whichever shall first occur.

* * * * *

1999
INCENTIVE COMPENSATION PLAN

PURPOSE

This plan is designed to provide financial reward to key members of DM Management for their contribution toward the attainment of the company's financial goals in 1999.

PARTICIPATION

This plan is restricted to key management personnel whose performance has a measurable impact on the company's ability to achieve its financial goals. Participation in the plan and assignment of bonus percentages is made either by the Compensation Committee of the Board of Directors in the case of executive officers or by the President of the company in the case of everyone else. The Compensation Committee and the President may also award additional bonuses at their discretion.

ELIGIBILITY TO RECEIVE BONUS

- o Bonus plan participants will be eligible to receive their bonus if the company meets or exceeds its operating income (earnings before interest and taxes) goal for the performance period.
- o Participants in performance counseling will not be eligible for a bonus payout for that season.
- o Participants must be actively employed for a minimum of three months in the season for which the bonus is earned.
- o Participants must be employed on the last day of the bonus performance period.
- o Participants terminated for cause will not be eligible for bonus.

CALCULATION OF BONUS PAYMENT

To determine the amount of bonus to be paid to an individual, simply multiply the individual's bonus percentage by the base salary earnings for the performance period.

PERFORMANCE PERIOD

This plan pertains to the fiscal year ending December 25, 1999. For measurement purposes the fiscal year will be divided into two seasonal performance periods:

ADDITIONAL BONUSES

The Compensation Committee and the President may also award additional bonuses at their discretion. The criteria for eligibility, the calculation of the bonus payment and the performance period(s) for such bonuses shall all be determined at the time of the additional bonus award.

PAYMENTS

Bonus payments will be made as soon as possible after the close of the performance period (i.e.season).

EXAMPLE

Assume: Base annual salary of \$50,000 and a bonus percentage of 10%

CASE 1: The Company meets the financial plan for both seasons:

<TABLE>

<CAPTION>

	Base Salary	Bonus %	Bonus
	-----	-----	-----
<S>	<C>	<C>	<C>
Spring	\$ 25,000	10%	\$ 2,500
Fall	\$ 25,000	10%	\$ 2,500
	-----		-----
Fiscal 1999	\$ 50,000		\$ 5,000
	-----		-----

</TABLE>

CASE 2: The Company meets the Spring financial plan but not the Fall financial plan:

<TABLE>

<CAPTION>

	Base Salary	Bonus %	Bonus
	-----	-----	-----
<S>	<C>	<C>	<C>
Spring	\$ 25,000	10%	\$ 2,500
Fall	\$ 25,000	---	---
	-----		-----
Fiscal 1999	\$ 50,000		\$ 2,500

</TABLE>

SPLIT DOLLAR AGREEMENT

ALLMERICA LIFE INSURANCE

POLICY NO. V062875000

AGREEMENT made as of this 22 day of February, 1999, by and between Kevin Burns (the "Employee"), and DM Management Company, a Delaware corporation (the "Employer").

WHEREAS, the Employee wishes to establish a life insurance program for the benefit and protection of his family under Policy No. V062875000 (the "Policy") issued by Allmerica Financial Life Insurance and Annuity Company, of Worcester, Massachusetts (the "Insurer"); and

WHEREAS, the Employer wishes to help the Employee provide such insurance for the benefit and protection of his family by the payment of the premiums due on the Policy in accordance with Article 2 hereof; and

WHEREAS, the Employee will be the sole owner of the Policy, and will assign the Policy to the Employer for the purpose of providing security for the repayment of the amounts which the Employer will contribute toward payment of the premium due or to become due on the Policy pursuant to an agreement of even date to be executed by the parties hereto (the "Collateral Assignment"); and

WHEREAS, it is the desire of the parties to define the extent of the Employer's interest in the cash surrender value and death proceeds of the Policy;

NOW THEREFORE, in consideration of the mutual promises contained herein, it is agreed between the parties hereto as follows:

ARTICLE 1: OWNERSHIP OF POLICY

The Policy is the exclusive property of the Employee, who may exercise all rights of ownership with respect to his interest therein, subject to the security interest of the Employer as expressed in this Agreement and the Collateral Assignment and to any death benefit which may become due to the Employer.

ARTICLE 2: PAYMENT OF PREMIUMS

A. For the first seven (7) years the Policy is in force, or until this Agreement is earlier terminated as provided in Article 8, the Employer shall be responsible for the payment of (i) the scheduled premium, or (ii) such lesser amount as the Insurer advises is consistent with the insurance features of the

Policy. In addition, after the expiration of said seven-year period and while this Agreement is still in effect, the Employer may make such additional payments as the Insurer advises is consistent with maintaining the intended value of the Policy but only if such greater amount or

additional payments are approved by the Compensation Committee of the Employer's Board of Directors.

B. The Employee understands that he will recognize taxable income in each year with respect to the life insurance protection afforded to the Employee in accordance with Internal Revenue Service rulings and regulations.

C. The Employer shall, before the end of any grace period provided in the Policy for each premium payment, remit the annual premiums as stated in the Policy until this Agreement is terminated as provided in Article 8. If requested, the Employer shall give proof to the Employee of the timely payment of each premium.

ARTICLE 3: COLLATERAL ASSIGNMENT

To secure the repayment to the Employer of an amount equal to the aggregate amount of its premium payments under the Policy to the extent provided in Article 6, the Employee has contemporaneously with the execution of this Agreement assigned the Policy to the Employer as collateral, by means of the form of Collateral Assignment attached to this Agreement as Schedule 1. The Collateral Assignment shall not be altered, terminated or amended by Employee without the express written consent of the Employer. The parties agree to take all action necessary to cause such assignment to conform to the provisions of this Agreement.

ARTICLE 4: RIGHTS IN POLICY

A. The Employer shall have no right to borrow against the Policy.

B. The Employee, in recognition of the defined contribution provisions of this Agreement and the variable nature of the death benefits, shall have the right to allocate the aggregate account value to particular investment vehicles, subject to a right of the Employer to disapprove a particular investment vehicle which it deems inappropriate.

C. The Employee shall have the right to exchange the Policy for such other policies and/or insurers that he deems appropriate based upon the investment performance or financial condition of the Insurer, subject to the approval of the Employer, which approval shall not unreasonably be denied. Action by the Employee or the Employer to change the Policy and/or insurer pursuant to this paragraph shall not otherwise alter the rights and responsibilities of the Employer and the Employee as set forth in this

Agreement.

D. The Employer shall have no responsibility for a shortfall in the projected total return on the paid-in premiums available to provide the death benefit.

E. The Employer shall not take any action that might endanger the interest of the Employee in the Policy. The Employee shall not take any action that might endanger the interest of the Employer in the Policy.

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ARTICLE 5: EMPLOYEE'S RIGHTS IN POLICY

The Employee retains all other rights in the Policy not specifically assigned to the Employer including, but not limited to, the following rights:

A. The right to surrender the Policy as set forth in Paragraph D of the Collateral Assignment.

B. The right to change the beneficiary of the Policy, to the extent of his interest.

C. The right to select optional methods of settlement with regard to the death benefit provided in PART TWO of Article 7.

D. All other rights contained in the Policy, to the extent the exercise of such rights does not adversely affect the Employer's interest in the Policy.

ARTICLE 6: PAYMENT OF CASH SURRENDER VALUE

A. Except as set forth in this Article 6, Section B, in the event this Agreement is terminated pursuant to Section A or B of Article 8, the Employer shall have the unqualified right to receive from the Insurer a sum which is equal to the lesser of (a) the then cash surrender value as defined in the Policy or (b) the aggregate unreimbursed amount of premium payments with respect to the Policy for which the Employer was responsible pursuant to Article 2, Section A (the "Premium Reimbursement"). This amount shall be established in a written statement to the Insurer by the Employer, and the Insurer shall have the right, without liability to the Employee or his beneficiary or beneficiaries of the Policy, to rely exclusively upon such statement. The Employer shall, upon receiving such sum, release the Collateral Assignment of the Policy.

B. In the event that this Agreement is terminated pursuant to Section B of Article 8 after the occurrence of a "Terminating Event" (as defined in Section C of this Article 6), the Employer shall not be entitled to receive the

Premium Reimbursement pursuant to Section A of Article 6.

C. For purposes of this Article 6, a "Terminating Event" shall mean any of the following if it occurs within two years of a "Change in Control" (as defined in Section E of this Article 6):

(i) termination by the Employer of the Employee's employment with the Employer for any reason other than (a) the Employee's death or disability, or (b) for "Cause" (as such term is defined in Section D of this Article 6), or

(ii) Employee's resignation as an employee of the Employer, other than for reasons of disability, following a significant reduction in the nature or scope of the Employee's duties, responsibilities, authority and powers from the duties, responsibilities, authority and powers exercised by the Employee immediately prior to the Change in Control or a reduction in the Employee's annual base salary as in effect on the date of the Change in Control, except for across-the-board salary reductions similarly affecting all management personnel of the Employer (or the

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surviving entity, in the case of a merger or acquisition in which the Employer is not the surviving entity).

D. For purposes of Section C of this Article 6, "Cause" shall mean:

(i) deliberate dishonesty with respect to the Employer or any subsidiary or affiliate thereof;

(ii) conviction of a crime involving moral turpitude; or

(iii) gross and willful failure to perform a substantial portion of the Employee's duties and responsibilities as an officer of the Employer, which failure continues for more than thirty days after written notice given to the Employee pursuant to a two-thirds vote of all of the members of the Board of Directors of the Employer then in office, such vote to set forth in reasonable detail the nature of such failure.

E. For the purposes of this Article 6, "Change in Control" shall mean the occurrence of any one or more of the following events:

(i) if there is a merger or consolidation of the Employer with any other entity and the voting securities of the Employer outstanding immediately prior to such merger or consolidation do not continue to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) more than fifty percent (50%) of the combined voting power

of the voting securities of the Employer or such surviving entity immediately after such merger or consolidation, or

(ii) when any person or entity or group of persons or entities either related or acting in concert becomes the "beneficial owner" (as defined in Rule 13d-3 under the Securities Exchange Act of 1934, as amended) of securities of the Employer representing more than fifty percent (50%) of the total number of votes that may be cast for the election of directors of the Employer (any such person or entity or group of persons or entities being referred to, collectively in the case of any such group, as an "Acquiring Person"), or

(iii) if the Employer sells all or substantially all of its assets to another entity, other than in a transaction in which the voting securities of the Employer outstanding immediately prior to such transaction continue to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) more than fifty percent (50%) of the combined voting power of the voting securities of the Employer or such surviving entity immediately after such transaction, or

(iv) during any period of two consecutive years (not including any period prior to the execution of this Agreement), individuals who are Continuing Directors (as hereinafter defined) cease for any reason to constitute at least a majority of the Board of Directors of the Employer. For this purpose, a "Continuing Director" shall mean (a) an individual who was a director of the Employer at the beginning of such period or (b) any new director (other than a director designated

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by an Acquiring Person) whose election by the Board or nomination for election by the Board, a committee thereof or the Employer's stockholders was approved by a vote of a majority of the directors then still in office who either were directors at the beginning of such period or whose election or nomination for election was previously so approved; or

(v) one or more Acquiring Persons has succeeded, as the result of or in response to actual or threatened election contests, whether by settlement or otherwise, in having elected to the Board of Directors of the Employer, whether at one time or on a cumulative basis, a sufficient number of its nominees to constitute (a) more than thirty percent (30%) of the members of the Employer's Board of Directors, rounded down to the nearest whole number, if the number of directors on the Employer's Board is eight or less, or (b) more than forty percent (40%) of the members of the Employer's Board, rounded down to the nearest whole number, if the number of directors on the Employer's Board is nine or more.

ARTICLE 7: PAYMENT OF DEATH BENEFIT

In the event of the death of the Employee while the Policy and this Agreement are in force, the net proceeds of the Policy shall be divided into two parts and paid as follows:

PART ONE: To the Employer, a sum equal to the aggregate unreimbursed amount of premium payments for which the Employer was responsible pursuant to Section A of Article 2, unless Section B of Article 6 applies.

PART TWO: To the designated beneficiaries of the Employee, the remaining proceeds of the Policy.

ARTICLE 8: TERMINATION OF AGREEMENT

This Agreement shall terminate:

A. Upon surrender of the Policy by the Employee, except when the Policy is surrendered and a new policy is issued pursuant to an exchange under Article 4, Section C.

B. Upon the termination of the employment of the Employee for any reason other than retirement at or after attaining the age of 65.

C. On the death of the Employee.

ARTICLE 9: EXCHANGE OF POLICY

In the event the Employer is required to exchange the Policy under Article 4, Section C, the Employee shall execute any forms necessary or appropriate to effect such exchange including, without limitation, the surrender of the Policy, the transfer of proceeds to the new insurer and the

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execution of a new Split Dollar Agreement and Collateral Assignment. Such exchange shall qualify under Section 1035 of the Internal Revenue Code or successor provisions of similar import.

ARTICLE 10: OBLIGATIONS OF INSURER

Any payments made or action taken by the Insurer in accordance with the provisions of the Policy and the Collateral Assignment shall fully discharge it from all claims, suits, and demands of all persons whatsoever.

ARTICLE 11: MISCELLANEOUS

A. This Agreement shall be binding upon the parties hereto, their heirs, legal representative, successors and assigns.

B. This Agreement and the Collateral Assignment embody all agreements between or among the parties with respect to the Policy, and no change, alteration, or modification may be made except in writing signed by all parties hereto.

C. This Agreement shall be governed by, and construed in accordance with the provisions of, the laws of the Commonwealth of Massachusetts without regard to its principles of conflicts of laws.

D. Any dispute, controversy or claim with respect to any party's performance under this Agreement shall be settled by arbitration in accordance with the laws of The Commonwealth of Massachusetts by a single arbitrator who shall be selected by the American Arbitration Association in Boston, Massachusetts. Such arbitration shall be conducted in the City of Boston in accordance with the Commercial Arbitration Rules of the American Arbitration Association. Punitive damages shall not awarded. Judgment upon the award rendered by the arbitrator may be entered in any court having jurisdiction thereof.

IN WITNESS WHEREOF, the parties hereto have set their hand and seals effective as of the day and year first above written.

/s/ Kevin Burns

Kevin Burns, Employee

Date: February 22, 1999

DM MANAGEMENT COMPANY, Employer

By /s/ Olga L. Conley

Its Chief Financial Officer

Date: February 22, 1999

ASSIGNMENT OF LIFE INSURANCE POLICY AS COLLATERAL

A. FOR VALUE RECEIVED, the undersigned Kevin Burns (hereinafter the "Owner") hereby assigns, transfers and sets over to DM Management Company, a Delaware corporation, its successors and assigns (hereinafter the "Assignee"), the following specific rights (and only those specific rights) in and to policy number V062875000, issued by Allmerica Financial Life Insurance and Annuity Company (hereinafter the "Insurer") and any supplementary contract or contracts issued in connection therewith (said policy and any such contracts hereinafter the "Policy"), insuring the life of the Owner, subject to all terms and conditions of the Policy and to all superior liens, if any, which the Insurer may have against the Policy. The Owner, by this Assignment, and the Assignee, by acceptance of the Assignment of the Policy to it hereunder, agree to the terms and conditions contained in the Policy.

B. This Assignment is made, and the Policy is to be held as collateral security for, all rights of and obligations owed to the Assignee, now existing or hereafter arising under and pursuant to a certain Split Dollar Agreement, by and between the Owner and the Assignee of even date herewith pertaining to the Policy (hereinafter the "Agreement"). The Owner reserves all rights and powers in and to the Policy, except those specific, limited rights in the Policy granted to the Assignee hereby, as security for all rights of and obligations owed to the Assignee under the Agreement.

C. It is expressly agreed that the Assignee's interest in the Policy under and by virtue of this Assignment shall be limited to the following specific rights, and no others: (1) in the case of the death of the Owner, the right to be paid the amounts due it under PART ONE of Article 7 of the Agreement by recovering said amounts directly from the Insurer out of the net death proceeds of the Policy; (2) in the event that Agreement is terminated pursuant to Article 8, Sections A or B, the right to be paid the amount due it, if any, under Article 6 of the Agreement. Neither party shall have the right to borrow against the Policy, except that the Owner may borrow against the Policy after attaining the age of 65, so long as such borrowing shall not include funds from the Assignee's interest in the Policy.

D. Notwithstanding this Assignment, the Owner shall specifically retain all incidents of ownership in and to the Policy, including, but not limited, to: (1) in accordance with the terms of the Agreement, the right to cancel or surrender the Policy and to receive, subject to Paragraph C. 2. hereof, the surrender value thereof at any time provided by the terms of the Policy and at such other times as the Insurer may allow; (2) the right to designate and change the Policy beneficiary, with respect to the amount to be paid pursuant to PART TWO of Article 7 of the Agreement; (3) the right to elect any optional methods of settlement with regard to the death benefit under PART TWO of Article 7; (4) the right to borrow against the Policy after the Owner attains age 65, so long as such borrowing shall not include funds from the Assignee's interest in the Policy; (5) the right to designate any reallocation of unit values as permitted by the Policy subject to a right of the Assignee to disapprove a particular

allocation which it deems inappropriate; and (6) all other rights contained

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in the Policy to the extent the exercise of such rights does not adversely affect the interest of the Assignee; provided, however, that all of the foregoing rights retained by the Owner in the Policy shall be subject to the terms and conditions of the Agreement.

E. The Assignee agrees with the Owner as follows: (1) any funds received by Assignee from the Insurer which are attributable to the portion of the death benefit allocated to PART TWO of Article 7 of the Agreement shall be paid by the Assignee to the beneficiaries designated by the Owner; and (2) if the Policy is in the possession of the Assignee, the Assignee will, upon the Owner's request, forward the Policy to the Insurer, without unreasonable delay, for endorsement of any designation or change of beneficiary, any election of optional mode of settlement, or the exercise of any other right reserved by the Owner hereunder.

F. Notwithstanding anything in this Assignment to the contrary, the Insurer shall be under no obligation to monitor the obligation of the Assignee hereunder to pay to the designated beneficiaries of the Owner any amounts received from the Insurer under PART TWO of Article 7 of the Agreement after payment of PART ONE to the Assignee under the Agreement; and the Insurer shall have no obligation or liability to any person or entity if the Assignee fails to pay such amounts as required hereunder.

G. The Insurer is hereby authorized to recognize, and is protected in recognizing, the Assignee's claims to amounts due it hereunder without investigating the validity of its claim thereto, the reason for any action taken by the Assignee, the validity or accuracy of the amount of any of the liabilities of the Owner to the Assignee under the Agreement, the existence of any default therein, the giving of any notice required therein, or the application to be made by the Assignee of any amounts to be paid to the Assignee. A receipt executed solely by the Assignee for any amounts received by it from the Insurer shall be a full discharge and release of the Insurer from the obligations released thereby.

H. In furtherance hereof, the Owner appoints the Assignee his attorney-in-fact for the following purposes:

1. to receive the portion of the death benefit payable to the Assignee upon the death of the Owner under PART ONE of Article 7 of the Agreement; and
2. to receive, upon termination of the Agreement pursuant to Article 8, Sections A or B thereof, the amount, if any,

designated in Article 6, Sections A or B of the Agreement, as the case may be.

This appointment is coupled with an interest in the Assignee and shall be irrevocable so long as the Agreement remains in force.

I. The Insurer shall not comply with a request made by the Owner for cancellation or surrender of the Policy without the consent of the Assignee. Upon receipt of an assented-to request for cancellation or surrender, the Insurer shall terminate the Policy and this Assignment shall be of

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no further force or effect; provided, however, that the Insurer shall set aside and deduct from any amounts to be paid to the Owner under the terms of the Policy in consequence of its cancellation or surrender, the amount due to the Assignee under the provisions of Article 6 of the Agreement, which amount shall be paid to the Assignee by the Insurer.

J. In the event of any conflict between the provisions of this Assignment and the provisions of the Agreement with respect to the Policy or the Assignee's rights therein, the provisions of the Agreement shall prevail.

K. The Owner declares that no proceedings in bankruptcy are pending against the Owner and that the Owner's property is not subject to any assignment for the benefit of creditors of the Owner.

Signed and sealed as of the 22 day of February, 1999.

/s/ Kevin Burns

Kevin Burns, Owner

Date: February 22, 1999

Accepted and Agreed:

DM Management Company

By: /s/ Olga L. Conley

Its: Chief Financial Officer

Date: February 22, 1999

ACKNOWLEDGEMENT OF SIGNATURE OF OWNER

COMMONWEALTH OF MASSACHUSETTS)
COUNTY OF PLYMOUTH) ss:

On the 22 day of February, 1999, before me personally came Kevin Burns, to me known to be the individual described in and who executed the assignment above and acknowledged to me that he executed the same.

/s/ Patricia L. Eppich

Notary Public

My commission expires: 4/1/05

[SEAL]

PATRICIA L EPPICH

Notary Public

My Commision Expires April 1, 2005

ACKNOWLEDGEMENT OF SIGNATURE OF ASSIGNEE

COMMONWEALTH OF MASSACHUSETTS)
COUNTY OF PLYMOUTH) ss:

On the 22 day of February, 1999, before me personally came Olga L. Conley, who being by me duly sworn, did depose and say that he is the Chief Financial Officer of DM Management Company, the corporation described in and which executed the acceptance and agreement of assignment above; and that he signed his name thereto by the authority granted to his office.

/s/ Patricia L. Eppich

Notary Public

My commission expires: 4/1/05

[SEAL]

PATRICIA L EPPICH

Notary Public

My Commission Expires April 1, 2005

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SPLIT DOLLAR AGREEMENT

ALLMERICA LIFE INSURANCE

POLICY NO. V062874300

AGREEMENT made as of this 24 day of February, 1999, by and between Olga Conley (the "Employee"), and DM Management Company, a Delaware corporation (the "Employer").

WHEREAS, the Employee wishes to establish a life insurance program for the benefit and protection of his family under Policy No. V062874300 (the "Policy") issued by Allmerica Financial Life Insurance and Annuity Company, of Worcester, Massachusetts (the "Insurer"); and

WHEREAS, the Employer wishes to help the Employee provide such insurance for the benefit and protection of his family by the payment of the premiums due on the Policy in accordance with Article 2 hereof; and

WHEREAS, the Employee will be the sole owner of the Policy, and will assign the Policy to the Employer for the purpose of providing security for the repayment of the amounts which the Employer will contribute toward payment of the premium due or to become due on the Policy pursuant to an agreement of even date to be executed by the parties hereto (the "Collateral Assignment"); and

WHEREAS, it is the desire of the parties to define the extent of the Employer's interest in the cash surrender value and death proceeds of the Policy;

NOW THEREFORE, in consideration of the mutual promises contained herein, it is agreed between the parties hereto as follows:

ARTICLE 1: OWNERSHIP OF POLICY

The Policy is the exclusive property of the Employee, who may exercise all rights of ownership with respect to his interest therein, subject to the security interest of the Employer as expressed in this Agreement and the Collateral Assignment and to any death benefit which may become due to the Employer.

ARTICLE 2: PAYMENT OF PREMIUMS

A. For the first seven (7) years the Policy is in force, or until this Agreement is earlier terminated as provided in Article 8, the Employer shall be responsible for the payment of (i) the scheduled premium, or (ii) such lesser amount as the Insurer advises is consistent with the insurance features of the

Policy. In addition, after the expiration of said seven-year period and while this Agreement is still in effect, the Employer may make such additional payments as the Insurer advises is consistent with maintaining the intended value of the Policy but only if such greater amount or

additional payments are approved by the Compensation Committee of the Employer's Board of Directors.

B. The Employee understands that he will recognize taxable income in each year with respect to the life insurance protection afforded to the Employee in accordance with Internal Revenue Service rulings and regulations.

C. The Employer shall, before the end of any grace period provided in the Policy for each premium payment, remit the annual premiums as stated in the Policy until this Agreement is terminated as provided in Article 8. If requested, the Employer shall give proof to the Employee of the timely payment of each premium.

ARTICLE 3: COLLATERAL ASSIGNMENT

To secure the repayment to the Employer of an amount equal to the aggregate amount of its premium payments under the Policy to the extent provided in Article 6, the Employee has contemporaneously with the execution of this Agreement assigned the Policy to the Employer as collateral, by means of the form of Collateral Assignment attached to this Agreement as Schedule 1. The Collateral Assignment shall not be altered, terminated or amended by Employee without the express written consent of the Employer. The parties agree to take all action necessary to cause such assignment to conform to the provisions of this Agreement.

ARTICLE 4: RIGHTS IN POLICY

A. The Employer shall have no right to borrow against the Policy.

B. The Employee, in recognition of the defined contribution provisions of this Agreement and the variable nature of the death benefits, shall have the right to allocate the aggregate account value to particular investment vehicles, subject to a right of the Employer to disapprove a particular investment vehicle which it deems inappropriate.

C. The Employee shall have the right to exchange the Policy for such other policies and/or insurers that he deems appropriate based upon the investment performance or financial condition of the Insurer, subject to the approval of the Employer, which approval shall not unreasonably be denied. Action by the Employee or the Employer to change the Policy and/or insurer pursuant to this paragraph shall not otherwise alter the rights and

responsibilities of the Employer and the Employee as set forth in this Agreement.

D. The Employer shall have no responsibility for a shortfall in the projected total return on the paid-in premiums available to provide the death benefit.

E. The Employer shall not take any action that might endanger the interest of the Employee in the Policy. The Employee shall not take any action that might endanger the interest of the Employer in the Policy.

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ARTICLE 5: EMPLOYEE'S RIGHTS IN POLICY

The Employee retains all other rights in the Policy not specifically assigned to the Employer including, but not limited to, the following rights:

A. The right to surrender the Policy as set forth in Paragraph D of the Collateral Assignment.

B. The right to change the beneficiary of the Policy, to the extent of his interest.

C. The right to select optional methods of settlement with regard to the death benefit provided in PART TWO of Article 7.

D. All other rights contained in the Policy, to the extent the exercise of such rights does not adversely affect the Employer's interest in the Policy.

ARTICLE 6: PAYMENT OF CASH SURRENDER VALUE

A. Except as set forth in this Article 6, Section B, in the event this Agreement is terminated pursuant to Section A or B of Article 8, the Employer shall have the unqualified right to receive from the Insurer a sum which is equal to the lesser of (a) the then cash surrender value as defined in the Policy or (b) the aggregate unreimbursed amount of premium payments with respect to the Policy for which the Employer was responsible pursuant to Article 2, Section A (the "Premium Reimbursement"). This amount shall be established in a written statement to the Insurer by the Employer, and the Insurer shall have the right, without liability to the Employee or his beneficiary or beneficiaries of the Policy, to rely exclusively upon such statement. The Employer shall, upon receiving such sum, release the Collateral Assignment of the Policy.

B. In the event that this Agreement is terminated pursuant to Section B of Article 8 after the occurrence of a "Terminating Event" (as defined in Section C of this Article 6), the Employer shall not be entitled to receive the

Premium Reimbursement pursuant to Section A of Article 6.

C. For purposes of this Article 6, a "Terminating Event" shall mean any of the following if it occurs within two years of a "Change in Control" (as defined in Section E of this Article 6):

(i) termination by the Employer of the Employee's employment with the Employer for any reason other than (a) the Employee's death or disability, or (b) for "Cause" (as such term is defined in Section D of this Article 6), or

(ii) Employee's resignation as an employee of the Employer, other than for reasons of disability, following a significant reduction in the nature or scope of the Employee's duties, responsibilities, authority and powers from the duties, responsibilities, authority and powers exercised by the Employee immediately prior to the Change in Control or a reduction in the Employee's annual base salary as in effect on the date of the Change in Control, except for across-the-board salary reductions similarly affecting all management personnel of the Employer (or the

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surviving entity, in the case of a merger or acquisition in which the Employer is not the surviving entity).

D. For purposes of Section C of this Article 6, "Cause" shall mean:

(i) deliberate dishonesty with respect to the Employer or any subsidiary or affiliate thereof;

(ii) conviction of a crime involving moral turpitude; or

(iii) gross and willful failure to perform a substantial portion of the Employee's duties and responsibilities as an officer of the Employer, which failure continues for more than thirty days after written notice given to the Employee pursuant to a two-thirds vote of all of the members of the Board of Directors of the Employer then in office, such vote to set forth in reasonable detail the nature of such failure.

E. For the purposes of this Article 6, "Change in Control" shall mean the occurrence of any one or more of the following events:

(i) if there is a merger or consolidation of the Employer with any other entity and the voting securities of the Employer outstanding immediately prior to such merger or consolidation do not continue to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) more than fifty percent (50%) of the combined voting power

of the voting securities of the Employer or such surviving entity immediately after such merger or consolidation, or

(ii) when any person or entity or group of persons or entities either related or acting in concert becomes the "beneficial owner" (as defined in Rule 13d-3 under the Securities Exchange Act of 1934, as amended) of securities of the Employer representing more than fifty percent (50%) of the total number of votes that may be cast for the election of directors of the Employer (any such person or entity or group of persons or entities being referred to, collectively in the case of any such group, as an "Acquiring Person"), or

(iii) if the Employer sells all or substantially all of its assets to another entity, other than in a transaction in which the voting securities of the Employer outstanding immediately prior to such transaction continue to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) more than fifty percent (50%) of the combined voting power of the voting securities of the Employer or such surviving entity immediately after such transaction, or

(iv) during any period of two consecutive years (not including any period prior to the execution of this Agreement), individuals who are Continuing Directors (as hereinafter defined) cease for any reason to constitute at least a majority of the Board of Directors of the Employer. For this purpose, a "Continuing Director" shall mean (a) an individual who was a director of the Employer at the beginning of such period or (b) any new director (other than a director designated

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by an Acquiring Person) whose election by the Board or nomination for election by the Board, a committee thereof or the Employer's stockholders was approved by a vote of a majority of the directors then still in office who either were directors at the beginning of such period or whose election or nomination for election was previously so approved; or

(v) one or more Acquiring Persons has succeeded, as the result of or in response to actual or threatened election contests, whether by settlement or otherwise, in having elected to the Board of Directors of the Employer, whether at one time or on a cumulative basis, a sufficient number of its nominees to constitute (a) more than thirty percent (30%) of the members of the Employer's Board of Directors, rounded down to the nearest whole number, if the number of directors on the Employer's Board is eight or less, or (b) more than forty percent (40%) of the members of the Employer's Board, rounded down to the nearest whole number, if the number of directors on the Employer's Board is nine or more.

ARTICLE 7: PAYMENT OF DEATH BENEFIT

In the event of the death of the Employee while the Policy and this Agreement are in force, the net proceeds of the Policy shall be divided into two parts and paid as follows:

PART ONE: To the Employer, a sum equal to the aggregate unreimbursed amount of premium payments for which the Employer was responsible pursuant to Section A of Article 2, unless Section B of Article 6 applies.

PART TWO: To the designated beneficiaries of the Employee, the remaining proceeds of the Policy.

ARTICLE 8: TERMINATION OF AGREEMENT

This Agreement shall terminate:

A. Upon surrender of the Policy by the Employee, except when the Policy is surrendered and a new policy is issued pursuant to an exchange under Article 4, Section C.

B. Upon the termination of the employment of the Employee for any reason other than retirement at or after attaining the age of 65.

C. On the death of the Employee.

ARTICLE 9: EXCHANGE OF POLICY

In the event the Employer is required to exchange the Policy under Article 4, Section C, the Employee shall execute any forms necessary or appropriate to effect such exchange including, without limitation, the surrender of the Policy, the transfer of proceeds to the new insurer and the

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execution of a new Split Dollar Agreement and Collateral Assignment. Such exchange shall qualify under Section 1035 of the Internal Revenue Code or successor provisions of similar import.

ARTICLE 10: OBLIGATIONS OF INSURER

Any payments made or action taken by the Insurer in accordance with the provisions of the Policy and the Collateral Assignment shall fully discharge it from all claims, suits, and demands of all persons whatsoever.

ARTICLE 11: MISCELLANEOUS

A. This Agreement shall be binding upon the parties hereto, their heirs, legal representative, successors and assigns.

B. This Agreement and the Collateral Assignment embody all agreements between or among the parties with respect to the Policy, and no change, alteration, or modification may be made except in writing signed by all parties hereto.

C. This Agreement shall be governed by, and construed in accordance with the provisions of, the laws of the Commonwealth of Massachusetts without regard to its principles of conflicts of laws.

D. Any dispute, controversy or claim with respect to any party's performance under this Agreement shall be settled by arbitration in accordance with the laws of The Commonwealth of Massachusetts by a single arbitrator who shall be selected by the American Arbitration Association in Boston, Massachusetts. Such arbitration shall be conducted in the City of Boston in accordance with the Commercial Arbitration Rules of the American Arbitration Association. Punitive damages shall not awarded. Judgment upon the award rendered by the arbitrator may be entered in any court having jurisdiction thereof.

IN WITNESS WHEREOF, the parties hereto have set their hand and seals effective as of the day and year first above written.

/s/ Olga Conley

Olga Conley, Employee

Date: February 24, 1999

DM MANAGEMENT COMPANY, Employer

By /s/ Gordon R. Cooke

Its Chief Executive Officer

Date: February 24, 1999

ASSIGNMENT OF LIFE INSURANCE POLICY AS COLLATERAL

A. FOR VALUE RECEIVED, the undersigned Olga Conley (hereinafter the "Owner") hereby assigns, transfers and sets over to DM Management Company, a Delaware corporation, its successors and assigns (hereinafter the "Assignee"), the following specific rights (and only those specific rights) in and to policy number V062874300, issued by Allmerica Financial Life Insurance and Annuity Company (hereinafter the "Insurer") and any supplementary contract or contracts issued in connection therewith (said policy and any such contracts hereinafter the "Policy"), insuring the life of the Owner, subject to all terms and conditions of the Policy and to all superior liens, if any, which the Insurer may have against the Policy. The Owner, by this Assignment, and the Assignee, by acceptance of the Assignment of the Policy to it hereunder, agree to the terms and conditions contained in the Policy.

B. This Assignment is made, and the Policy is to be held as collateral security for, all rights of and obligations owed to the Assignee, now existing or hereafter arising under and pursuant to a certain Split Dollar Agreement, by and between the Owner and the Assignee of even date herewith pertaining to the Policy (hereinafter the "Agreement"). The Owner reserves all rights and powers in and to the Policy, except those specific, limited rights in the Policy granted to the Assignee hereby, as security for all rights of and obligations owed to the Assignee under the Agreement.

C. It is expressly agreed that the Assignee's interest in the Policy under and by virtue of this Assignment shall be limited to the following specific rights, and no others: (1) in the case of the death of the Owner, the right to be paid the amounts due it under PART ONE of Article 7 of the Agreement by recovering said amounts directly from the Insurer out of the net death proceeds of the Policy; (2) in the event that Agreement is terminated pursuant to Article 8, Sections A or B, the right to be paid the amount due it, if any, under Article 6 of the Agreement. Neither party shall have the right to borrow against the Policy, except that the Owner may borrow against the Policy after attaining the age of 65, so long as such borrowing shall not include funds from the Assignee's interest in the Policy.

D. Notwithstanding this Assignment, the Owner shall specifically retain all incidents of ownership in and to the Policy, including, but not limited, to: (1) in accordance with the terms of the Agreement, the right to cancel or surrender the Policy and to receive, subject to Paragraph C. 2. hereof, the surrender value thereof at any time provided by the terms of the Policy and at such other times as the Insurer may allow; (2) the right to designate and change the Policy beneficiary, with respect to the amount to be paid pursuant to PART TWO of Article 7 of the Agreement; (3) the right to elect any optional methods of settlement with regard to the death benefit under PART TWO of Article 7; (4) the right to borrow against the Policy after the Owner attains age 65, so long as such borrowing shall not include funds from the Assignee's interest in the Policy; (5) the right to designate any reallocation of unit values as permitted by the Policy subject to a right of the Assignee to disapprove a particular

in the Policy to the extent the exercise of such rights does not adversely affect the interest of the Assignee; provided, however, that all of the foregoing rights retained by the Owner in the Policy shall be subject to the terms and conditions of the Agreement.

E. The Assignee agrees with the Owner as follows: (1) any funds received by Assignee from the Insurer which are attributable to the portion of the death benefit allocated to PART TWO of Article 7 of the Agreement shall be paid by the Assignee to the beneficiaries designated by the Owner; and (2) if the Policy is in the possession of the Assignee, the Assignee will, upon the Owner's request, forward the Policy to the Insurer, without unreasonable delay, for endorsement of any designation or change of beneficiary, any election of optional mode of settlement, or the exercise of any other right reserved by the Owner hereunder.

F. Notwithstanding anything in this Assignment to the contrary, the Insurer shall be under no obligation to monitor the obligation of the Assignee hereunder to pay to the designated beneficiaries of the Owner any amounts received from the Insurer under PART TWO of Article 7 of the Agreement after payment of PART ONE to the Assignee under the Agreement; and the Insurer shall have no obligation or liability to any person or entity if the Assignee fails to pay such amounts as required hereunder.

G. The Insurer is hereby authorized to recognize, and is protected in recognizing, the Assignee's claims to amounts due it hereunder without investigating the validity of its claim thereto, the reason for any action taken by the Assignee, the validity or accuracy of the amount of any of the liabilities of the Owner to the Assignee under the Agreement, the existence of any default therein, the giving of any notice required therein, or the application to be made by the Assignee of any amounts to be paid to the Assignee. A receipt executed solely by the Assignee for any amounts received by it from the Insurer shall be a full discharge and release of the Insurer from the obligations released thereby.

H. In furtherance hereof, the Owner appoints the Assignee his attorney-in-fact for the following purposes:

1. to receive the portion of the death benefit payable to the Assignee upon the death of the Owner under PART ONE of Article 7 of the Agreement; and
2. to receive, upon termination of the Agreement pursuant to Article 8, Sections A or B thereof, the amount, if any,

designated in Article 6, Sections A or B of the Agreement, as the case may be.

This appointment is coupled with an interest in the Assignee and shall be irrevocable so long as the Agreement remains in force.

I. The Insurer shall not comply with a request made by the Owner for cancellation or surrender of the Policy without the consent of the Assignee. Upon receipt of an assented-to request for cancellation or surrender, the Insurer shall terminate the Policy and this Assignment shall be of

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no further force or effect; provided, however, that the Insurer shall set aside and deduct from any amounts to be paid to the Owner under the terms of the Policy in consequence of its cancellation or surrender, the amount due to the Assignee under the provisions of Article 6 of the Agreement, which amount shall be paid to the Assignee by the Insurer.

J. In the event of any conflict between the provisions of this Assignment and the provisions of the Agreement with respect to the Policy or the Assignee's rights therein, the provisions of the Agreement shall prevail.

K. The Owner declares that no proceedings in bankruptcy are pending against the Owner and that the Owner's property is not subject to any assignment for the benefit of creditors of the Owner.

Signed and sealed as of the 24 day of February, 1999.

/s/ Olga Conley

Olga Conley, Owner

Date: February 24, 1999

Accepted and Agreed:

DM Management Company

By: /s/ Gordon R. Cooke

Its: Chief Executive Cooke

Date: February 24, 1999

ACKNOWLEDGEMENT OF SIGNATURE OF OWNER

COMMONWEALTH OF MASSACHUSETTS)
COUNTY OF PLYMOUTH) ss:

On the 24th day of February, 1999, before me personally came Olga Conley, to me known to be the individual described in and who executed the assignment above and acknowledged to me that she executed the same.

/s/ Patricia L. Eppich

Notary Public

My commission expires: 4\1\05

[seal]
PATRICIA L. EPPICH
Notary Public
My Commission Expires April 1,2005

ACKNOWLEDGEMENT OF SIGNATURE OF ASSIGNEE

COMMONWEALTH OF MASSACHUSETTS)
COUNTY OF Plymouth) ss:

On the 24th day of February, 1999, before me personally came Gordon R. Cooke, who being by me duly sworn, did depose and say that he is the Chief Executive Officer of DM Management Company, the corporation described in and which executed the acceptance and agreement of assignment above; and that he signed his name thereto by the authority granted to his office.

/s/ Patricia L. Eppich

Notary Public

My commission expires: 4\1\05

[seal]
PATRICIA L. EPPICH
Notary Public
My Commission Expires April 1,2005

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SPLIT DOLLAR AGREEMENT

ALLMERICA LIFE INSURANCE
POLICY NO. V062874900

AGREEMENT made as of this 24 day of February, 1999, by and between Gordon Cooke (the "Employee"), and DM Management Company, a Delaware corporation (the "Employer").

WHEREAS, the Employee wishes to establish a life insurance program for the benefit and protection of his family under Policy No. V062874900 (the "Policy") issued by Allmerica Financial Life Insurance and Annuity Company, of Worcester, Massachusetts (the "Insurer"); and

WHEREAS, the Employer wishes to help the Employee provide such insurance for the benefit and protection of his family by the payment of the premiums due on the Policy in accordance with Article 2 hereof; and

WHEREAS, the Employee will be the sole owner of the Policy, and will assign the Policy to the Employer for the purpose of providing security for the repayment of the amounts which the Employer will contribute toward payment of the premium due or to become due on the Policy pursuant to an agreement of even date to be executed by the parties hereto (the "Collateral Assignment"); and

WHEREAS, it is the desire of the parties to define the extent of the Employer's interest in the cash surrender value and death proceeds of the Policy;

NOW THEREFORE, in consideration of the mutual promises contained herein, it is agreed between the parties hereto as follows:

ARTICLE 1: OWNERSHIP OF POLICY

The Policy is the exclusive property of the Employee, who may exercise all rights of ownership with respect to his interest therein, subject to the security interest of the Employer as expressed in this Agreement and the Collateral Assignment and to any death benefit which may become due to the Employer.

ARTICLE 2: PAYMENT OF PREMIUMS

A. For the first seven (7) years the Policy is in force, or until this Agreement is earlier terminated as provided in Article 8, the Employer shall be responsible for the payment of (i) the scheduled premium, or (ii) such lesser

amount as the Insurer advises is consistent with the insurance features of the Policy. In addition, after the expiration of said seven-year period and while this Agreement is still in effect, the Employer may make such additional payments as the Insurer advises is consistent with maintaining the intended value of the Policy but only if such greater amount or

additional payments are approved by the Compensation Committee of the Employer's Board of Directors.

B. The Employee understands that he will recognize taxable income in each year with respect to the life insurance protection afforded to the Employee in accordance with Internal Revenue Service rulings and regulations.

C. The Employer shall, before the end of any grace period provided in the Policy for each premium payment, remit the annual premiums as stated in the Policy until this Agreement is terminated as provided in Article 8. If requested, the Employer shall give proof to the Employee of the timely payment of each premium.

ARTICLE 3: COLLATERAL ASSIGNMENT

To secure the repayment to the Employer of an amount equal to the aggregate amount of its premium payments under the Policy to the extent provided in Article 6, the Employee has contemporaneously with the execution of this Agreement assigned the Policy to the Employer as collateral, by means of the form of Collateral Assignment attached to this Agreement as Schedule 1. The Collateral Assignment shall not be altered, terminated or amended by Employee without the express written consent of the Employer. The parties agree to take all action necessary to cause such assignment to conform to the provisions of this Agreement.

ARTICLE 4: RIGHTS IN POLICY

A. The Employer shall have no right to borrow against the Policy.

B. The Employee, in recognition of the defined contribution provisions of this Agreement and the variable nature of the death benefits, shall have the right to allocate the aggregate account value to particular investment vehicles, subject to a right of the Employer to disapprove a particular investment vehicle which it deems inappropriate.

C. The Employee shall have the right to exchange the Policy for such other policies and/or insurers that he deems appropriate based upon the investment performance or financial condition of the Insurer, subject to the approval of the Employer, which approval shall not unreasonably be denied. Action by the Employee or the Employer to change the Policy and/or insurer pursuant to this paragraph shall not otherwise alter the rights and

responsibilities of the Employer and the Employee as set forth in this Agreement.

D. The Employer shall have no responsibility for a shortfall in the projected total return on the paid-in premiums available to provide the death benefit.

E. The Employer shall not take any action that might endanger the interest of the Employee in the Policy. The Employee shall not take any action that might endanger the interest of the Employer in the Policy.

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ARTICLE 5: EMPLOYEE'S RIGHTS IN POLICY

The Employee retains all other rights in the Policy not specifically assigned to the Employer including, but not limited to, the following rights:

A. The right to surrender the Policy as set forth in Paragraph D of the Collateral Assignment.

B. The right to change the beneficiary of the Policy, to the extent of his interest.

C. The right to select optional methods of settlement with regard to the death benefit provided in PART TWO of Article 7.

D. All other rights contained in the Policy, to the extent the exercise of such rights does not adversely affect the Employer's interest in the Policy.

ARTICLE 6: PAYMENT OF CASH SURRENDER VALUE

A. Except as set forth in this Article 6, Section B, in the event this Agreement is terminated pursuant to Section A or B of Article 8, the Employer shall have the unqualified right to receive from the Insurer a sum which is equal to the lesser of (a) the then cash surrender value as defined in the Policy or (b) the aggregate unreimbursed amount of premium payments with respect to the Policy for which the Employer was responsible pursuant to Article 2, Section A (the "Premium Reimbursement"). This amount shall be established in a written statement to the Insurer by the Employer, and the Insurer shall have the right, without liability to the Employee or his beneficiary or beneficiaries of the Policy, to rely exclusively upon such statement. The Employer shall, upon receiving such sum, release the Collateral Assignment of the Policy.

B. In the event that this Agreement is terminated pursuant to Section B of Article 8 after the occurrence of a "Terminating Event" (as defined in Section C of this Article 6), the Employer shall not be entitled to receive the

Premium Reimbursement pursuant to Section A of Article 6.

C. For purposes of this Article 6, a "Terminating Event" shall mean any of the following if it occurs within two years of a "Change in Control" (as defined in Section E of this Article 6):

(i) termination by the Employer of the Employee's employment with the Employer for any reason other than (a) the Employee's death or disability, or (b) for "Cause" (as such term is defined in Section D of this Article 6), or

(ii) Employee's resignation as an employee of the Employer, other than for reasons of disability, following a significant reduction in the nature or scope of the Employee's duties, responsibilities, authority and powers from the duties, responsibilities, authority and powers exercised by the Employee immediately prior to the Change in Control or a reduction in the Employee's annual base salary as in effect on the date of the Change in Control, except for across-the-board salary reductions similarly affecting all management personnel of the Employer (or the

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surviving entity, in the case of a merger or acquisition in which the Employer is not the surviving entity).

D. For purposes of Section C of this Article 6, "Cause" shall mean:

(i) deliberate dishonesty with respect to the Employer or any subsidiary or affiliate thereof;

(ii) conviction of a crime involving moral turpitude; or

(iii) gross and willful failure to perform a substantial portion of the Employee's duties and responsibilities as an officer of the Employer, which failure continues for more than thirty days after written notice given to the Employee pursuant to a two-thirds vote of all of the members of the Board of Directors of the Employer then in office, such vote to set forth in reasonable detail the nature of such failure.

E. For the purposes of this Article 6, "Change in Control" shall mean the occurrence of any one or more of the following events:

(i) if there is a merger or consolidation of the Employer with any other entity and the voting securities of the Employer outstanding immediately prior to such merger or consolidation do not continue to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) more than fifty percent (50%) of the combined voting power

of the voting securities of the Employer or such surviving entity immediately after such merger or consolidation, or

(ii) when any person or entity or group of persons or entities either related or acting in concert becomes the "beneficial owner" (as defined in Rule 13d-3 under the Securities Exchange Act of 1934, as amended) of securities of the Employer representing more than fifty percent (50%) of the total number of votes that may be cast for the election of directors of the Employer (any such person or entity or group of persons or entities being referred to, collectively in the case of any such group, as an "Acquiring Person"), or

(iii) if the Employer sells all or substantially all of its assets to another entity, other than in a transaction in which the voting securities of the Employer outstanding immediately prior to such transaction continue to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) more than fifty percent (50%) of the combined voting power of the voting securities of the Employer or such surviving entity immediately after such transaction, or

(iv) during any period of two consecutive years (not including any period prior to the execution of this Agreement), individuals who are Continuing Directors (as hereinafter defined) cease for any reason to constitute at least a majority of the Board of Directors of the Employer. For this purpose, a "Continuing Director" shall mean (a) an individual who was a director of the Employer at the beginning of such period or (b) any new director (other than a director designated

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by an Acquiring Person) whose election by the Board or nomination for election by the Board, a committee thereof or the Employer's stockholders was approved by a vote of a majority of the directors then still in office who either were directors at the beginning of such period or whose election or nomination for election was previously so approved; or

(v) one or more Acquiring Persons has succeeded, as the result of or in response to actual or threatened election contests, whether by settlement or otherwise, in having elected to the Board of Directors of the Employer, whether at one time or on a cumulative basis, a sufficient number of its nominees to constitute (a) more than thirty percent (30%) of the members of the Employer's Board of Directors, rounded down to the nearest whole number, if the number of directors on the Employer's Board is eight or less, or (b) more than forty percent (40%) of the members of the Employer's Board, rounded down to the nearest whole number, if the number of directors on the Employer's Board is nine or more.

ARTICLE 7: PAYMENT OF DEATH BENEFIT

In the event of the death of the Employee while the Policy and this Agreement are in force, the net proceeds of the Policy shall be divided into two parts and paid as follows:

PART ONE: To the Employer, a sum equal to the aggregate unreimbursed amount of premium payments for which the Employer was responsible pursuant to Section A of Article 2, unless Section B of Article 6 applies.

PART TWO: To the designated beneficiaries of the Employee, the remaining proceeds of the Policy.

ARTICLE 8: TERMINATION OF AGREEMENT

This Agreement shall terminate:

A. Upon surrender of the Policy by the Employee, except when the Policy is surrendered and a new policy is issued pursuant to an exchange under Article 4, Section C.

B. Upon the termination of the employment of the Employee for any reason other than retirement at or after attaining the age of 65.

C. On the death of the Employee.

ARTICLE 9: EXCHANGE OF POLICY

In the event the Employer is required to exchange the Policy under Article 4, Section C, the Employee shall execute any forms necessary or appropriate to effect such exchange including, without limitation, the surrender of the Policy, the transfer of proceeds to the new insurer and the

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execution of a new Split Dollar Agreement and Collateral Assignment. Such exchange shall qualify under Section 1035 of the Internal Revenue Code or successor provisions of similar import.

ARTICLE 10: OBLIGATIONS OF INSURER

Any payments made or action taken by the Insurer in accordance with the provisions of the Policy and the Collateral Assignment shall fully discharge it from all claims, suits, and demands of all persons whatsoever.

ARTICLE 11: MISCELLANEOUS

A. This Agreement shall be binding upon the parties hereto, their heirs, legal representative, successors and assigns.

B. This Agreement and the Collateral Assignment embody all agreements between or among the parties with respect to the Policy, and no change, alteration, or modification may be made except in writing signed by all parties hereto.

C. This Agreement shall be governed by, and construed in accordance with the provisions of, the laws of the Commonwealth of Massachusetts without regard to its principles of conflicts of laws.

D. Any dispute, controversy or claim with respect to any party's performance under this Agreement shall be settled by arbitration in accordance with the laws of The Commonwealth of Massachusetts by a single arbitrator who shall be selected by the American Arbitration Association in Boston, Massachusetts. Such arbitration shall be conducted in the City of Boston in accordance with the Commercial Arbitration Rules of the American Arbitration Association. Punitive damages shall not awarded. Judgment upon the award rendered by the arbitrator may be entered in any court having jurisdiction thereof.

IN WITNESS WHEREOF, the parties hereto have set their hand and seals effective as of the day and year first above written.

/s/ Gordon Cooke

Gordon Cooke, Employee

Date: February 24, 1999

DM MANAGEMENT COMPANY, Employer

By /s/ Olga L. Conley

Its Chief Financial Officer

Date: February 24, 1999

ASSIGNMENT OF LIFE INSURANCE POLICY AS COLLATERAL

A. FOR VALUE RECEIVED, the undersigned Gordon Cooke (hereinafter the "Owner") hereby assigns, transfers and sets over to DM Management Company, a Delaware corporation, its successors and assigns (hereinafter the "Assignee"), the following specific rights (and only those specific rights) in and to policy number V062874900, issued by Allmerica Financial Life Insurance and Annuity Company (hereinafter the "Insurer") and any supplementary contract or contracts issued in connection therewith (said policy and any such contracts hereinafter the "Policy"), insuring the life of the Owner, subject to all terms and conditions of the Policy and to all superior liens, if any, which the Insurer may have against the Policy. The Owner, by this Assignment, and the Assignee, by acceptance of the Assignment of the Policy to it hereunder, agree to the terms and conditions contained in the Policy.

B. This Assignment is made, and the Policy is to be held as collateral security for, all rights of and obligations owed to the Assignee, now existing or hereafter arising under and pursuant to a certain Split Dollar Agreement, by and between the Owner and the Assignee of even date herewith pertaining to the Policy (hereinafter the "Agreement"). The Owner reserves all rights and powers in and to the Policy, except those specific, limited rights in the Policy granted to the Assignee hereby, as security for all rights of and obligations owed to the Assignee under the Agreement.

C. It is expressly agreed that the Assignee's interest in the Policy under and by virtue of this Assignment shall be limited to the following specific rights, and no others: (1) in the case of the death of the Owner, the right to be paid the amounts due it under PART ONE of Article 7 of the Agreement by recovering said amounts directly from the Insurer out of the net death proceeds of the Policy; (2) in the event that Agreement is terminated pursuant to Article 8, Sections A or B, the right to be paid the amount due it, if any, under Article 6 of the Agreement. Neither party shall have the right to borrow against the Policy, except that the Owner may borrow against the Policy after attaining the age of 65, so long as such borrowing shall not include funds from the Assignee's interest in the Policy.

D. Notwithstanding this Assignment, the Owner shall specifically retain all incidents of ownership in and to the Policy, including, but not limited, to: (1) in accordance with the terms of the Agreement, the right to cancel or surrender the Policy and to receive, subject to Paragraph C. 2. hereof, the surrender value thereof at any time provided by the terms of the Policy and at such other times as the Insurer may allow; (2) the right to designate and change the Policy beneficiary, with respect to the amount to be paid pursuant to PART TWO of Article 7 of the Agreement; (3) the right to elect any optional methods of settlement with regard to the death benefit under PART TWO of Article 7; (4) the right to borrow against the Policy after the Owner attains age 65, so long as such borrowing shall not include funds from the Assignee's interest in the Policy; (5) the right to designate any reallocation of unit values as permitted

by the Policy subject to a right of the Assignee to disapprove a particular allocation which it deems inappropriate; and (6) all other rights contained

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in the Policy to the extent the exercise of such rights does not adversely affect the interest of the Assignee; provided, however, that all of the foregoing rights retained by the Owner in the Policy shall be subject to the terms and conditions of the Agreement.

E. The Assignee agrees with the Owner as follows: (1) any funds received by Assignee from the Insurer which are attributable to the portion of the death benefit allocated to PART TWO of Article 7 of the Agreement shall be paid by the Assignee to the beneficiaries designated by the Owner; and (2) if the Policy is in the possession of the Assignee, the Assignee will, upon the Owner's request, forward the Policy to the Insurer, without unreasonable delay, for endorsement of any designation or change of beneficiary, any election of optional mode of settlement, or the exercise of any other right reserved by the Owner hereunder.

F. Notwithstanding anything in this Assignment to the contrary, the Insurer shall be under no obligation to monitor the obligation of the Assignee hereunder to pay to the designated beneficiaries of the Owner any amounts received from the Insurer under PART TWO of Article 7 of the Agreement after payment of PART ONE to the Assignee under the Agreement; and the Insurer shall have no obligation or liability to any person or entity if the Assignee fails to pay such amounts as required hereunder.

G. The Insurer is hereby authorized to recognize, and is protected in recognizing, the Assignee's claims to amounts due it hereunder without investigating the validity of its claim thereto, the reason for any action taken by the Assignee, the validity or accuracy of the amount of any of the liabilities of the Owner to the Assignee under the Agreement, the existence of any default therein, the giving of any notice required therein, or the application to be made by the Assignee of any amounts to be paid to the Assignee. A receipt executed solely by the Assignee for any amounts received by it from the Insurer shall be a full discharge and release of the Insurer from the obligations released thereby.

H. In furtherance hereof, the Owner appoints the Assignee his attorney-in-fact for the following purposes:

1. to receive the portion of the death benefit payable to the Assignee upon the death of the Owner under PART ONE of Article 7 of the Agreement; and
2. to receive, upon termination of the Agreement pursuant to

Article 8, Sections A or B thereof, the amount, if any, designated in Article 6, Sections A or B of the Agreement, as the case may be.

This appointment is coupled with an interest in the Assignee and shall be irrevocable so long as the Agreement remains in force.

I. The Insurer shall not comply with a request made by the Owner for cancellation or surrender of the Policy without the consent of the Assignee. Upon receipt of an assented-to request for cancellation or surrender, the Insurer shall terminate the Policy and this Assignment shall be of

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no further force or effect; provided, however, that the Insurer shall set aside and deduct from any amounts to be paid to the Owner under the terms of the Policy in consequence of its cancellation or surrender, the amount due to the Assignee under the provisions of Article 6 of the Agreement, which amount shall be paid to the Assignee by the Insurer.

J. In the event of any conflict between the provisions of this Assignment and the provisions of the Agreement with respect to the Policy or the Assignee's rights therein, the provisions of the Agreement shall prevail.

K. The Owner declares that no proceedings in bankruptcy are pending against the Owner and that the Owner's property is not subject to any assignment for the benefit of creditors of the Owner.

Signed and sealed as of the 24 day of February, 1999.

/s/ Gordon Cooke

Gordon Cooke, Owner

Date: February 24, 1999

Accepted and Agreed:

DM Management Company

By: /s/ Olga L. Conley

Its: Chief Financial Officer

Date: February 24, 1999

ACKNOWLEDGEMENT OF SIGNATURE OF OWNER

COMMONWEALTH OF MASSACHUSETTS)
COUNTY OF Plymouth) ss:

On the 24th day of February, 1999, before me personally came Gordon Cooke,
to me known to be the individual described in and who executed the assignment
above and acknowledged to me that he executed the same.

/s/ Patricia L. Eppich

Notary Public

My commission expires: 4\1\05

[seal]
PATRICIA L. EPPICH
Notary Public
My Commission Expires April 1, 2005

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ACKNOWLEDGEMENT OF SIGNATURE OF ASSIGNEE

COMMONWEALTH OF MASSACHUSETTS)
COUNTY OF Plymouth) ss:

On the 24th day of February, 1999, before me personally came Olga L. Conley, who
being by me duly sworn, did depose and say that he is the Chief Financial
Officer of DM Management Company, the corporation described in and which
executed the acceptance and agreement of assignment above; and that he signed
his name thereto by the authority granted to his office.

/s/ Patricia L. Eppich

Notary Public

My commission expires: 4\1\05

[seal]

PATRICIA L. EPPICH

Notary Public

My Commission Expires April 1,2005

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SPLIT DOLLAR AGREEMENT

ALLMERICA LIFE INSURANCE
POLICY NO. V062874700

AGREEMENT made as of this 24 day of February, 1999, by and between John Hayes (the "Employee"), and DM Management Company, a Delaware corporation (the "Employer").

WHEREAS, the Employee wishes to establish a life insurance program for the benefit and protection of his family under Policy No. V062874700 (the "Policy") issued by Allmerica Financial Life Insurance and Annuity Company, of Worcester, Massachusetts (the "Insurer"); and

WHEREAS, the Employer wishes to help the Employee provide such insurance for the benefit and protection of his family by the payment of the premiums due on the Policy in accordance with Article 2 hereof; and

WHEREAS, the Employee will be the sole owner of the Policy, and will assign the Policy to the Employer for the purpose of providing security for the repayment of the amounts which the Employer will contribute toward payment of the premium due or to become due on the Policy pursuant to an agreement of even date to be executed by the parties hereto (the "Collateral Assignment"); and

WHEREAS, it is the desire of the parties to define the extent of the Employer's interest in the cash surrender value and death proceeds of the Policy;

NOW THEREFORE, in consideration of the mutual promises contained herein, it is agreed between the parties hereto as follows:

ARTICLE 1: OWNERSHIP OF POLICY

The Policy is the exclusive property of the Employee, who may exercise all rights of ownership with respect to his interest therein, subject to the security interest of the Employer as expressed in this Agreement and the Collateral Assignment and to any death benefit which may become due to the Employer.

ARTICLE 2: PAYMENT OF PREMIUMS

A. For the first seven (7) years the Policy is in force, or until this Agreement is earlier terminated as provided in Article 8, the Employer shall be responsible for the payment of (i) the scheduled premium, or (ii) such lesser amount as the Insurer advises is consistent with the insurance features of the

Policy. In addition, after the expiration of said seven-year period and while this Agreement is still in effect, the Employer may make such additional payments as the Insurer advises is consistent with maintaining the intended value of the Policy but only if such greater amount or

additional payments are approved by the Compensation Committee of the Employer's Board of Directors.

B. The Employee understands that he will recognize taxable income in each year with respect to the life insurance protection afforded to the Employee in accordance with Internal Revenue Service rulings and regulations.

C. The Employer shall, before the end of any grace period provided in the Policy for each premium payment, remit the annual premiums as stated in the Policy until this Agreement is terminated as provided in Article 8. If requested, the Employer shall give proof to the Employee of the timely payment of each premium.

ARTICLE 3: COLLATERAL ASSIGNMENT

To secure the repayment to the Employer of an amount equal to the aggregate amount of its premium payments under the Policy to the extent provided in Article 6, the Employee has contemporaneously with the execution of this Agreement assigned the Policy to the Employer as collateral, by means of the form of Collateral Assignment attached to this Agreement as Schedule 1. The Collateral Assignment shall not be altered, terminated or amended by Employee without the express written consent of the Employer. The parties agree to take all action necessary to cause such assignment to conform to the provisions of this Agreement.

ARTICLE 4: RIGHTS IN POLICY

A. The Employer shall have no right to borrow against the Policy.

B. The Employee, in recognition of the defined contribution provisions of this Agreement and the variable nature of the death benefits, shall have the right to allocate the aggregate account value to particular investment vehicles, subject to a right of the Employer to disapprove a particular investment vehicle which it deems inappropriate.

C. The Employee shall have the right to exchange the Policy for such other policies and/or insurers that he deems appropriate based upon the investment performance or financial condition of the Insurer, subject to the approval of the Employer, which approval shall not unreasonably be denied. Action by the Employee or the Employer to change the Policy and/or insurer pursuant to this paragraph shall not otherwise alter the rights and

responsibilities of the Employer and the Employee as set forth in this Agreement.

D. The Employer shall have no responsibility for a shortfall in the projected total return on the paid-in premiums available to provide the death benefit.

E. The Employer shall not take any action that might endanger the interest of the Employee in the Policy. The Employee shall not take any action that might endanger the interest of the Employer in the Policy.

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ARTICLE 5: EMPLOYEE'S RIGHTS IN POLICY

The Employee retains all other rights in the Policy not specifically assigned to the Employer including, but not limited to, the following rights:

A. The right to surrender the Policy as set forth in Paragraph D of the Collateral Assignment.

B. The right to change the beneficiary of the Policy, to the extent of his interest.

C. The right to select optional methods of settlement with regard to the death benefit provided in PART TWO of Article 7.

D. All other rights contained in the Policy, to the extent the exercise of such rights does not adversely affect the Employer's interest in the Policy.

ARTICLE 6: PAYMENT OF CASH SURRENDER VALUE

A. Except as set forth in this Article 6, Section B, in the event this Agreement is terminated pursuant to Section A or B of Article 8, the Employer shall have the unqualified right to receive from the Insurer a sum which is equal to the lesser of (a) the then cash surrender value as defined in the Policy or (b) the aggregate unreimbursed amount of premium payments with respect to the Policy for which the Employer was responsible pursuant to Article 2, Section A (the "Premium Reimbursement"). This amount shall be established in a written statement to the Insurer by the Employer, and the Insurer shall have the right, without liability to the Employee or his beneficiary or beneficiaries of the Policy, to rely exclusively upon such statement. The Employer shall, upon receiving such sum, release the Collateral Assignment of the Policy.

B. In the event that this Agreement is terminated pursuant to Section B of Article 8 after the occurrence of a "Terminating Event" (as defined in Section C of this Article 6), the Employer shall not be entitled to receive the

Premium Reimbursement pursuant to Section A of Article 6.

C. For purposes of this Article 6, a "Terminating Event" shall mean any of the following if it occurs within two years of a "Change in Control" (as defined in Section E of this Article 6):

(i) termination by the Employer of the Employee's employment with the Employer for any reason other than (a) the Employee's death or disability, or (b) for "Cause" (as such term is defined in Section D of this Article 6), or

(ii) Employee's resignation as an employee of the Employer, other than for reasons of disability, following a significant reduction in the nature or scope of the Employee's duties, responsibilities, authority and powers from the duties, responsibilities, authority and powers exercised by the Employee immediately prior to the Change in Control or a reduction in the Employee's annual base salary as in effect on the date of the Change in Control, except for across-the-board salary reductions similarly affecting all management personnel of the Employer (or the

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surviving entity, in the case of a merger or acquisition in which the Employer is not the surviving entity).

D. For purposes of Section C of this Article 6, "Cause" shall mean:

(i) deliberate dishonesty with respect to the Employer or any subsidiary or affiliate thereof;

(ii) conviction of a crime involving moral turpitude; or

(iii) gross and willful failure to perform a substantial portion of the Employee's duties and responsibilities as an officer of the Employer, which failure continues for more than thirty days after written notice given to the Employee pursuant to a two-thirds vote of all of the members of the Board of Directors of the Employer then in office, such vote to set forth in reasonable detail the nature of such failure.

E. For the purposes of this Article 6, "Change in Control" shall mean the occurrence of any one or more of the following events:

(i) if there is a merger or consolidation of the Employer with any other entity and the voting securities of the Employer outstanding immediately prior to such merger or consolidation do not continue to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) more than fifty percent (50%) of the combined voting power

of the voting securities of the Employer or such surviving entity immediately after such merger or consolidation, or

(ii) when any person or entity or group of persons or entities either related or acting in concert becomes the "beneficial owner" (as defined in Rule 13d-3 under the Securities Exchange Act of 1934, as amended) of securities of the Employer representing more than fifty percent (50%) of the total number of votes that may be cast for the election of directors of the Employer (any such person or entity or group of persons or entities being referred to, collectively in the case of any such group, as an "Acquiring Person"), or

(iii) if the Employer sells all or substantially all of its assets to another entity, other than in a transaction in which the voting securities of the Employer outstanding immediately prior to such transaction continue to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) more than fifty percent (50%) of the combined voting power of the voting securities of the Employer or such surviving entity immediately after such transaction, or

(iv) during any period of two consecutive years (not including any period prior to the execution of this Agreement), individuals who are Continuing Directors (as hereinafter defined) cease for any reason to constitute at least a majority of the Board of Directors of the Employer. For this purpose, a "Continuing Director" shall mean (a) an individual who was a director of the Employer at the beginning of such period or (b) any new director (other than a director designated

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by an Acquiring Person) whose election by the Board or nomination for election by the Board, a committee thereof or the Employer's stockholders was approved by a vote of a majority of the directors then still in office who either were directors at the beginning of such period or whose election or nomination for election was previously so approved; or

(v) one or more Acquiring Persons has succeeded, as the result of or in response to actual or threatened election contests, whether by settlement or otherwise, in having elected to the Board of Directors of the Employer, whether at one time or on a cumulative basis, a sufficient number of its nominees to constitute (a) more than thirty percent (30%) of the members of the Employer's Board of Directors, rounded down to the nearest whole number, if the number of directors on the Employer's Board is eight or less, or (b) more than forty percent (40%) of the members of the Employer's Board, rounded down to the nearest whole number, if the number of directors on the Employer's Board is nine or more.

ARTICLE 7: PAYMENT OF DEATH BENEFIT

In the event of the death of the Employee while the Policy and this Agreement are in force, the net proceeds of the Policy shall be divided into two parts and paid as follows:

PART ONE: To the Employer, a sum equal to the aggregate unreimbursed amount of premium payments for which the Employer was responsible pursuant to Section A of Article 2, unless Section B of Article 6 applies.

PART TWO: To the designated beneficiaries of the Employee, the remaining proceeds of the Policy.

ARTICLE 8: TERMINATION OF AGREEMENT

This Agreement shall terminate:

A. Upon surrender of the Policy by the Employee, except when the Policy is surrendered and a new policy is issued pursuant to an exchange under Article 4, Section C.

B. Upon the termination of the employment of the Employee for any reason other than retirement at or after attaining the age of 65.

C. On the death of the Employee.

ARTICLE 9: EXCHANGE OF POLICY

In the event the Employer is required to exchange the Policy under Article 4, Section C, the Employee shall execute any forms necessary or appropriate to effect such exchange including, without limitation, the surrender of the Policy, the transfer of proceeds to the new insurer and the

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execution of a new Split Dollar Agreement and Collateral Assignment. Such exchange shall qualify under Section 1035 of the Internal Revenue Code or successor provisions of similar import.

ARTICLE 10: OBLIGATIONS OF INSURER

Any payments made or action taken by the Insurer in accordance with the provisions of the Policy and the Collateral Assignment shall fully discharge it from all claims, suits, and demands of all persons whatsoever.

ARTICLE 11: MISCELLANEOUS

A. This Agreement shall be binding upon the parties hereto, their heirs, legal representative, successors and assigns.

B. This Agreement and the Collateral Assignment embody all agreements between or among the parties with respect to the Policy, and no change, alteration, or modification may be made except in writing signed by all parties hereto.

C. This Agreement shall be governed by, and construed in accordance with the provisions of, the laws of the Commonwealth of Massachusetts without regard to its principles of conflicts of laws.

D. Any dispute, controversy or claim with respect to any party's performance under this Agreement shall be settled by arbitration in accordance with the laws of The Commonwealth of Massachusetts by a single arbitrator who shall be selected by the American Arbitration Association in Boston, Massachusetts. Such arbitration shall be conducted in the City of Boston in accordance with the Commercial Arbitration Rules of the American Arbitration Association. Punitive damages shall not awarded. Judgment upon the award rendered by the arbitrator may be entered in any court having jurisdiction thereof.

IN WITNESS WHEREOF, the parties hereto have set their hand and seals effective as of the day and year first above written.

/s/ John Hayes

John Hayes, Employee

Date: February 24, 1999

DM MANAGEMENT COMPANY, Employer

By /s/ Olga L. Conley

Its Chief Financial Officer

Date: February 24, 1999

ASSIGNMENT OF LIFE INSURANCE POLICY AS COLLATERAL

A. FOR VALUE RECEIVED, the undersigned John Hayes (hereinafter the "Owner") hereby assigns, transfers and sets over to DM Management Company, a Delaware corporation, its successors and assigns (hereinafter the "Assignee"), the following specific rights (and only those specific rights) in and to policy number V062874700, issued by Allmerica Financial Life Insurance and Annuity Company (hereinafter the "Insurer") and any supplementary contract or contracts issued in connection therewith (said policy and any such contracts hereinafter the "Policy"), insuring the life of the Owner, subject to all terms and conditions of the Policy and to all superior liens, if any, which the Insurer may have against the Policy. The Owner, by this Assignment, and the Assignee, by acceptance of the Assignment of the Policy to it hereunder, agree to the terms and conditions contained in the Policy.

B. This Assignment is made, and the Policy is to be held as collateral security for, all rights of and obligations owed to the Assignee, now existing or hereafter arising under and pursuant to a certain Split Dollar Agreement, by and between the Owner and the Assignee of even date herewith pertaining to the Policy (hereinafter the "Agreement"). The Owner reserves all rights and powers in and to the Policy, except those specific, limited rights in the Policy granted to the Assignee hereby, as security for all rights of and obligations owed to the Assignee under the Agreement.

C. It is expressly agreed that the Assignee's interest in the Policy under and by virtue of this Assignment shall be limited to the following specific rights, and no others: (1) in the case of the death of the Owner, the right to be paid the amounts due it under PART ONE of Article 7 of the Agreement by recovering said amounts directly from the Insurer out of the net death proceeds of the Policy; (2) in the event that Agreement is terminated pursuant to Article 8, Sections A or B, the right to be paid the amount due it, if any, under Article 6 of the Agreement. Neither party shall have the right to borrow against the Policy, except that the Owner may borrow against the Policy after attaining the age of 65, so long as such borrowing shall not include funds from the Assignee's interest in the Policy.

D. Notwithstanding this Assignment, the Owner shall specifically retain all incidents of ownership in and to the Policy, including, but not limited, to: (1) in accordance with the terms of the Agreement, the right to cancel or surrender the Policy and to receive, subject to Paragraph C. 2. hereof, the surrender value thereof at any time provided by the terms of the Policy and at such other times as the Insurer may allow; (2) the right to designate and change the Policy beneficiary, with respect to the amount to be paid pursuant to PART TWO of Article 7 of the Agreement; (3) the right to elect any optional methods of settlement with regard to the death benefit under PART TWO of Article 7; (4) the right to borrow against the Policy after the Owner attains age 65, so long as such borrowing shall not include funds from the Assignee's interest in the Policy; (5) the right to designate any reallocation of unit values as permitted

by the Policy subject to a right of the Assignee to disapprove a particular allocation which it deems inappropriate; and (6) all other rights contained

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in the Policy to the extent the exercise of such rights does not adversely affect the interest of the Assignee; provided, however, that all of the foregoing rights retained by the Owner in the Policy shall be subject to the terms and conditions of the Agreement.

E. The Assignee agrees with the Owner as follows: (1) any funds received by Assignee from the Insurer which are attributable to the portion of the death benefit allocated to PART TWO of Article 7 of the Agreement shall be paid by the Assignee to the beneficiaries designated by the Owner; and (2) if the Policy is in the possession of the Assignee, the Assignee will, upon the Owner's request, forward the Policy to the Insurer, without unreasonable delay, for endorsement of any designation or change of beneficiary, any election of optional mode of settlement, or the exercise of any other right reserved by the Owner hereunder.

F. Notwithstanding anything in this Assignment to the contrary, the Insurer shall be under no obligation to monitor the obligation of the Assignee hereunder to pay to the designated beneficiaries of the Owner any amounts received from the Insurer under PART TWO of Article 7 of the Agreement after payment of PART ONE to the Assignee under the Agreement; and the Insurer shall have no obligation or liability to any person or entity if the Assignee fails to pay such amounts as required hereunder.

G. The Insurer is hereby authorized to recognize, and is protected in recognizing, the Assignee's claims to amounts due it hereunder without investigating the validity of its claim thereto, the reason for any action taken by the Assignee, the validity or accuracy of the amount of any of the liabilities of the Owner to the Assignee under the Agreement, the existence of any default therein, the giving of any notice required therein, or the application to be made by the Assignee of any amounts to be paid to the Assignee. A receipt executed solely by the Assignee for any amounts received by it from the Insurer shall be a full discharge and release of the Insurer from the obligations released thereby.

H. In furtherance hereof, the Owner appoints the Assignee his attorney-in-fact for the following purposes:

1. to receive the portion of the death benefit payable to the Assignee upon the death of the Owner under PART ONE of Article 7 of the Agreement; and
2. to receive, upon termination of the Agreement pursuant to

Article 8, Sections A or B thereof, the amount, if any, designated in Article 6, Sections A or B of the Agreement, as the case may be.

This appointment is coupled with an interest in the Assignee and shall be irrevocable so long as the Agreement remains in force.

I. The Insurer shall not comply with a request made by the Owner for cancellation or surrender of the Policy without the consent of the Assignee. Upon receipt of an assented-to request for cancellation or surrender, the Insurer shall terminate the Policy and this Assignment shall be of

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no further force or effect; provided, however, that the Insurer shall set aside and deduct from any amounts to be paid to the Owner under the terms of the Policy in consequence of its cancellation or surrender, the amount due to the Assignee under the provisions of Article 6 of the Agreement, which amount shall be paid to the Assignee by the Insurer.

J. In the event of any conflict between the provisions of this Assignment and the provisions of the Agreement with respect to the Policy or the Assignee's rights therein, the provisions of the Agreement shall prevail.

K. The Owner declares that no proceedings in bankruptcy are pending against the Owner and that the Owner's property is not subject to any assignment for the benefit of creditors of the Owner.

Signed and sealed as of the 24 day of February, 1999.

/s/ John Hayes

John Hayes, Owner

Date: February 24, 1999

Accepted and Agreed:

DM Management Company

By: /s/ Olga L. Conley

Its: Chief Financial Officer

Date: February 24, 1999

ACKNOWLEDGEMENT OF SIGNATURE OF OWNER

COMMONWEALTH OF MASSACHUSETTS)
COUNTY OF Plymouth)ss:

On the 24th day of February, 1999, before me personally came John Hayes, to me known to be the individual described in and who executed the assignment above and acknowledged to me that he executed the same.

/s/ Patricia L. Eppich

Notary Public

My commission expires: 4/1/05

PATRICIA L EPPICH

Notary Public

My Commision Expires April 1, 2005

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ACKNOWLEDGEMENT OF SIGNATURE OF ASSIGNEE

COMMONWEALTH OF MASSACHUSETTS)
COUNTY OF Plymouth)ss:

On the 24 day of February, 1999, before me personally came Olga L. Conley, who being by me duly sworn, did depose and say that he is the Chief Financial Officer of DM Management Company, the corporation described in and which executed the acceptance and agreement of assignment above; and that he signed his name thereto by the authority granted to his office.

/s/ Patricia L. Eppich

Notary Public

My commission expires: 4\1\05

PATRICIA L EPPICH

SPLIT DOLLAR AGREEMENT

ALLMERICA LIFE INSURANCE
POLICY NO. V062875300

AGREEMENT made as of this 24 day of February, 1999, by and between Patricia Lee (the "Employee"), and DM Management Company, a Delaware corporation (the "Employer").

WHEREAS, the Employee wishes to establish a life insurance program for the benefit and protection of his family under Policy No. V062875300 (the "Policy") issued by Allmerica Financial Life Insurance and Annuity Company, of Worcester, Massachusetts (the "Insurer"); and

WHEREAS, the Employer wishes to help the Employee provide such insurance for the benefit and protection of his family by the payment of the premiums due on the Policy in accordance with Article 2 hereof; and

WHEREAS, the Employee will be the sole owner of the Policy, and will assign the Policy to the Employer for the purpose of providing security for the repayment of the amounts which the Employer will contribute toward payment of the premium due or to become due on the Policy pursuant to an agreement of even date to be executed by the parties hereto (the "Collateral Assignment"); and

WHEREAS, it is the desire of the parties to define the extent of the Employer's interest in the cash surrender value and death proceeds of the Policy;

NOW THEREFORE, in consideration of the mutual promises contained herein, it is agreed between the parties hereto as follows:

ARTICLE 1: OWNERSHIP OF POLICY

The Policy is the exclusive property of the Employee, who may exercise all rights of ownership with respect to his interest therein, subject to the security interest of the Employer as expressed in this Agreement and the Collateral Assignment and to any death benefit which may become due to the Employer.

ARTICLE 2: PAYMENT OF PREMIUMS

A. For the first seven (7) years the Policy is in force, or until this

Agreement is earlier terminated as provided in Article 8, the Employer shall be responsible for the payment of (i) the scheduled premium, or (ii) such lesser amount as the Insurer advises is consistent with the insurance features of the Policy. In addition, after the expiration of said seven-year period and while this Agreement is still in effect, the Employer may make such additional payments as the Insurer advises is consistent with maintaining the intended value of the Policy but only if such greater amount or

additional payments are approved by the Compensation Committee of the Employer's Board of Directors.

B. The Employee understands that he will recognize taxable income in each year with respect to the life insurance protection afforded to the Employee in accordance with Internal Revenue Service rulings and regulations.

C. The Employer shall, before the end of any grace period provided in the Policy for each premium payment, remit the annual premiums as stated in the Policy until this Agreement is terminated as provided in Article 8. If requested, the Employer shall give proof to the Employee of the timely payment of each premium.

ARTICLE 3: COLLATERAL ASSIGNMENT

To secure the repayment to the Employer of an amount equal to the aggregate amount of its premium payments under the Policy to the extent provided in Article 6, the Employee has contemporaneously with the execution of this Agreement assigned the Policy to the Employer as collateral, by means of the form of Collateral Assignment attached to this Agreement as Schedule 1. The Collateral Assignment shall not be altered, terminated or amended by Employee without the express written consent of the Employer. The parties agree to take all action necessary to cause such assignment to conform to the provisions of this Agreement.

ARTICLE 4: RIGHTS IN POLICY

A. The Employer shall have no right to borrow against the Policy.

B. The Employee, in recognition of the defined contribution provisions of this Agreement and the variable nature of the death benefits, shall have the right to allocate the aggregate account value to particular investment vehicles, subject to a right of the Employer to disapprove a particular investment vehicle which it deems inappropriate.

C. The Employee shall have the right to exchange the Policy for such other policies and/or insurers that he deems appropriate based upon the investment performance or financial condition of the Insurer, subject to the

approval of the Employer, which approval shall not unreasonably be denied. Action by the Employee or the Employer to change the Policy and/or insurer pursuant to this paragraph shall not otherwise alter the rights and responsibilities of the Employer and the Employee as set forth in this Agreement.

D. The Employer shall have no responsibility for a shortfall in the projected total return on the paid-in premiums available to provide the death benefit.

E. The Employer shall not take any action that might endanger the interest of the Employee in the Policy. The Employee shall not take any action that might endanger the interest of the Employer in the Policy.

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ARTICLE 5: EMPLOYEE'S RIGHTS IN POLICY

The Employee retains all other rights in the Policy not specifically assigned to the Employer including, but not limited to, the following rights:

A. The right to surrender the Policy as set forth in Paragraph D of the Collateral Assignment.

B. The right to change the beneficiary of the Policy, to the extent of his interest.

C. The right to select optional methods of settlement with regard to the death benefit provided in PART TWO of Article 7.

D. All other rights contained in the Policy, to the extent the exercise of such rights does not adversely affect the Employer's interest in the Policy.

ARTICLE 6: PAYMENT OF CASH SURRENDER VALUE

A. Except as set forth in this Article 6, Section B, in the event this Agreement is terminated pursuant to Section A or B of Article 8, the Employer shall have the unqualified right to receive from the Insurer a sum which is equal to the lesser of (a) the then cash surrender value as defined in the Policy or (b) the aggregate unreimbursed amount of premium payments with respect to the Policy for which the Employer was responsible pursuant to Article 2, Section A (the "Premium Reimbursement"). This amount shall be established in a written statement to the Insurer by the Employer, and the Insurer shall have the right, without liability to the Employee or his beneficiary or beneficiaries of the Policy, to rely exclusively upon such statement. The Employer shall, upon receiving such sum, release the Collateral Assignment of the Policy.

B. In the event that this Agreement is terminated pursuant to Section B

of Article 8 after the occurrence of a "Terminating Event" (as defined in Section C of this Article 6), the Employer shall not be entitled to receive the Premium Reimbursement pursuant to Section A of Article 6.

C. For purposes of this Article 6, a "Terminating Event" shall mean any of the following if it occurs within two years of a "Change in Control" (as defined in Section E of this Article 6):

(i) termination by the Employer of the Employee's employment with the Employer for any reason other than (a) the Employee's death or disability, or (b) for "Cause" (as such term is defined in Section D of this Article 6), or

(ii) Employee's resignation as an employee of the Employer, other than for reasons of disability, following a significant reduction in the nature or scope of the Employee's duties, responsibilities, authority and powers from the duties, responsibilities, authority and powers exercised by the Employee immediately prior to the Change in Control or a reduction in the Employee's annual base salary as in effect on the date of the Change in Control, except for across-the-board salary reductions similarly affecting all management personnel of the Employer (or the

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surviving entity, in the case of a merger or acquisition in which the Employer is not the surviving entity).

D. For purposes of Section C of this Article 6, "Cause" shall mean:

(i) deliberate dishonesty with respect to the Employer or any subsidiary or affiliate thereof;

(ii) conviction of a crime involving moral turpitude; or

(iii) gross and willful failure to perform a substantial portion of the Employee's duties and responsibilities as an officer of the Employer, which failure continues for more than thirty days after written notice given to the Employee pursuant to a two-thirds vote of all of the members of the Board of Directors of the Employer then in office, such vote to set forth in reasonable detail the nature of such failure.

E. For the purposes of this Article 6, "Change in Control" shall mean the occurrence of any one or more of the following events:

(i) if there is a merger or consolidation of the Employer with any other entity and the voting securities of the Employer outstanding immediately prior to such merger or consolidation do not continue to represent (either by remaining outstanding or by being converted into voting securities of

the surviving entity) more than fifty percent (50%) of the combined voting power of the voting securities of the Employer or such surviving entity immediately after such merger or consolidation, or

(ii) when any person or entity or group of persons or entities either related or acting in concert becomes the "beneficial owner" (as defined in Rule 13d-3 under the Securities Exchange Act of 1934, as amended) of securities of the Employer representing more than fifty percent (50%) of the total number of votes that may be cast for the election of directors of the Employer (any such person or entity or group of persons or entities being referred to, collectively in the case of any such group, as an "Acquiring Person"), or

(iii) if the Employer sells all or substantially all of its assets to another entity, other than in a transaction in which the voting securities of the Employer outstanding immediately prior to such transaction continue to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) more than fifty percent (50%) of the combined voting power of the voting securities of the Employer or such surviving entity immediately after such transaction, or

(iv) during any period of two consecutive years (not including any period prior to the execution of this Agreement), individuals who are Continuing Directors (as hereinafter defined) cease for any reason to constitute at least a majority of the Board of Directors of the Employer. For this purpose, a "Continuing Director" shall mean (a) an individual who was a director of the Employer at the beginning of such period or (b) any new director (other than a director designated

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by an Acquiring Person) whose election by the Board or nomination for election by the Board, a committee thereof or the Employer's stockholders was approved by a vote of a majority of the directors then still in office who either were directors at the beginning of such period or whose election or nomination for election was previously so approved; or

(v) one or more Acquiring Persons has succeeded, as the result of or in response to actual or threatened election contests, whether by settlement or otherwise, in having elected to the Board of Directors of the Employer, whether at one time or on a cumulative basis, a sufficient number of its nominees to constitute (a) more than thirty percent (30%) of the members of the Employer's Board of Directors, rounded down to the nearest whole number, if the number of directors on the Employer's Board is eight or less, or (b) more than forty percent (40%) of the members of the Employer's Board, rounded down to the nearest whole number, if the number of directors on the Employer's Board is nine or more.

ARTICLE 7: PAYMENT OF DEATH BENEFIT

In the event of the death of the Employee while the Policy and this Agreement are in force, the net proceeds of the Policy shall be divided into two parts and paid as follows:

PART ONE: To the Employer, a sum equal to the aggregate unreimbursed amount of premium payments for which the Employer was responsible pursuant to Section A of Article 2, unless Section B of Article 6 applies.

PART TWO: To the designated beneficiaries of the Employee, the remaining proceeds of the Policy.

ARTICLE 8: TERMINATION OF AGREEMENT

This Agreement shall terminate:

A. Upon surrender of the Policy by the Employee, except when the Policy is surrendered and a new policy is issued pursuant to an exchange under Article 4, Section C.

B. Upon the termination of the employment of the Employee for any reason other than retirement at or after attaining the age of 65.

C. On the death of the Employee.

ARTICLE 9: EXCHANGE OF POLICY

In the event the Employer is required to exchange the Policy under Article 4, Section C, the Employee shall execute any forms necessary or appropriate to effect such exchange including, without limitation, the surrender of the Policy, the transfer of proceeds to the new insurer and the

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execution of a new Split Dollar Agreement and Collateral Assignment. Such exchange shall qualify under Section 1035 of the Internal Revenue Code or successor provisions of similar import.

ARTICLE 10: OBLIGATIONS OF INSURER

Any payments made or action taken by the Insurer in accordance with the provisions of the Policy and the Collateral Assignment shall fully discharge it from all claims, suits, and demands of all persons whatsoever.

ARTICLE 11: MISCELLANEOUS

A. This Agreement shall be binding upon the parties hereto, their

heirs, legal representative, successors and assigns.

B. This Agreement and the Collateral Assignment embody all agreements between or among the parties with respect to the Policy, and no change, alteration, or modification may be made except in writing signed by all parties hereto.

C. This Agreement shall be governed by, and construed in accordance with the provisions of, the laws of the Commonwealth of Massachusetts without regard to its principles of conflicts of laws.

D. Any dispute, controversy or claim with respect to any party's performance under this Agreement shall be settled by arbitration in accordance with the laws of The Commonwealth of Massachusetts by a single arbitrator who shall be selected by the American Arbitration Association in Boston, Massachusetts. Such arbitration shall be conducted in the City of Boston in accordance with the Commercial Arbitration Rules of the American Arbitration Association. Punitive damages shall not awarded. Judgment upon the award rendered by the arbitrator may be entered in any court having jurisdiction thereof.

IN WITNESS WHEREOF, the parties hereto have set their hand and seals effective as of the day and year first above written.

/s/ Patricia Lee

Patricia Lee, Employee

Date: February 24, 1999

DM MANAGEMENT COMPANY, Employer

By /s/ Olga L. Conley

Its CHIEF FINANCIAL OFFICER

Date: February 24, 1999

SCHEDULE 1 TO SPLIT DOLLAR AGREEMENT

ASSIGNMENT OF LIFE INSURANCE POLICY AS COLLATERAL

A. FOR VALUE RECEIVED, the undersigned Patricia Lee (hereinafter the "Owner") hereby assigns, transfers and sets over to DM Management Company, a Delaware corporation, its successors and assigns (hereinafter the "Assignee"), the following specific rights (and only those specific rights) in and to policy number V062875300 , issued by Allmerica Financial Life Insurance and Annuity Company (hereinafter the "Insurer") and any supplementary contract or contracts issued in connection therewith (said policy and any such contracts hereinafter the "Policy"), insuring the life of the Owner, subject to all terms and conditions of the Policy and to all superior liens, if any, which the Insurer may have against the Policy. The Owner, by this Assignment, and the Assignee, by acceptance of the Assignment of the Policy to it hereunder, agree to the terms and conditions contained in the Policy.

B. This Assignment is made, and the Policy is to be held as collateral security for, all rights of and obligations owed to the Assignee, now existing or hereafter arising under and pursuant to a certain Split Dollar Agreement, by and between the Owner and the Assignee of even date herewith pertaining to the Policy (hereinafter the "Agreement"). The Owner reserves all rights and powers in and to the Policy, except those specific, limited rights in the Policy granted to the Assignee hereby, as security for all rights of and obligations owed to the Assignee under the Agreement.

C. It is expressly agreed that the Assignee's interest in the Policy under and by virtue of this Assignment shall be limited to the following specific rights, and no others: (1) in the case of the death of the Owner, the right to be paid the amounts due it under PART ONE of Article 7 of the Agreement by recovering said amounts directly from the Insurer out of the net death proceeds of the Policy; (2) in the event that Agreement is terminated pursuant to Article 8, Sections A or B, the right to be paid the amount due it, if any, under Article 6 of the Agreement. Neither party shall have the right to borrow against the Policy, except that the Owner may borrow against the Policy after attaining the age of 65, so long as such borrowing shall not include funds from the Assignee's interest in the Policy.

D. Notwithstanding this Assignment, the Owner shall specifically retain all incidents of ownership in and to the Policy, including, but not limited, to: (1) in accordance with the terms of the Agreement, the right to cancel or surrender the Policy and to receive, subject to Paragraph C. 2. hereof, the surrender value thereof at any time provided by the terms of the Policy and at such other times as the Insurer may allow; (2) the right to designate and change the Policy beneficiary, with respect to the amount to be paid pursuant to PART TWO of Article 7 of the Agreement; (3) the right to elect any optional methods of settlement with regard to the death benefit under PART TWO of Article 7; (4) the right to borrow against the Policy after the Owner attains age 65, so long as such borrowing shall not include funds from the Assignee's interest in the Policy; (5) the right to designate any reallocation of unit values as permitted by the Policy subject to a right of the Assignee to disapprove a particular allocation which it deems inappropriate; and (6) all other rights contained

in the Policy to the extent the exercise of such rights does not adversely affect the interest of the Assignee; provided, however, that all of the foregoing rights retained by the Owner in the Policy shall be subject to the terms and conditions of the Agreement.

E. The Assignee agrees with the Owner as follows: (1) any funds received by Assignee from the Insurer which are attributable to the portion of the death benefit allocated to PART TWO of Article 7 of the Agreement shall be paid by the Assignee to the beneficiaries designated by the Owner; and (2) if the Policy is in the possession of the Assignee, the Assignee will, upon the Owner's request, forward the Policy to the Insurer, without unreasonable delay, for endorsement of any designation or change of beneficiary, any election of optional mode of settlement, or the exercise of any other right reserved by the Owner hereunder.

F. Notwithstanding anything in this Assignment to the contrary, the Insurer shall be under no obligation to monitor the obligation of the Assignee hereunder to pay to the designated beneficiaries of the Owner any amounts received from the Insurer under PART TWO of Article 7 of the Agreement after payment of PART ONE to the Assignee under the Agreement; and the Insurer shall have no obligation or liability to any person or entity if the Assignee fails to pay such amounts as required hereunder.

G. The Insurer is hereby authorized to recognize, and is protected in recognizing, the Assignee's claims to amounts due it hereunder without investigating the validity of its claim thereto, the reason for any action taken by the Assignee, the validity or accuracy of the amount of any of the liabilities of the Owner to the Assignee under the Agreement, the existence of any default therein, the giving of any notice required therein, or the application to be made by the Assignee of any amounts to be paid to the Assignee. A receipt executed solely by the Assignee for any amounts received by it from the Insurer shall be a full discharge and release of the Insurer from the obligations released thereby.

H. In furtherance hereof, the Owner appoints the Assignee his attorney-in-fact for the following purposes:

1. to receive the portion of the death benefit payable to the Assignee upon the death of the Owner under PART ONE of Article 7 of the Agreement; and
2. to receive, upon termination of the Agreement pursuant to Article 8, Sections A or B thereof, the amount, if any, designated in Article 6, Sections A or B of the Agreement, as the case may be.

This appointment is coupled with an interest in the Assignee and shall

be irrevocable so long as the Agreement remains in force.

I. The Insurer shall not comply with a request made by the Owner for cancellation or surrender of the Policy without the consent of the Assignee. Upon receipt of an assented-to request for cancellation or surrender, the Insurer shall terminate the Policy and this Assignment shall be of

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no further force or effect; provided, however, that the Insurer shall set aside and deduct from any amounts to be paid to the Owner under the terms of the Policy in consequence of its cancellation or surrender, the amount due to the Assignee under the provisions of Article 6 of the Agreement, which amount shall be paid to the Assignee by the Insurer.

J. In the event of any conflict between the provisions of this Assignment and the provisions of the Agreement with respect to the Policy or the Assignee's rights therein, the provisions of the Agreement shall prevail.

K. The Owner declares that no proceedings in bankruptcy are pending against the Owner and that the Owner's property is not subject to any assignment for the benefit of creditors of the Owner.

Signed and sealed as of the 24 day of February, 1999.

/s/ Patricia Lee

Patricia Lee, Owner

Date: February 24, 1999

Accepted and Agreed:

DM Management Company

By: /s/ Olga L. Conley

Its: CHIEF FINANCIAL OFFICER

Date: February 24, 1999

ACKNOWLEDGEMENT OF SIGNATURE OF OWNER

COMMONWEALTH OF MASSACHUSETTS)
COUNTY OF PLYMOUTH) ss:

On the 24th day of February, 1999, before me personally came Patricia Lee, to me known to be the individual described in and who executed the assignment above and acknowledged to me that she executed the same.

/s/ Patricia L. Eppich

Notary Public

My commission expires: 4/1/05

[SEAL]
PATRICIA L EPPICH
Notary Public
My Commision Expires April 1, 2005

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ACKNOWLEDGEMENT OF SIGNATURE OF ASSIGNEE

COMMONWEALTH OF MASSACHUSETTS)
COUNTY OF PLYMOUTH) ss:

On the 24th day of February, 1999, before me personally came OLGA L. CONLEY, who being by me duly sworn, did depose and say that he is the CHIEF FINANCIAL OFFICER of DM Management Company, the corporation described in and which executed the acceptance and agreement of assignment above; and that he signed his name thereto by the authority granted to his office.

/s/ Patricia L. Eppich

Notary Public

My commission expires: 4/1/05

[SEAL]
PATRICIA L EPPICH

Notary Public
My Commision Expires April 1, 2005

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SPLIT DOLLAR AGREEMENT

ALLMERICA LIFE INSURANCE
POLICY NO. V062875100

AGREEMENT made as of this 24 day of February, 1999, by and between Peter Tulp (the "Employee"), and DM Management Company, a Delaware corporation (the "Employer").

WHEREAS, the Employee wishes to establish a life insurance program for the benefit and protection of his family under Policy No. V062875100 (the "Policy") issued by Allmerica Financial Life Insurance and Annuity Company, of Worcester, Massachusetts (the "Insurer"); and

WHEREAS, the Employer wishes to help the Employee provide such insurance for the benefit and protection of his family by the payment of the premiums due on the Policy in accordance with Article 2 hereof; and

WHEREAS, the Employee will be the sole owner of the Policy, and will assign the Policy to the Employer for the purpose of providing security for the repayment of the amounts which the Employer will contribute toward payment of the premium due or to become due on the Policy pursuant to an agreement of even date to be executed by the parties hereto (the "Collateral Assignment"); and

WHEREAS, it is the desire of the parties to define the extent of the Employer's interest in the cash surrender value and death proceeds of the Policy;

NOW THEREFORE, in consideration of the mutual promises contained herein, it is agreed between the parties hereto as follows:

ARTICLE 1: OWNERSHIP OF POLICY

The Policy is the exclusive property of the Employee, who may exercise all rights of ownership with respect to his interest therein, subject to the security interest of the Employer as expressed in this Agreement and the Collateral Assignment and to any death benefit which may become due to the Employer.

ARTICLE 2: PAYMENT OF PREMIUMS

A. For the first seven (7) years the Policy is in force, or until this Agreement is earlier terminated as provided in Article 8, the Employer shall be responsible for the payment of (i) the scheduled premium, or (ii) such lesser

amount as the Insurer advises is consistent with the insurance features of the Policy. In addition, after the expiration of said seven-year period and while this Agreement is still in effect, the Employer may make such additional payments as the Insurer advises is consistent with maintaining the intended value of the Policy but only if such greater amount or

additional payments are approved by the Compensation Committee of the Employer's Board of Directors.

B. The Employee understands that he will recognize taxable income in each year with respect to the life insurance protection afforded to the Employee in accordance with Internal Revenue Service rulings and regulations.

C. The Employer shall, before the end of any grace period provided in the Policy for each premium payment, remit the annual premiums as stated in the Policy until this Agreement is terminated as provided in Article 8. If requested, the Employer shall give proof to the Employee of the timely payment of each premium.

ARTICLE 3: COLLATERAL ASSIGNMENT

To secure the repayment to the Employer of an amount equal to the aggregate amount of its premium payments under the Policy to the extent provided in Article 6, the Employee has contemporaneously with the execution of this Agreement assigned the Policy to the Employer as collateral, by means of the form of Collateral Assignment attached to this Agreement as Schedule 1. The Collateral Assignment shall not be altered, terminated or amended by Employee without the express written consent of the Employer. The parties agree to take all action necessary to cause such assignment to conform to the provisions of this Agreement.

ARTICLE 4: RIGHTS IN POLICY

A. The Employer shall have no right to borrow against the Policy.

B. The Employee, in recognition of the defined contribution provisions of this Agreement and the variable nature of the death benefits, shall have the right to allocate the aggregate account value to particular investment vehicles, subject to a right of the Employer to disapprove a particular investment vehicle which it deems inappropriate.

C. The Employee shall have the right to exchange the Policy for such other policies and/or insurers that he deems appropriate based upon the investment performance or financial condition of the Insurer, subject to the approval of the Employer, which approval shall not unreasonably be denied. Action by the Employee or the Employer to change the Policy and/or insurer

pursuant to this paragraph shall not otherwise alter the rights and responsibilities of the Employer and the Employee as set forth in this Agreement.

D. The Employer shall have no responsibility for a shortfall in the projected total return on the paid-in premiums available to provide the death benefit.

E. The Employer shall not take any action that might endanger the interest of the Employee in the Policy. The Employee shall not take any action that might endanger the interest of the Employer in the Policy.

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ARTICLE 5: EMPLOYEE'S RIGHTS IN POLICY

The Employee retains all other rights in the Policy not specifically assigned to the Employer including, but not limited to, the following rights:

A. The right to surrender the Policy as set forth in Paragraph D of the Collateral Assignment.

B. The right to change the beneficiary of the Policy, to the extent of his interest.

C. The right to select optional methods of settlement with regard to the death benefit provided in PART TWO of Article 7.

D. All other rights contained in the Policy, to the extent the exercise of such rights does not adversely affect the Employer's interest in the Policy.

ARTICLE 6: PAYMENT OF CASH SURRENDER VALUE

A. Except as set forth in this Article 6, Section B, in the event this Agreement is terminated pursuant to Section A or B of Article 8, the Employer shall have the unqualified right to receive from the Insurer a sum which is equal to the lesser of (a) the then cash surrender value as defined in the Policy or (b) the aggregate unreimbursed amount of premium payments with respect to the Policy for which the Employer was responsible pursuant to Article 2, Section A (the "Premium Reimbursement"). This amount shall be established in a written statement to the Insurer by the Employer, and the Insurer shall have the right, without liability to the Employee or his beneficiary or beneficiaries of the Policy, to rely exclusively upon such statement. The Employer shall, upon receiving such sum, release the Collateral Assignment of the Policy.

B. In the event that this Agreement is terminated pursuant to Section B of Article 8 after the occurrence of a "Terminating Event" (as defined in

Section C of this Article 6), the Employer shall not be entitled to receive the Premium Reimbursement pursuant to Section A of Article 6.

C. For purposes of this Article 6, a "Terminating Event" shall mean any of the following if it occurs within two years of a "Change in Control" (as defined in Section E of this Article 6):

(i) termination by the Employer of the Employee's employment with the Employer for any reason other than (a) the Employee's death or disability, or (b) for "Cause" (as such term is defined in Section D of this Article 6), or

(ii) Employee's resignation as an employee of the Employer, other than for reasons of disability, following a significant reduction in the nature or scope of the Employee's duties, responsibilities, authority and powers from the duties, responsibilities, authority and powers exercised by the Employee immediately prior to the Change in Control or a reduction in the Employee's annual base salary as in effect on the date of the Change in Control, except for across-the-board salary reductions similarly affecting all management personnel of the Employer (or the

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surviving entity, in the case of a merger or acquisition in which the Employer is not the surviving entity).

D. For purposes of Section C of this Article 6, "Cause" shall mean:

(i) deliberate dishonesty with respect to the Employer or any subsidiary or affiliate thereof;

(ii) conviction of a crime involving moral turpitude; or

(iii) gross and willful failure to perform a substantial portion of the Employee's duties and responsibilities as an officer of the Employer, which failure continues for more than thirty days after written notice given to the Employee pursuant to a two-thirds vote of all of the members of the Board of Directors of the Employer then in office, such vote to set forth in reasonable detail the nature of such failure.

E. For the purposes of this Article 6, "Change in Control" shall mean the occurrence of any one or more of the following events:

(i) if there is a merger or consolidation of the Employer with any other entity and the voting securities of the Employer outstanding immediately prior to such merger or consolidation do not continue to represent (either by remaining outstanding or by being converted into voting securities of

the surviving entity) more than fifty percent (50%) of the combined voting power of the voting securities of the Employer or such surviving entity immediately after such merger or consolidation, or

(ii) when any person or entity or group of persons or entities either related or acting in concert becomes the "beneficial owner" (as defined in Rule 13d-3 under the Securities Exchange Act of 1934, as amended) of securities of the Employer representing more than fifty percent (50%) of the total number of votes that may be cast for the election of directors of the Employer (any such person or entity or group of persons or entities being referred to, collectively in the case of any such group, as an "Acquiring Person"), or

(iii) if the Employer sells all or substantially all of its assets to another entity, other than in a transaction in which the voting securities of the Employer outstanding immediately prior to such transaction continue to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) more than fifty percent (50%) of the combined voting power of the voting securities of the Employer or such surviving entity immediately after such transaction, or

(iv) during any period of two consecutive years (not including any period prior to the execution of this Agreement), individuals who are Continuing Directors (as hereinafter defined) cease for any reason to constitute at least a majority of the Board of Directors of the Employer. For this purpose, a "Continuing Director" shall mean (a) an individual who was a director of the Employer at the beginning of such period or (b) any new director (other than a director designated

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by an Acquiring Person) whose election by the Board or nomination for election by the Board, a committee thereof or the Employer's stockholders was approved by a vote of a majority of the directors then still in office who either were directors at the beginning of such period or whose election or nomination for election was previously so approved; or

(v) one or more Acquiring Persons has succeeded, as the result of or in response to actual or threatened election contests, whether by settlement or otherwise, in having elected to the Board of Directors of the Employer, whether at one time or on a cumulative basis, a sufficient number of its nominees to constitute (a) more than thirty percent (30%) of the members of the Employer's Board of Directors, rounded down to the nearest whole number, if the number of directors on the Employer's Board is eight or less, or (b) more than forty percent (40%) of the members of the Employer's Board, rounded down to the nearest whole number, if the number of directors on the Employer's Board is nine or more.

ARTICLE 7: PAYMENT OF DEATH BENEFIT

In the event of the death of the Employee while the Policy and this Agreement are in force, the net proceeds of the Policy shall be divided into two parts and paid as follows:

PART ONE: To the Employer, a sum equal to the aggregate unreimbursed amount of premium payments for which the Employer was responsible pursuant to Section A of Article 2, unless Section B of Article 6 applies.

PART TWO: To the designated beneficiaries of the Employee, the remaining proceeds of the Policy.

ARTICLE 8: TERMINATION OF AGREEMENT

This Agreement shall terminate:

A. Upon surrender of the Policy by the Employee, except when the Policy is surrendered and a new policy is issued pursuant to an exchange under Article 4, Section C.

B. Upon the termination of the employment of the Employee for any reason other than retirement at or after attaining the age of 65.

C. On the death of the Employee.

ARTICLE 9: EXCHANGE OF POLICY

In the event the Employer is required to exchange the Policy under Article 4, Section C, the Employee shall execute any forms necessary or appropriate to effect such exchange including, without limitation, the surrender of the Policy, the transfer of proceeds to the new insurer and the

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execution of a new Split Dollar Agreement and Collateral Assignment. Such exchange shall qualify under Section 1035 of the Internal Revenue Code or successor provisions of similar import.

ARTICLE 10: OBLIGATIONS OF INSURER

Any payments made or action taken by the Insurer in accordance with the provisions of the Policy and the Collateral Assignment shall fully discharge it from all claims, suits, and demands of all persons whatsoever.

ARTICLE 11: MISCELLANEOUS

A. This Agreement shall be binding upon the parties hereto, their heirs, legal representative, successors and assigns.

B. This Agreement and the Collateral Assignment embody all agreements between or among the parties with respect to the Policy, and no change, alteration, or modification may be made except in writing signed by all parties hereto.

C. This Agreement shall be governed by, and construed in accordance with the provisions of, the laws of the Commonwealth of Massachusetts without regard to its principles of conflicts of laws.

D. Any dispute, controversy or claim with respect to any party's performance under this Agreement shall be settled by arbitration in accordance with the laws of The Commonwealth of Massachusetts by a single arbitrator who shall be selected by the American Arbitration Association in Boston, Massachusetts. Such arbitration shall be conducted in the City of Boston in accordance with the Commercial Arbitration Rules of the American Arbitration Association. Punitive damages shall not awarded. Judgment upon the award rendered by the arbitrator may be entered in any court having jurisdiction thereof.

IN WITNESS WHEREOF, the parties hereto have set their hand and seals effective as of the day and year first above written.

/s/ Peter Tulp

Peter Tulp, Employee

Date: February 24, 1999

DM MANAGEMENT COMPANY, Employer

By /s/Olga L. Conley

Its Chief Financial Officer

Date: February 24, 1999

SCHEDULE 1 TO SPLIT DOLLAR AGREEMENT

ASSIGNMENT OF LIFE INSURANCE POLICY AS COLLATERAL

A. FOR VALUE RECEIVED, the undersigned Peter Tulp (hereinafter the "Owner") hereby assigns, transfers and sets over to DM Management Company, a Delaware corporation, its successors and assigns (hereinafter the "Assignee"), the following specific rights (and only those specific rights) in and to policy number V062875100, issued by Allmerica Financial Life Insurance and Annuity Company (hereinafter the "Insurer") and any supplementary contract or contracts issued in connection therewith (said policy and any such contracts hereinafter the "Policy"), insuring the life of the Owner, subject to all terms and conditions of the Policy and to all superior liens, if any, which the Insurer may have against the Policy. The Owner, by this Assignment, and the Assignee, by acceptance of the Assignment of the Policy to it hereunder, agree to the terms and conditions contained in the Policy.

B. This Assignment is made, and the Policy is to be held as collateral security for, all rights of and obligations owed to the Assignee, now existing or hereafter arising under and pursuant to a certain Split Dollar Agreement, by and between the Owner and the Assignee of even date herewith pertaining to the Policy (hereinafter the "Agreement"). The Owner reserves all rights and powers in and to the Policy, except those specific, limited rights in the Policy granted to the Assignee hereby, as security for all rights of and obligations owed to the Assignee under the Agreement.

C. It is expressly agreed that the Assignee's interest in the Policy under and by virtue of this Assignment shall be limited to the following specific rights, and no others: (1) in the case of the death of the Owner, the right to be paid the amounts due it under PART ONE of Article 7 of the Agreement by recovering said amounts directly from the Insurer out of the net death proceeds of the Policy; (2) in the event that Agreement is terminated pursuant to Article 8, Sections A or B, the right to be paid the amount due it, if any, under Article 6 of the Agreement. Neither party shall have the right to borrow against the Policy, except that the Owner may borrow against the Policy after attaining the age of 65, so long as such borrowing shall not include funds from the Assignee's interest in the Policy.

D. Notwithstanding this Assignment, the Owner shall specifically retain all incidents of ownership in and to the Policy, including, but not limited, to: (1) in accordance with the terms of the Agreement, the right to cancel or surrender the Policy and to receive, subject to Paragraph C. 2. hereof, the surrender value thereof at any time provided by the terms of the Policy and at such other times as the Insurer may allow; (2) the right to designate and change the Policy beneficiary, with respect to the amount to be paid pursuant to PART TWO of Article 7 of the Agreement; (3) the right to elect any optional methods of settlement with regard to the death benefit under PART TWO of Article 7; (4) the right to borrow against the Policy after the Owner attains age 65, so long as such borrowing shall not include funds from the Assignee's interest in the Policy; (5) the right to designate any reallocation of unit values as permitted

by the Policy subject to a right of the Assignee to disapprove a particular allocation which it deems inappropriate; and (6) all other rights contained

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in the Policy to the extent the exercise of such rights does not adversely affect the interest of the Assignee; provided, however, that all of the foregoing rights retained by the Owner in the Policy shall be subject to the terms and conditions of the Agreement.

E. The Assignee agrees with the Owner as follows: (1) any funds received by Assignee from the Insurer which are attributable to the portion of the death benefit allocated to PART TWO of Article 7 of the Agreement shall be paid by the Assignee to the beneficiaries designated by the Owner; and (2) if the Policy is in the possession of the Assignee, the Assignee will, upon the Owner's request, forward the Policy to the Insurer, without unreasonable delay, for endorsement of any designation or change of beneficiary, any election of optional mode of settlement, or the exercise of any other right reserved by the Owner hereunder.

F. Notwithstanding anything in this Assignment to the contrary, the Insurer shall be under no obligation to monitor the obligation of the Assignee hereunder to pay to the designated beneficiaries of the Owner any amounts received from the Insurer under PART TWO of Article 7 of the Agreement after payment of PART ONE to the Assignee under the Agreement; and the Insurer shall have no obligation or liability to any person or entity if the Assignee fails to pay such amounts as required hereunder.

G. The Insurer is hereby authorized to recognize, and is protected in recognizing, the Assignee's claims to amounts due it hereunder without investigating the validity of its claim thereto, the reason for any action taken by the Assignee, the validity or accuracy of the amount of any of the liabilities of the Owner to the Assignee under the Agreement, the existence of any default therein, the giving of any notice required therein, or the application to be made by the Assignee of any amounts to be paid to the Assignee. A receipt executed solely by the Assignee for any amounts received by it from the Insurer shall be a full discharge and release of the Insurer from the obligations released thereby.

H. In furtherance hereof, the Owner appoints the Assignee his attorney-in-fact for the following purposes:

1. to receive the portion of the death benefit payable to the Assignee upon the death of the Owner under PART ONE of Article 7 of the Agreement; and
2. to receive, upon termination of the Agreement pursuant to

Article 8, Sections A or B thereof, the amount, if any, designated in Article 6, Sections A or B of the Agreement, as the case may be.

This appointment is coupled with an interest in the Assignee and shall be irrevocable so long as the Agreement remains in force.

I. The Insurer shall not comply with a request made by the Owner for cancellation or surrender of the Policy without the consent of the Assignee. Upon receipt of an assented-to request for cancellation or surrender, the Insurer shall terminate the Policy and this Assignment shall be of

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no further force or effect; provided, however, that the Insurer shall set aside and deduct from any amounts to be paid to the Owner under the terms of the Policy in consequence of its cancellation or surrender, the amount due to the Assignee under the provisions of Article 6 of the Agreement, which amount shall be paid to the Assignee by the Insurer.

J. In the event of any conflict between the provisions of this Assignment and the provisions of the Agreement with respect to the Policy or the Assignee's rights therein, the provisions of the Agreement shall prevail.

K. The Owner declares that no proceedings in bankruptcy are pending against the Owner and that the Owner's property is not subject to any assignment for the benefit of creditors of the Owner.

Signed and sealed as of the 24 day of February, 1999.

/s/ Peter Tulp

Peter Tulp, Owner

Date: February 24, 1999

Accepted and Agreed:

DM Management Company

By: /s/ Olga L. Conley

Its: Chief Financial Officer

Date: February 24, 1999

ACKNOWLEDGEMENT OF SIGNATURE OF OWNER

COMMONWEALTH OF MASSACHUSETTS)
COUNTY OF Plymouth) ss:

On the 24th day of February, 1999, before me personally came Peter Tulp, to me known to be the individual described in and who executed the assignment above and acknowledged to me that he executed the same.

/s/ Patricia L. Eppich

Notary Public

My commission expires: 4/1/05

[seal]

PATRICIA L. EPPICH

Notary Public

My Commission Expires April 1,2005

ACKNOWLEDGEMENT OF SIGNATURE OF ASSIGNEE

COMMONWEALTH OF MASSACHUSETTS)
COUNTY OF Plymouth) ss:

On the 24th day of February, 1999, before me personally came Olga L. Conley, who being by me duly sworn, did depose and say that he is the Chief Financial Officer of DM Management Company, the corporation described in and which executed the acceptance and agreement of assignment above; and that he signed his name thereto by the authority granted to his office.

/s/ Patricia L. Eppich

Notary Public

My commission expires: 4/1/05

PATRICIA . EPPICH
Notary Public
My Commission Expires April 1, 2005

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SPLIT DOLLAR AGREEMENT

ALLMERICA LIFE INSURANCE
POLICY NO. V062403700

AGREEMENT made as of this 3rd day of March, 1999, by and between Jane Dunning (the "Employee"), and DM Management Company, a Delaware corporation (the "Employer").

WHEREAS, the Employee wishes to establish a life insurance program for the benefit and protection of his family under Policy No. V062403700 (the "Policy") issued by Allmerica Financial Life Insurance and Annuity Company, of Worcester, Massachusetts (the "Insurer"); and

WHEREAS, the Employer wishes to help the Employee provide such insurance for the benefit and protection of his family by the payment of the premiums due on the Policy in accordance with Article 2 hereof; and

WHEREAS, the Employee will be the sole owner of the Policy, and will assign the Policy to the Employer for the purpose of providing security for the repayment of the amounts which the Employer will contribute toward payment of the premium due or to become due on the Policy pursuant to an agreement of even date to be executed by the parties hereto (the "Collateral Assignment"); and

WHEREAS, it is the desire of the parties to define the extent of the Employer's interest in the cash surrender value and death proceeds of the Policy;

NOW THEREFORE, in consideration of the mutual promises contained herein, it is agreed between the parties hereto as follows:

ARTICLE 1: OWNERSHIP OF POLICY

The Policy is the exclusive property of the Employee, who may exercise all rights of ownership with respect to his interest therein, subject to the security interest of the Employer as expressed in this Agreement and the Collateral Assignment and to any death benefit which may become due to the Employer.

ARTICLE 2: PAYMENT OF PREMIUMS

A. For the first seven (7) years the Policy is in force, or until this Agreement is earlier terminated as provided in Article 8, the Employer shall be

responsible for the payment of (i) the scheduled premium, or (ii) such lesser amount as the Insurer advises is consistent with the insurance features of the Policy. In addition, after the expiration of said seven-year period and while this Agreement is still in effect, the Employer may make such additional payments as the Insurer advises is consistent with maintaining the intended value of the Policy but only if such greater amount or

additional payments are approved by the Compensation Committee of the Employer's Board of Directors.

B. The Employee understands that he will recognize taxable income in each year with respect to the life insurance protection afforded to the Employee in accordance with Internal Revenue Service rulings and regulations.

C. The Employer shall, before the end of any grace period provided in the Policy for each premium payment, remit the annual premiums as stated in the Policy until this Agreement is terminated as provided in Article 8. If requested, the Employer shall give proof to the Employee of the timely payment of each premium.

ARTICLE 3: COLLATERAL ASSIGNMENT

To secure the repayment to the Employer of an amount equal to the aggregate amount of its premium payments under the Policy to the extent provided in Article 6, the Employee has contemporaneously with the execution of this Agreement assigned the Policy to the Employer as collateral, by means of the form of Collateral Assignment attached to this Agreement as Schedule 1. The Collateral Assignment shall not be altered, terminated or amended by Employee without the express written consent of the Employer. The parties agree to take all action necessary to cause such assignment to conform to the provisions of this Agreement.

ARTICLE 4: RIGHTS IN POLICY

A. The Employer shall have no right to borrow against the Policy.

B. The Employee, in recognition of the defined contribution provisions of this Agreement and the variable nature of the death benefits, shall have the right to allocate the aggregate account value to particular investment vehicles, subject to a right of the Employer to disapprove a particular investment vehicle which it deems inappropriate.

C. The Employee shall have the right to exchange the Policy for such other policies and/or insurers that he deems appropriate based upon the investment performance or financial condition of the Insurer, subject to the approval of the Employer, which approval shall not unreasonably be denied.

Action by the Employee or the Employer to change the Policy and/or insurer pursuant to this paragraph shall not otherwise alter the rights and responsibilities of the Employer and the Employee as set forth in this Agreement.

D. The Employer shall have no responsibility for a shortfall in the projected total return on the paid-in premiums available to provide the death benefit.

E. The Employer shall not take any action that might endanger the interest of the Employee in the Policy. The Employee shall not take any action that might endanger the interest of the Employer in the Policy.

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ARTICLE 5: EMPLOYEE'S RIGHTS IN POLICY

The Employee retains all other rights in the Policy not specifically assigned to the Employer including, but not limited to, the following rights:

A. The right to surrender the Policy as set forth in Paragraph D of the Collateral Assignment.

B. The right to change the beneficiary of the Policy, to the extent of his interest.

C. The right to select optional methods of settlement with regard to the death benefit provided in PART TWO of Article 7.

D. All other rights contained in the Policy, to the extent the exercise of such rights does not adversely affect the Employer's interest in the Policy.

ARTICLE 6: PAYMENT OF CASH SURRENDER VALUE

A. Except as set forth in this Article 6, Section B, in the event this Agreement is terminated pursuant to Section A or B of Article 8, the Employer shall have the unqualified right to receive from the Insurer a sum which is equal to the lesser of (a) the then cash surrender value as defined in the Policy or (b) the aggregate unreimbursed amount of premium payments with respect to the Policy for which the Employer was responsible pursuant to Article 2, Section A (the "Premium Reimbursement"). This amount shall be established in a written statement to the Insurer by the Employer, and the Insurer shall have the right, without liability to the Employee or his beneficiary or beneficiaries of the Policy, to rely exclusively upon such statement. The Employer shall, upon receiving such sum, release the Collateral Assignment of the Policy.

B. In the event that this Agreement is terminated pursuant to Section B

of Article 8 after the occurrence of a "Terminating Event" (as defined in Section C of this Article 6), the Employer shall not be entitled to receive the Premium Reimbursement pursuant to Section A of Article 6.

C. For purposes of this Article 6, a "Terminating Event" shall mean any of the following if it occurs within two years of a "Change in Control" (as defined in Section E of this Article 6):

(i) termination by the Employer of the Employee's employment with the Employer for any reason other than (a) the Employee's death or disability, or (b) for "Cause" (as such term is defined in Section D of this Article 6), or

(ii) Employee's resignation as an employee of the Employer, other than for reasons of disability, following a significant reduction in the nature or scope of the Employee's duties, responsibilities, authority and powers from the duties, responsibilities, authority and powers exercised by the Employee immediately prior to the Change in Control or a reduction in the Employee's annual base salary as in effect on the date of the Change in Control, except for across-the-board salary reductions similarly affecting all management personnel of the Employer (or the

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surviving entity, in the case of a merger or acquisition in which the Employer is not the surviving entity).

D. For purposes of Section C of this Article 6, "Cause" shall mean:

(i) deliberate dishonesty with respect to the Employer or any subsidiary or affiliate thereof;

(ii) conviction of a crime involving moral turpitude; or

(iii) gross and willful failure to perform a substantial portion of the Employee's duties and responsibilities as an officer of the Employer, which failure continues for more than thirty days after written notice given to the Employee pursuant to a two-thirds vote of all of the members of the Board of Directors of the Employer then in office, such vote to set forth in reasonable detail the nature of such failure.

E. For the purposes of this Article 6, "Change in Control" shall mean the occurrence of any one or more of the following events:

(i) if there is a merger or consolidation of the Employer with any other entity and the voting securities of the Employer outstanding immediately prior to such merger or consolidation do not continue to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) more than fifty percent (50%) of the combined voting power

of the voting securities of the Employer or such surviving entity immediately after such merger or consolidation, or

(ii) when any person or entity or group of persons or entities either related or acting in concert becomes the "beneficial owner" (as defined in Rule 13d-3 under the Securities Exchange Act of 1934, as amended) of securities of the Employer representing more than fifty percent (50%) of the total number of votes that may be cast for the election of directors of the Employer (any such person or entity or group of persons or entities being referred to, collectively in the case of any such group, as an "Acquiring Person"), or

(iii) if the Employer sells all or substantially all of its assets to another entity, other than in a transaction in which the voting securities of the Employer outstanding immediately prior to such transaction continue to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) more than fifty percent (50%) of the combined voting power of the voting securities of the Employer or such surviving entity immediately after such transaction, or

(iv) during any period of two consecutive years (not including any period prior to the execution of this Agreement), individuals who are Continuing Directors (as hereinafter defined) cease for any reason to constitute at least a majority of the Board of Directors of the Employer. For this purpose, a "Continuing Director" shall mean (a) an individual who was a director of the Employer at the beginning of such period or (b) any new director (other than a director designated

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by an Acquiring Person) whose election by the Board or nomination for election by the Board, a committee thereof or the Employer's stockholders was approved by a vote of a majority of the directors then still in office who either were directors at the beginning of such period or whose election or nomination for election was previously so approved; or

(v) one or more Acquiring Persons has succeeded, as the result of or in response to actual or threatened election contests, whether by settlement or otherwise, in having elected to the Board of Directors of the Employer, whether at one time or on a cumulative basis, a sufficient number of its nominees to constitute (a) more than thirty percent (30%) of the members of the Employer's Board of Directors, rounded down to the nearest whole number, if the number of directors on the Employer's Board is eight or less, or (b) more than forty percent (40%) of the members of the Employer's Board, rounded down to the nearest whole number, if the number of directors on the Employer's Board is nine or more.

ARTICLE 7: PAYMENT OF DEATH BENEFIT

In the event of the death of the Employee while the Policy and this Agreement are in force, the net proceeds of the Policy shall be divided into two parts and paid as follows:

PART ONE: To the Employer, a sum equal to the aggregate unreimbursed amount of premium payments for which the Employer was responsible pursuant to Section A of Article 2, unless Section B of Article 6 applies.

PART TWO: To the designated beneficiaries of the Employee, the remaining proceeds of the Policy.

ARTICLE 8: TERMINATION OF AGREEMENT

This Agreement shall terminate:

A. Upon surrender of the Policy by the Employee, except when the Policy is surrendered and a new policy is issued pursuant to an exchange under Article 4, Section C.

B. Upon the termination of the employment of the Employee for any reason other than retirement at or after attaining the age of 65.

C. On the death of the Employee.

ARTICLE 9: EXCHANGE OF POLICY

In the event the Employer is required to exchange the Policy under Article 4, Section C, the Employee shall execute any forms necessary or appropriate to effect such exchange including, without limitation, the surrender of the Policy, the transfer of proceeds to the new insurer and the

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execution of a new Split Dollar Agreement and Collateral Assignment. Such exchange shall qualify under Section 1035 of the Internal Revenue Code or successor provisions of similar import.

ARTICLE 10: OBLIGATIONS OF INSURER

Any payments made or action taken by the Insurer in accordance with the provisions of the Policy and the Collateral Assignment shall fully discharge it from all claims, suits, and demands of all persons whatsoever.

ARTICLE 11: MISCELLANEOUS

A. This Agreement shall be binding upon the parties hereto, their heirs, legal representative, successors and assigns.

B. This Agreement and the Collateral Assignment embody all agreements between or among the parties with respect to the Policy, and no change, alteration, or modification may be made except in writing signed by all parties hereto.

C. This Agreement shall be governed by, and construed in accordance with the provisions of, the laws of the Commonwealth of Massachusetts without regard to its principles of conflicts of laws.

D. Any dispute, controversy or claim with respect to any party's performance under this Agreement shall be settled by arbitration in accordance with the laws of The Commonwealth of Massachusetts by a single arbitrator who shall be selected by the American Arbitration Association in Boston, Massachusetts. Such arbitration shall be conducted in the City of Boston in accordance with the Commercial Arbitration Rules of the American Arbitration Association. Punitive damages shall not awarded. Judgment upon the award rendered by the arbitrator may be entered in any court having jurisdiction thereof.

IN WITNESS WHEREOF, the parties hereto have set their hand and seals effective as of the day and year first above written.

/s/ Jane Dunning

Jane Dunning, Employee

Date: March 3, 1999

DM MANAGEMENT COMPANY, Employer

By /s/ Olga L. Conley

Its CHIEF FINANCIAL OFFICER

Date: March 3, 1999

SCHEDULE 1 TO SPLIT DOLLAR AGREEMENT

ASSIGNMENT OF LIFE INSURANCE POLICY AS COLLATERAL

A. FOR VALUE RECEIVED, the undersigned Jane Dunning (hereinafter the "Owner") hereby assigns, transfers and sets over to DM Management Company, a Delaware corporation, its successors and assigns (hereinafter the "Assignee"), the following specific rights (and only those specific rights) in and to policy number V062403700, issued by Allmerica Financial Life Insurance and Annuity Company (hereinafter the "Insurer") and any supplementary contract or contracts issued in connection therewith (said policy and any such contracts hereinafter the "Policy"), insuring the life of the Owner, subject to all terms and conditions of the Policy and to all superior liens, if any, which the Insurer may have against the Policy. The Owner, by this Assignment, and the Assignee, by acceptance of the Assignment of the Policy to it hereunder, agree to the terms and conditions contained in the Policy.

B. This Assignment is made, and the Policy is to be held as collateral security for, all rights of and obligations owed to the Assignee, now existing or hereafter arising under and pursuant to a certain Split Dollar Agreement, by and between the Owner and the Assignee of even date herewith pertaining to the Policy (hereinafter the "Agreement"). The Owner reserves all rights and powers in and to the Policy, except those specific, limited rights in the Policy granted to the Assignee hereby, as security for all rights of and obligations owed to the Assignee under the Agreement.

C. It is expressly agreed that the Assignee's interest in the Policy under and by virtue of this Assignment shall be limited to the following specific rights, and no others: (1) in the case of the death of the Owner, the right to be paid the amounts due it under PART ONE of Article 7 of the Agreement by recovering said amounts directly from the Insurer out of the net death proceeds of the Policy; (2) in the event that Agreement is terminated pursuant to Article 8, Sections A or B, the right to be paid the amount due it, if any, under Article 6 of the Agreement. Neither party shall have the right to borrow against the Policy, except that the Owner may borrow against the Policy after attaining the age of 65, so long as such borrowing shall not include funds from the Assignee's interest in the Policy.

D. Notwithstanding this Assignment, the Owner shall specifically retain all incidents of ownership in and to the Policy, including, but not limited, to: (1) in accordance with the terms of the Agreement, the right to cancel or surrender the Policy and to receive, subject to Paragraph C. 2. hereof, the surrender value thereof at any time provided by the terms of the Policy and at such other times as the Insurer may allow; (2) the right to designate and change the Policy beneficiary, with respect to the amount to be paid pursuant to PART TWO of Article 7 of the Agreement; (3) the right to elect any optional methods of settlement with regard to the death benefit under PART TWO of Article 7; (4) the right to borrow against the Policy after the Owner attains age 65, so long as such borrowing shall not include funds from the Assignee's interest in the

Policy; (5) the right to designate any reallocation of unit values as permitted by the Policy subject to a right of the Assignee to disapprove a particular allocation which it deems inappropriate; and (6) all other rights contained

-1-

in the Policy to the extent the exercise of such rights does not adversely affect the interest of the Assignee; provided, however, that all of the foregoing rights retained by the Owner in the Policy shall be subject to the terms and conditions of the Agreement.

E. The Assignee agrees with the Owner as follows: (1) any funds received by Assignee from the Insurer which are attributable to the portion of the death benefit allocated to PART TWO of Article 7 of the Agreement shall be paid by the Assignee to the beneficiaries designated by the Owner; and (2) if the Policy is in the possession of the Assignee, the Assignee will, upon the Owner's request, forward the Policy to the Insurer, without unreasonable delay, for endorsement of any designation or change of beneficiary, any election of optional mode of settlement, or the exercise of any other right reserved by the Owner hereunder.

F. Notwithstanding anything in this Assignment to the contrary, the Insurer shall be under no obligation to monitor the obligation of the Assignee hereunder to pay to the designated beneficiaries of the Owner any amounts received from the Insurer under PART TWO of Article 7 of the Agreement after payment of PART ONE to the Assignee under the Agreement; and the Insurer shall have no obligation or liability to any person or entity if the Assignee fails to pay such amounts as required hereunder.

G. The Insurer is hereby authorized to recognize, and is protected in recognizing, the Assignee's claims to amounts due it hereunder without investigating the validity of its claim thereto, the reason for any action taken by the Assignee, the validity or accuracy of the amount of any of the liabilities of the Owner to the Assignee under the Agreement, the existence of any default therein, the giving of any notice required therein, or the application to be made by the Assignee of any amounts to be paid to the Assignee. A receipt executed solely by the Assignee for any amounts received by it from the Insurer shall be a full discharge and release of the Insurer from the obligations released thereby.

H. In furtherance hereof, the Owner appoints the Assignee his attorney-in-fact for the following purposes:

1. to receive the portion of the death benefit payable to the Assignee upon the death of the Owner under PART ONE of Article 7 of the Agreement; and
2. to receive, upon termination of the Agreement pursuant to Article 8, Sections A or B thereof, the amount, if any,

designated in Article 6, Sections A or B of the Agreement, as the case may be.

This appointment is coupled with an interest in the Assignee and shall be irrevocable so long as the Agreement remains in force.

I. The Insurer shall not comply with a request made by the Owner for cancellation or surrender of the Policy without the consent of the Assignee. Upon receipt of an assented-to request for cancellation or surrender, the Insurer shall terminate the Policy and this Assignment shall be of

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no further force or effect; provided, however, that the Insurer shall set aside and deduct from any amounts to be paid to the Owner under the terms of the Policy in consequence of its cancellation or surrender, the amount due to the Assignee under the provisions of Article 6 of the Agreement, which amount shall be paid to the Assignee by the Insurer.

J. In the event of any conflict between the provisions of this Assignment and the provisions of the Agreement with respect to the Policy or the Assignee's rights therein, the provisions of the Agreement shall prevail.

K. The Owner declares that no proceedings in bankruptcy are pending against the Owner and that the Owner's property is not subject to any assignment for the benefit of creditors of the Owner.

Signed and sealed as of the 3rd day of March, 1999.

/s/ Jane Dunning

Jane Dunning, Owner

Date: March 3, 1999

Accepted and Agreed:

DM Management Company

By:/s/ Olga L. Conley

Its:CHIEF FINANCIAL OFFICER

Date: March 3, 1999

ACKNOWLEDGEMENT OF SIGNATURE OF OWNER

COMMONWEALTH OF MASSACHUSETTS)
COUNTY OF PLYMOUTH) ss:

On the 3rd day of March, 1999, before me personally came Jane Dunning, to me known to be the individual described in and who executed the assignment above and acknowledged to me that she executed the same.

/s/ Patricia L. Eppich

Notary Public

My commission expires: 4/1/05

[SEAL]
PATRICIA L EPPICH
Notary Public
My Commision Expires April 1, 2005

ACKNOWLEDGEMENT OF SIGNATURE OF ASSIGNEE

COMMONWEALTH OF MASSACHUSETTS)
COUNTY OF PLYMOUTH) ss:

On the 3rd day of March, 1999, before me personally came Olga L. Conley, who being by me duly sworn, did depose and say that he is the Chief Financial Officer of DM Management Company, the corporation described in and which executed the acceptance and agreement of assignment above; and that he signed his name thereto by the authority granted to his office.

/s/ Patricia L. Eppich

Notary Public

My commission expires: 4/1/05

PATRICIA L EPPICH
Notary Public
My Commision Expires April 1, 2005

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FOURTH AMENDMENT TO SECOND AMENDED
AND RESTATED LOAN AGREEMENT

This Fourth Amendment to Second Amended and Restated Loan Agreement dated as of December 31, 1998, by and between Citizens Bank of Massachusetts (herein "BANK"), and DM Management Company, a Delaware corporation (herein "BORROWER").

WITNESSETH:

WHEREAS, BANK and BORROWER are parties to that certain Loan Agreement made as of June 5, 1997 by and between BANK and BORROWER, as the same has been amended and restated in a certain Amended and Restated Loan Agreement dated as of October 31, 1997, and in a certain Second Amended and Restated Loan Agreement dated March 5, 1998, and as amended by a certain First Amendment to Second Amended and Restated Loan Agreement dated as of June 30, 1998, and Second Amendment to Second Amended and Restated Loan Agreement dated as of September 4, 1998 and Third Amendment to Second Amended and Restated Loan Agreement dated September 4, 1998 (as so restated and amended, the "Loan Agreement");

WHEREAS, BORROWER and the BANK wish to further amend the Loan Agreement as more particularly hereafter set forth. Capitalized terms used herein without definition shall have the meanings ascribed to them in the Loan Agreement.

NOW, THEREFORE, in consideration of the covenants and agreements herein contained, the parties hereby agree that the Loan Agreement is hereby amended as follows:

(a) By deleting the definition of CERTIFICATE OF DEPOSIT and substituting the following in lieu thereof:

"CERTIFICATE OF DEPOSIT" shall mean a certain Certificate of Deposit of the BANK issued to the BORROWER numbered 9802250739 in the amount of \$12,327,632.99 as the same may be amended, substituted for, replaced, increased or reduced.

(b) By deleting the definition of REVOLVING CREDIT COMMITMENT AMOUNT and substituting the following in lieu thereof:

" 'REVOLVING CREDIT COMMITMENT AMOUNT' (sometimes the 'REVOLVING COMMITMENT AMOUNT') shall mean the sum of Eight Million Five Hundred Thousand Dollars (\$8,500,000.00) except that during the period from the date hereof through March 31, 1999 it shall mean Twenty-Three Million Five Hundred Thousand Dollars (\$23,500,000.00) (unless BORROWER delivers written notice to the BANK requesting a lesser amount and BANK confirms same in writing), provided however that any such increase as aforesaid (consisting of Fifteen Million Dollars (\$15,000,000)) shall be reduced by the amount financed under the CITIZENS LEASE."

(c) By deleting the definition of "SPECIAL EVENT".

(d) By deleting the definition of "SPECIAL PERIOD".

(e) By inserting a definition of "SECOND REPLACEMENT NEW BRIDGE NOTE" as follows:

"SECOND REPLACEMENT NEW BRIDGE NOTE" is defined in Section 5A.05.

2. Section 5A.05 is hereby deleted and the following substituted in lieu thereof:

"5A.05 The term of the BRIDGE NOTE having expired and all of the conditions of Article XV and Section 2.08 having been satisfied and no EVENT OF DEFAULT having occurred, the BANK agreed to extend the term for repayment of the BRIDGE LOAN until December 31, 1998 and to reprice the same in the manner provided. Such BRIDGE LOAN was evidenced by the NEW BRIDGE NOTE. The BORROWER having represented that all of the conditions of Article XV and Section 2.08 have been satisfied and remain fulfilled as of the date hereof, and that no EVENT OF DEFAULT has occurred, the BANK agrees to further extend the term of the BRIDGE LOAN until March 31, 1999 and to reprice the same in the manner provided in Section 5A.08 hereof."

3. Concurrently herewith, BORROWER shall execute and deliver to the BANK a replacement of the REPLACEMENT NEW BRIDGE NOTE (the "SECOND REPLACEMENT NEW BRIDGE NOTE") to reflect the amended maturity date of such note. All references in the Loan Agreement to the "NEW BRIDGE NOTE" or "REPLACEMENT NEW BRIDGE NOTE" shall hereafter be deemed to refer to such "SECOND REPLACEMENT NEW BRIDGE NOTE" executed of even date herewith.

4. Section 5A.08 is hereby deleted and the following substituted in lieu thereof:

"5A.08 The BORROWER shall from March 5, 1998 until the full balance of principal and interest on the BRIDGE LOAN shall have been paid in full, pay interest monthly in arrears on the daily outstanding balance of the BRIDGE LOAN from time to time outstanding at the rate provided in Section 5A.04. for each INTEREST PERIOD (unless otherwise provided).

5. Concurrently herewith, BORROWER shall execute and deliver to the BANK a replacement of the REPLACEMENT SHORT TERM REVOLVING NOTE (the "SECOND REPLACEMENT SHORT TERM REVOLVING NOTE") to reflect the amended maturity date(s) of such note. All references in the Loan Agreement to "SHORT TERM REVOLVING NOTE" or "REPLACEMENT SHORT TERM REVOLVING NOTE" shall hereafter be deemed to refer to such "SECOND REPLACEMENT SHORT TERM REVOLVING NOTE" executed of even date herewith.

6. Section 5B.02 is hereby deleted and the following substituted in lieu thereof:

"5B.02 The SHORT TERM REVOLVING LOAN shall be paid in full on the first to occur of (1) the obtaining of permanent financing with respect to the Project or (2) March 31, 1999."

This Amendment shall take effect as of the date first above written.

Except as hereby amended, the Loan Agreement is hereby ratified, confirmed and republished.

IN WITNESS WHEREOF, the parties hereto have set their hands and seals as of the date first above written.

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Witness:

DM MANAGEMENT COMPANY

/s/ Lori B. Leeth

By: /s/ Olga L. Conley

Olga L. Conley, Chief Financial Officer

CITIZENS BANK OF MASSACHUSETTS

By: /s/ Lori B. Leeth

Lori B. Leeth, Senior Vice President

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SECOND AMENDMENT TO
ASSIGNMENT OF CERTIFICATE OF DEPOSIT

This Second Amendment to Assignment of Certificate of Deposit dated as of December 31st, 1998 by and between Citizens Bank of Massachusetts ("Bank") and DM Management Company ("Debtor").

W I T N E S S E T H:

WHEREAS, Bank and Debtor are parties to that certain Assignment of Certificate of Deposit dated as of March 5, 1998 as amended by a certain First Amendment to Assignment of Certificate of Deposit dated as of September 4, 1998 (collectively, the "Assignment"); and

WHEREAS, the parties wish to amend the Assignment as hereafter set forth.

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties agree as follows:

1. Section 1 of the Assignment is hereby amended by deleting the language inserted by the said First Amendment to Assignment of Certificate of Deposit and substituting therefor the following:

"accommodations to the undersigned debtor (the "Debtor"), pursuant to a certain Second Amended and Restated Loan Agreement dated March 5, 1998, as amended by a certain Third Amendment to Second Amended and Restated Loan Agreement dated September 4, 1998 and by a certain Fourth Amendment to Second Amended and Restated Loan Agreement, of even date herewith and as the same may be further amended from time to time (collectively, the "Loan Agreement"),"

2. Exhibit A to said Assignment is hereby deleted in its entirety and is replaced by Exhibit A hereto.

3. The sum set forth after the designation "Face Amount" is hereby deleted and the sum of \$12,327,632.99 is hereby inserted in lieu thereof.

Except as amended hereby, the Assignment is hereby ratified, confirmed and republished.

EXECUTED as an instrument under seal to be construed under the laws of
The Commonwealth of Massachusetts.

WITNESS:

/s/ Lori B. Leeth

WITNESS:

/s/ Maryalice Trottier

DEBTOR:

DM MANAGEMENT COMPANY

By: /s/ Olga L. Conley

Olga L. Conley
Chief Financial Officer

BANK:

CITIZENS BANK OF MASSACHUSETTS

By: /s/ Lori B. Leeth

Lori B. Leeth
Senior Vice President

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EXHIBIT A

(a) the full payment of the sum of \$8,500,000.00, or such lesser amount which shall have been advanced, together with interest and other charges, all as provided in a certain "Revolving Note" of the Debtor to the order of the Bank dated June 5, 1997, which Note was amended and replaced by a certain Replacement Revolving Note dated October 31, 1997 in the face amount of \$8,500,000.00 which note was amended and replaced by a certain "Second Replacement Revolving Note" dated September 4, 1998 in the face amount of \$23,500,000.00, all as provided in a certain Loan Agreement dated June 5, 1997, as amended and restated as of the March 5, 1998, as amended dated September 4, 1998 hereof and as the same may hereafter be amended (collectively, the "Loan Agreement") together with all substitutions or replacements therefor and all renewals or extensions thereof and the full performance of all other obligations of the maker of said note as provided therein; (b) the full payment of the sum of \$1,650,000.00, as provided in a certain "Real Estate Note" (as defined in the Loan Agreement) of the Debtor to the order of the Bank executed and delivered by the Debtor to the Bank,

pursuant to the Loan Agreement in the face amount of \$1,650,000.00, with interest and other charges as provided therein, together with all substitutions and replacements therefor and all renewals and extensions thereof and the full performance of all other obligations of the maker of said note as provided therein and a certain Second Amendment to Mortgage executed and delivered in connection therewith as the same may be amended from time to time; (c) the full payment of the sum of \$3,600,000.00, with interest and other charges, all as provided in a certain "Term Note" (as defined in the Loan Agreement) of the Debtor to the order of the Bank, dated June 5, 1997, executed and delivered by the Debtor to the Bank pursuant to the Loan Agreement, in the original face amount of \$3,600,000.00, together with all substitutions or replacements therefor and all renewals or extensions thereof and the full performance of all other obligations of the maker of said note as provided therein; (d) the full payment of the sum of Four Million Three Hundred Thousand Dollars (\$4,300,000.00) together with interest and other charges, all as provided in a certain "New Bridge Note" (as defined in the Loan Agreement) of the Debtor at the order of the Bank dated as of March 5, 1998, executed and delivered by the Debtor to the Bank pursuant to the Loan Agreement in the original face amount of Four Million Three Hundred Thousand Dollars (\$4,300,000.00) as amended and replaced by that certain "Replacement New Bridge Note" (as defined in the Loan Agreement) dated September 4, 1998 together with all substitutions or replacements therefor and all renewals and extensions thereof and the full performance of all other obligations of the maker of said note as provided therein; (e) the full payment of the sum of \$17,000,000.00 together with all interest and other charges all as provided in a certain "Short Term Revolving Note" (as defined in the Loan Agreement) of the Debtor to the order of the Bank dated March 5, 1998 pursuant to the Loan Agreement in the face amount of

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\$17,000,000.00, as amended and replaced by that certain "Replacement Short Term Revolving Note" (as defined in the Loan Agreement) dated September 4, 1998 and all substitutions or replacements therefor and all renewals and extensions thereof and the full performance of all other Obligations of the maker of said Note, and in a certain "Assignment of Certificate of Deposit dated as of March 5, 1998 and executed and delivered in connection therewith, as amended dated September 4, 1998, and as the same may hereafter be amended; (f) the full payment and performance by the Debtor of all indebtedness, obligations and liabilities of the Debtor to the Bank under the Loan Agreement, direct or indirect, absolute or contingent, now existing or hereafter arising (including, without limitation, all "Obligations", as defined in the Loan Agreement whether or not specifically referred to herein) which Loan Agreement provides, among other things, for the establishment of a "Revolving Loan" (as defined therein) and for the issuance of Letter of Credit pursuant to L/C Appreciations as defined therein, pursuant to which "Advances" (as defined therein) may be made from time to time, and for repayment of all or a

portion of the outstanding balance of such Advances together with interest and other charges all in accordance therewith and for the grant of "Loans" (as defined therein) as provided therein; (g) the full payment and performance of all covenants and agreements herein contained or referred to on the part of the Debtor to be kept and performed (collectively hereafter referred to as "Obligations").

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SECOND REPLACEMENT NEW BRIDGE NOTE

Boston, Massachusetts

\$ 4,300,000.00

December 31, 1998

On or before March 31, 1999, the undersigned, DM Management Company, for value received, promises to pay to the order of Citizens Bank of Massachusetts (hereinafter called the "Bank"), at its principal office at 28 State Street, Boston, Massachusetts 02109, or such other location that the holder may specify

Four Million Three Hundred Thousand DOLLARS (\$4,300,000.00)

with interest payable as hereafter set forth. This is the "Second Replacement New Bridge Note" issued pursuant to the terms of a certain Fourth Amendment to Second Amended and Restated Loan Agreement dated as of the date hereof, by and between Bank and the undersigned, as the same may further hereafter be amended or restated (the "Loan Agreement").

Interest shall accrue at the rate provided in the Loan Agreement for the Bridge Loan as defined therein and shall be paid monthly, in arrears, during the term hereof commencing one (1) month from the date hereof and on the like day of each month thereafter except all accrued but unpaid interest shall be due and payable at maturity.

Overdue principal and overdue interest from time to time outstanding shall bear interest in accordance with the terms of the Loan Agreement. If payment is not made when due hereunder then, without limitation on any other right of the Holder, there shall be a late charge as provided in the Loan Agreement.

If an "Event of Default" (as defined in the Loan Agreement) shall occur, the entire unpaid principal balance of this note and all accrued and unpaid interest may become or be declared due and payable without notice or demand, in the manner and with the effect provided in the Loan Agreement.

Every maker, endorser and guarantor of this note, or the obligation represented by this note, waives presentment, demand, notice, protest, and all other demands or notices in connection with the delivery, acceptance, endorsement, performance, default, or enforcement of this note, assents to any and all extensions or postponements of the time of payment or any other indulgence, to any substitution, exchange, or release of collateral, and/or to the addition or release of any other party or person primarily or secondarily liable, and generally waives all suretyship defenses and defenses in the nature

thereof.

The undersigned will pay all reasonable out-of-pocket costs and expenses of collection, including reasonable attorneys' fees, incurred or paid by the holder in enforcing this note or the obligations hereby evidenced, to the extent permitted by law.

No delay or omission of the holder in exercising any right of remedy hereunder shall constitute a waiver of any such right or remedy.

The holder need not enter payments of principal or interest upon this note, but may maintain a record thereof on a separate ledger maintained by the holder.

The word "holder" as used in this note shall mean the payee or indorsee of this note who is in possession of it or the bearer if this note is at the time payable to bearer.

This note shall be governed by and construed in accordance with the laws of The Commonwealth of Massachusetts and shall take effect as an instrument under seal.

WITNESS:

DM MANAGEMENT COMPANY

/s/ Lori B. Leeth

By: /s/ Olga L. Conley

Olga L. Conley
Chief Financial Officer

SECOND REPLACEMENT SHORT TERM REVOLVING NOTE

Boston, Massachusetts

\$17,000,000.00

December 31, 1998

On or before March 31, 1999, the undersigned, DM Management Company, for value received, promises to pay to the order of Citizens Bank of Massachusetts (hereinafter called the "Bank"), at its principal office at 28 State Street, Boston, Massachusetts 02109, or such other location that the holder may specify

Seventeen Million DOLLARS (\$17,000,000.00)

with interest payable as hereafter set forth. This is the "Second Replacement Short Term Revolving Note" issued pursuant to the terms of a certain Fourth Amendment to Second Amended and Restated Loan Agreement dated as of the date hereof by and between Bank and the undersigned, as the same may further hereafter be amended or restated (the "Loan Agreement"), payment of which is secured by an Assignment of Certificate of Deposit as amended by First Amendment to Assignment of Certificate of Deposit dated September 4, 1998 and a certain Second Amendment to Assignment of Certificate of Deposit of even date and otherwise as provided in the Loan Agreement.

Interest shall accrue at the rate provided in the Loan Agreement for the Short Term Revolving Loan as defined therein and shall be paid monthly, in arrears, during the term hereof commencing one (1) month from the date hereof and on the like day of each month thereafter except all accrued but unpaid interest shall be due and payable at maturity.

Overdue principal and overdue interest from time to time outstanding shall bear interest in accordance with the terms of the Loan Agreement. If payment is not made when due hereunder then, without limitation on any other right of the Holder, there shall be a late charge as provided in the Loan Agreement.

If an "Event of Default" (as defined in the Loan Agreement) shall occur, the entire unpaid principal balance of this note and all accrued and unpaid interest may become or be declared due and payable without notice or demand, in the manner and with the effect provided in the Loan Agreement.

Every maker, endorser and guarantor of this note, or the obligation represented by this note, waives presentment, demand, notice, protest, and all other demands or notices in connection with the delivery, acceptance, endorsement, performance, default, or enforcement of this note, assents to any

and all extensions or postponements of the time of payment or any other

indulgence, to any substitution, exchange, or release of collateral, and/or to the addition or release of any other party or person primarily or secondarily liable, and generally waives all suretyship defenses and defenses in the nature thereof.

The undersigned will pay all reasonable out-of-pocket costs and expenses of collection, including reasonable attorneys' fees, incurred or paid by the holder in enforcing this note or the obligations hereby evidenced, to the extent permitted by law.

No delay or omission of the holder in exercising any right of remedy hereunder shall constitute a waiver of any such right or remedy.

The holder need not enter payments of principal or interest upon this note, but may maintain a record thereof on a separate ledger maintained by the holder.

The word "holder" as used in this note shall mean the payee or indorsee of this note who is in possession of it or the bearer if this note is at the time payable to bearer.

This note shall be governed by and construed in accordance with the laws of The Commonwealth of Massachusetts and shall take effect as an instrument under seal.

WITNESS:

DM MANAGEMENT COMPANY

/s/ Lori B. Leeth

By: /s/ Olga L. Conley

Olga L. Conley
Chief Financial Officer

[LOGO]

MASTER SECURITY AGREEMENT

SECURED

PARTY: Citizens Leasing Corporation
One Citizens Plaza
Providence, Rhode Island 02903
Telephone (401) 456-7000

DEBTOR: DM Management Company
a Delaware corporation
("Debtor")
Address: 25 Recreation Park Drive
Hingham, MA 02043
Telephone: (781) 740-2718

1. GRANT OF SECURITY INTEREST

For good and valuable consideration, the receipt and adequacy of which are hereby acknowledged by Debtor, Debtor hereby grants to Secured Party a continuing general lien and security interest in the items of equipment set forth from time to time in each Secured Promissory Note issued pursuant to this Master Security Agreement (individually a "Note" and collectively the "Notes") including, without limitation, all accessories, additions, accessions, alterations, attachments, parts, and repairs now or hereafter affixed thereto or used in connection herewith and substitutions and replacements thereof or of any part thereof (collectively, the "Equipment") and all proceeds of the foregoing including, without limitation, and insurance proceeds with respect to the foregoing; and any cash or cash equivalent deposits made by Debtor to Secured Party from time to time to secure Debtor's obligations under any Note or other agreement with Secured Party (a "Security Deposit"). The security interest granted hereby shall secure Debtor's obligations to the Secured Party set forth in the Notes and shall also secure the obligations set forth in the last sentence of this paragraph. The terms and conditions of this Agreement shall be construed and interpreted as to each Note hereunder as if a separate, but identical, security agreement had been executed with regard to the Equipment set forth in such Note, and, except as provided in the following sentence, the Equipment set forth in such Note shall serve as collateral security for Debtor's obligations under that Note only. Notwithstanding the foregoing, the Debtor agrees that until the Note is paid in full, the Equipment relating to the Note shall serve as collateral for any and all obligations of the Debtor to the Secured Party or any parent, subsidiary or affiliated company of the Secured Party.

The security interest granted herein shall attach to each item of Equipment at the earlier of (i) Debtor's execution and delivery of the Note and

Acceptance Certificate with respect to such item which shall occur upon Debtor's acceptance of such item pursuant to the terms of any purchase order or agreement with the vendor of such item; or (ii) the time that Secured Party advances any funds to or on behalf of Debtor in complete or partial payment for such Equipment.

2. TERM AND PAYMENTS

The term of each Note with respect to each item of Equipment shall commence on the date of the Note Acceptance Certificate with respect to such item and shall continue for the number of months, and proration thereof, specified in the applicable Note. Installment payments shall be in the amounts and shall be due and payable as set forth in the applicable Note. If any amount payable hereunder shall not be paid within 10 days of the due date, Debtor shall pay as an administrative and late charge an amount equal to 5% of the amount of any such overdue payment. In addition, if any payment shall not be made within 10 days of the due date, Secured Party shall have the option to require Debtor to pay interest on such delinquent payment from the due date until paid at the rate of 1-1/2% per month or the maximum amount permitted by law whichever is lower. All payments to be made to Secured Party shall be made to Secured Party at the address shown above, or at such other place as Secured Party shall specify in writing.

3. INSPECTION; PERSONAL PROPERTY

Secured Party may enter the premises where the Equipment is located during business hours for the purpose of inspecting the Equipment. The Equipment shall always remain personal property even though the Equipment may hereafter become attached or affixed to real property. Debtor agrees to give and record such notices and to take such other action at its own expense as may be necessary to prevent any third party (other than an assignee of Secured Party) from acquiring or having the right under any circumstances to acquire any interest in the Equipment. In the event such third party does acquire or have the right to acquire any interest in the Equipment, Debtor shall remove such third party's interest within 30 days of its being asserted.

4. DISCLAIMER OF WARRANTIES

DEBTOR ACKNOWLEDGES THAT THE EQUIPMENT FINANCED HEREUNDER WILL BE OF A TYPE, DESIGN, SIZE, CAPACITY AND MANUFACTURE SELECTED BY DEBTOR; THAT SECURED PARTY IS NOT A MANUFACTURER OF, OR DEALER IN, THE EQUIPMENT; THAT NEITHER THE VENDOR, THE MANUFACTURER NOR ANY AGENT THEREOF IS AN AGENT OF SECURED PARTY; THAT SECURED PARTY HAS NOT, WILL NOT, AND HAS NO OBLIGATION TO, INSPECT THE EQUIPMENT PRIOR TO DELIVERY TO DEBTOR; THAT SECURED PARTY IS NOT RESPONSIBLE FOR REPAIRS, SERVICE OR DEFECTS IN EQUIPMENT OR OPERATION THEREOF; AND THAT SECURED

PARTY HAS NOT MADE AND WILL NOT MAKE

ANY REPRESENTATION, WARRANTY OR COVENANT, EXPRESS OR IMPLIED, OF ANY KIND OR AS

TO ANY MATTER WHATSOEVER ON WHICH DEBTOR MAY RELY, INCLUDING WITHOUT LIMITATION

THE MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, COMPLIANCE WITH LAWS,

GOVERNMENTAL REGULATIONS OR RULES, ORDERS, SPECIFICATIONS OR CONTRACT,

CONDITION, TITLE, QUALITY OF THE MATERIALS OR WORKMANSHIP, DESIGN, DURABILITY OR

SUITABILITY FOR DEBTOR'S PURPOSES OF THE EQUIPMENT IN ANY RESPECT, OR ANY PATENT

INFRINGEMENT, OR LATENT OR PATENT DEFECTS. SECURED PARTY SHALL NOT BE LIABLE TO

DEBTOR FOR ANY LIABILITY, LOSS OR DAMAGE CAUSED OR ALLEGED TO BE CAUSED DIRECTLY
OR INDIRECTLY BY THE EQUIPMENT OR ANY INADEQUACY THEREOF OR DEFICIENCY OR DEFECT
THEREIN OR BY ANY INCIDENT WHATSOEVER IN CONNECTION THEREWITH, AND DEBTOR HEREBY
ACKNOWLEDGES THE FOREGOING DISCLAIMER BY SECURED PARTY.

5. REPRESENTATIONS AND WARRANTIES

Debtor represents and warrants to Secured Party as of the date hereof and as of the date of each Note hereunder that:

(a) Debtor is business organization as set forth in the first paragraph hereof duly organized and in good standing under the laws of its state of organization, is duly qualified and in good standing wherever necessary to carry on its business as now being conducted and to own its properties including the Equipment, and has full power to carry on its business as now being conducted; (b) Debtor has full power and authority to execute, deliver and perform this Agreement and each Note, and this Agreement has been and each Note will be duly authorized by all necessary and proper action on the part of the Debtor. No consent or approval of stockholders or of any public authority is required in connection with the execution, delivery or performance by Debtor of this Agreement or any Note. The execution, delivery or performance by Debtor of this Agreement and each Note will not violate any provision of law, or any judgment or decree applicable to Debtor and will not conflict with or result in a breach of or create a default under any corporate charter or by-laws or partnership agreement or certificate or any agreement, bond, note or indenture to which it is a party or by which it is bound; (c) This Agreement has been and each Note will be duly executed and delivered, and constitute the valid and legally binding obligations of Debtor, enforceable in accordance with their respective terms; (d) Debtor has good title to, and is the lawful owner of the Equipment, and the Equipment is and shall continue to be free from all adverse claims, liens, encumbrances, charges or security interests whatsoever, except for the lien and security interest granted by this Agreement, and Permitted Encumbrances; (e) The provisions of this Agreement will create a valid and perfected security interest in the Equipment as set forth in each Note, enforceable in accordance with the terms hereof, subject to no prior or equal

lien, charge, encumbrance or security interest, upon the filing of appropriate Uniform Commercial Code financing statements or equivalent security or lien instruments with respect to the Equipment which shall be timely delivered to Secured Party for filing at the appropriate offices, except Permitted Encumbrances; (f) The Equipment will be used solely in the conduct of Debtor's business and will remain in the location shown on the applicable Note unless Secured Party and Debtor otherwise agree in writing and Debtor has completed all notifications, filings, recordings, and other actions in such new location as Secured Party may reasonably request to protect Secured Party's interest in the Equipment. For purposes of this Agreement, "Permitted Encumbrances" mean the items set forth on Schedule 1 hereto.

Debtor represents and warrants to and covenants with Secured Party that (i) Debtor has not and is not now engaged in, and shall not, during any time that any of Debtor's obligations hereunder are outstanding, engage in any conduct or activity, including but not necessarily limited to, a pattern of racketeering activity, that would subject any of Debtor's assets to forfeiture or seizure and (ii) Debtor will give prompt written notice to the Secured Party of any proceedings instituted against the Debtor by or in any federal or state court or before any commission or other regulatory body, whether federal, state or local, which if adversely determined, would have an adverse effect upon the Debtor's business, operations, properties, assets or condition, financial or otherwise.

6. INDEMNITY

Debtor assumes the risk of liability for, and hereby agrees to indemnify and hold safe and harmless, and covenants to defend, Secured Party, its employees, servants and agents from and against: (a) any and all liabilities, losses, damages, claims and expenses (including legal expenses of every kind and nature) arising out of the manufacturing, purchase, shipment and delivery to Debtor, acceptance or rejection, ownership, titling, registration, leasing, possession, operations, use, return or other disposition of the Equipment, including, without limitation, any of such as may arise from patent or latent defects in the Equipment (whether or not discoverable by Debtor), any claims based on absolute tort liability or warranty and any claims based on patent, trademark or copyright infringement; (b) any and all loss or damage to the Equipment, normal wear and tear excepted; and (c) any obligation or liability to the manufacturer and any supplier of the Equipment arising under the purchase orders of Debtor.

The covenants and indemnities contained in this Section and Section 7 shall survive the termination of this Agreement or any Note hereunder.

7. TAXES AND OTHER CHARGES

Debtor agrees to comply with all laws, regulations and governmental orders related to this Agreement and to the Equipment and its use or possession and to pay when due, and to defend and indemnify Secured Party against liability for all license fees, assessments and sales, use, property, excise, privilege

and other taxes (including any related or interest or penalties) or other charges

or fees now or hereafter imposed by any governmental body or agency upon any Equipment, or with respect to the manufacturing, ordering, shipment, purchase, ownership, delivery, installation, leasing, operation, possession, use, return, or other disposition thereof or the installment payments hereunder. Any fees, taxes or other lawful charges paid by Secured Party upon failure of Debtor to make such payments shall at Secured Party's option become immediately due from Debtor to Secured Party.

8. EVENTS OF DEFAULT

The occurrence of any of the following events (each an "Event of Default") shall constitute a default hereunder and under each Note (a) nonpayment of any principal of or interest on any Note or other amount provided for hereunder, including any late charges pursuant to Section 2 hereof, promptly when due, whether by acceleration or otherwise; (b) default by Debtor in the performance of any other obligation, term or condition of this Agreement and the continuance of such default for ten (10) days after written notice thereof shall have been given by Secured Party to Debtor; (c) default by Debtor in the payment or performance of any other indebtedness or obligation now or hereafter owed by which default has not been waived; (d) the issuance of any writ or order of attachment or execution or other legal process against any Equipment which is not discharged or satisfied within ten (10) days; (e) death or judicial declaration of incompetency of Debtor, if an individual; (f) the commencement of any bankruptcy, insolvency, arrangement, reorganization, receivership, liquidation or other similar proceedings by or against Debtor or the appointment of a trustee, receiver, liquidator or custodian for Debtor or any of its properties of business, which if commenced against Debtor is not stayed or dismissed with 60 days; (g) the Debtor shall terminate its existence by merger, consolidation, sale of substantially all of its assets, dissolution or otherwise, (h) the making by Debtor of a general assignment or deed of trust for the benefit of creditors; (i) the occurrence of any event or condition described in clause (e), (f), (g) or (h) of this paragraph 8 with respect to any guarantor or any other party liable for payment or performance of this Agreement; (j) if any certificate, statement, representation, warranty or audit heretofore or hereafter furnished by or on behalf of Debtor or any guarantor or other party liable for payment or performance of this Agreement, pursuant to or in connection with this Agreement, proves to have been false in any material respect at the time as of which the facts therein set forth were stated or certified, or to have omitted any substantial contingent or unliquidated liability or claim against Debtor or any such guarantor or other party,; (k) Secured Party shall determine, in its sole discretion and in good faith, that Debtor's ability to make any payment hereunder promptly when due or otherwise comply with the terms of this Agreement is impaired; (l) the Equipment shall be substantially damaged or destroyed, or not properly maintained by Debtor or Secured Party

shall reasonably deem the Equipment to be unsafe or at risk; (m) Debtor shall default in meeting any of its trade, tax, borrowing or other obligations as they mature, except to the extent Debtor is contesting any such obligations in good faith and has established adequate reserves therefor; (n) if an Event of Default occurs under the terms and conditions of the Second Amended and Restated Loan Agreement dated March 5, 1998 between Debtor and Citizens Bank of Massachusetts and all additions, modifications, and amendments thereto or (o) there shall be a change in the ownership of Debtor's stock such that Debtor is no longer subject to the reporting requirements of the Securities Exchange Act of 1934, or no longer has a class of equity securities registered under Section 12 of the Securities Act of 1933.

Debtor shall promptly notify Secured Party or any holder(s) or assignee(s) of all Notes of the occurrence of any Event of Default or the occurrence or existence of any event or condition which, upon the giving of notice lapse of time, or both may become an Event of Default.

9. REMEDIES

Upon the occurrence of any Event of Default, Secured Party may, at its sole option and discretion, to the extent permitted by applicable law, exercise one or more of the following remedies with respect to any or all of the Equipment subject to any Note in default; (a) cause Debtor to, upon written demand of Secured Party and at Debtor's expense, promptly return such Equipment to such location as Secured Party may designate in accordance with the terms of Section 18, or Secured Party, at its option, may enter upon the premises where the Equipment is located and take immediate possession of and remove the same by summary proceedings or otherwise all without liability to Secured Party for or by reason of damage to property or such entry or taking possession; (b) sell any or all the Equipment at public or private sale or otherwise dispose of, hold, use, operate, lease to others or keep idle the Equipment, all as Secured Party in its sole discretion may determine and all free and clear of any rights of Debtor; (c) remedy such default, including making repairs or modifications to the Equipment, for the account of and the expense of Debtor and Debtor agrees to reimburse Secured Party for all of Secured Party's costs and expenses; (d) declare by written notice any or all Notes and other obligations of Debtor immediately due and payable and recover from Debtor the outstanding principal balance of such Note or Notes, plus any accrued interest and late charges, and the applicable prepayment premium calculated as of the date of default as set forth in Section 12 hereof; (e) apply any Security Deposit or other cash collateral or sale or remarketing proceeds of the Equipment at any time as it sees fit to reduce any amounts due to Secured Party and; (f) exercise any other right or remedy which may be available to it under applicable law and the Uniform Commercial Code or proceed by appropriate court action to enforce the terms hereof or to recover damages for the breach hereof, including reasonable attorneys' fees and court costs. In addition to the foregoing, Debtor shall continue to be liable for all indemnities under this Agreement and each Note and for all legal fees and other costs and expenses resulting from any Event of Default or the exercise of Secured Party's remedies.

No remedy referred to in this Section 9 is intended to be exclusive,

but each shall be cumulative and in addition to any other remedy referred to above or otherwise available to Secured Party at law or in equity. The exercise or beginning of exercise by

Secured Party of any one or more of such remedies shall not preclude the simultaneous or later exercise by Secured Party of any or all such other remedies and all remedies hereunder shall survive termination of this Agreement and any Note. The Secured Party may apply the proceeds of any sale of the Equipment to any obligations of the Debtor to the Secured Party or any parent, subsidiary or affiliated entity of the Secured Party in such order as it shall determine in its sole and absolute discretion.

At the sale of the Equipment pursuant to this Section 9, Secured Party may bid for and purchase the Equipment. All required notices, if any, of any sale or other disposition hereunder by Secured Party shall be satisfied by the mailing of such notice to Debtor at least ten (10) days prior to the sale or other disposition. In the event Secured Party takes possession of the Equipment, Secured Party shall give Debtor credit for any sums actually received by Secured Party from the disposition of the Equipment after deductions of expenses of disposition. A termination shall occur only upon written notice by Secured Party and only with respect to such Equipment as Secured Party shall specify in such notice. Termination under this Section 9 shall not affect Debtor's duty to perform Debtor's obligations hereunder to Secured Party on demand for any and all costs and expenses incurred by Secured Party in enforcing its rights hereunder following the occurrence of an Event of Default, including, without limitation, reasonable attorneys' fees, and the costs of foreclosing, repossession, storage, insuring, leasing, selling and disposing of any and all Equipment.

10. ADDITIONAL SECURITY

In order more fully to secure its payments and all other obligations to Secured Party hereunder with respect to each Note, Debtor hereby grants to Secured Party a security interest in any Security Deposit of Debtor to Secured Party under Section 3(d) of any Note hereto. Such Security Deposit shall not bear interest, may be commingled with other funds of Secured Party and shall be immediately restored by Debtor if applied under Section 9(e) above. Upon expiration of the term of the Note to which any Security Deposit relates and satisfaction of all of Debtor's obligations under such Note, the Security Deposit shall be returned to Debtor.

11. NOTICES

Any notices and demands required or permitted to be given under this Agreement shall be given in writing and by regular mail and shall become effective when deposited in the United States mail with postage prepaid to Secured Party, and to Debtor at the addresses herein above set forth, or to such other address as the party to receive notice hereafter designates by such

written notice.

12. TERMINATION AND PREPAYMENT

No Note may be prepaid, except in its entirety and all voluntary prepayments shall include all late charges and accrued interest and will be subject to a prepayment penalty calculated as of the date of voluntary prepayment and expressed as a percentage of the outstanding principal on the date of such prepayment equal to five percent (5%) during the first year of the term of the Note, four percent (4%) during the second year, three percent (3%) during the third year, two percent (2%) during the fourth year, one percent (1%) during the fifth year and zero percent (0%) thereafter.

Involuntary prepayment and termination with respect to any item of Equipment shall occur if any item of Equipment shall become lost, stolen or destroyed, damaged beyond repair or rendered permanently unfit for use for any reason, or in the event of any condemnation, confiscation, theft or seizure or requisition of title or use of such item, in which event Debtor will promptly pay to Secured Party an amount equal to the outstanding principal balance of the Note with respect to such Equipment plus any accrued interest and late charges. The principal balance at any time outstanding on the Note shall be calculated based on a normal amortization calculation.

13. INSURANCE

Debtor shall obtain and maintain at its own expense for the entire term of this Agreement Comprehensive General Liability and Property Damage Insurance including products, completed operations and contractual liability and All Risk Physical Damage Insurance including earthquake and flood, in such amounts and form and with such insurers as shall be satisfactory to Secured Party, provided, however, that the amount of insurance on any item of Equipment shall not be less than the greater of (i) the full replacement value of such item of Equipment or (ii) the aggregate unpaid principal amount of the Note with respect to such item of Equipment.

Each insurance policy or certificate shall name Debtor as the insured and Secured Party as loss payee and as an additional named insured as its interest may appear, and shall provide that Secured Party shall receive 30 days prior written notice of any termination, cancellation, or material change of the terms of such insurance and shall provide that the coverage afforded to Secured Party shall not be rescinded, impaired or invalidated by any act or neglect of Debtor, Debtor shall furnish to Secured Party a certificate of insurance or other evidence that such insurance coverage is in effect, provided however that Secured Party shall be under no duty either to ascertain the existence of or to examine such insurance policy or certificate or to advise Debtor in the event such insurance coverage shall not comply with the requirements hereof. Secured Party may, at its option, apply any insurance monies received under such policies to the cost of repairs to the Equipment and/or payment of any of the indebtedness of Debtor secured hereby, in any order Secured Party may determine whether or not due, and shall remit any surplus to Debtor.

In addition to the foregoing minimum insurance coverage, Debtor shall procure and maintain such other insurance coverages as Secured Party may require from time to time during the term of this Agreement. In case of failure of Debtor to procure or maintain insurance, Secured Party may at its option obtain such insurance, the cost of which will be paid by the Debtor as additional indebtedness. Debtor hereby irrevocably appoints Secured Party as Debtor's attorney-in-fact to file, settle or adjust, and receive payment of claims under any such insurance policy and to endorse Debtor's name on any checks, drafts or other instruments in payment of such claim.

14. LIMITATION OF LIABILITY

Secured Party shall have no liability in connection with or arising out of the possession, furnishing, performance, ownership or use of the Equipment or any special, indirect, incidental or consequential damages of any character, including, without limitation, loss of use of production facilities or equipment, loss of profits, property damage or lost production, whether suffered by Debtor or any third party.

15. FINANCIAL STATEMENTS AND FURTHER ASSURANCES

Debtor shall promptly execute and deliver to Secured Party such further documents and take such further action as Secured Party may reasonably require in order to more effectively carry out the intent and purpose of this Agreement and each Note. Debtor shall annually, within one hundred twenty (120) days after the close of Debtor's fiscal year, furnish to Secured Party financial statement of Debtor (including a balance sheet as of the close of such year and income and surplus statements for such year) prepared in accordance with generally accepted accounting principles consistently applied and certified by Debtor's independent certified public accountants. If requested by Secured Party, Debtor shall also provide quarterly financial statements of Debtor similarly prepared for each of the first three quarters of each fiscal year, which shall be certified (subject to normal year-end audit adjustment(s)) by Debtor's chief financial officer and furnished to Secured Party within sixty (60) days following the end of the quarter. Notwithstanding the foregoing, as long as Debtor provides such quarterly and annual financial statements to Citizens Bank of Massachusetts, it shall not be required to forward them to Secured Party. Debtor shall execute and deliver to Secured Party upon Secured Party's request such instruments and assurances as Secured Party reasonably deems necessary for the confirmation, preservation or perfection of this Agreement and each Note and Secured Party's security interest and rights thereunder, including, without limitation, such corporate resolutions and opinions of counsel as Secured Party may request from time to time, and all schedules, forms and other reports as may be required to satisfy obligations imposed by taxing authorities. In furtherance thereof, Secured Party may file or record this Agreement or a memorandum or a photocopy hereof or of a Note (which for the purposes hereof shall be effective as a financing statement) so as to give notice to third parties, and Debtor hereby appoints Secured Party as its attorney-in-fact to execute, sign, file and record UCC financing statements

and other lien recordation documents with respect to the Equipment where Debtor fails or refuses to do so after Secured Party's written request, and Debtor agrees to pay all stamp fees or taxes arising from any such filings.

16. ASSIGNMENT

This Agreement and any Note and all rights of Secured Party hereunder shall be assignable by Secured Party absolutely or as security, without notice to Debtor, subject to the rights of Debtor hereunder. Any such assignment shall not relieve Secured Party of its obligations hereunder unless specifically assumed by the assignee, and Debtor agrees it shall not assert any defense, rights of set-off or counterclaim against any assignee to which Secured Party shall have assigned its rights and interests hereunder, and not to hold or attempt to hold such assignee liable for any of Secured Party's obligations hereunder.

DEBTOR SHALL NOT LIEN, ENCUMBER, ASSIGN OR DISPOSE OF ANY OF ITS RIGHTS OR INTEREST IN THE EQUIPMENT OR ITS RIGHTS OR OBLIGATIONS UNDER THIS AGREEMENT OR ANY NOTE OR ENTER INTO ANY LEASE WITH RESPECT TO ANY OF THE EQUIPMENT WITHOUT THE EXPRESS PRIOR WRITTEN CONSENT OF SECURED PARTY.

17. DEBTOR'S OBLIGATIONS UNCONDITIONAL

Debtor hereby agrees that it shall not be entitled to any abatement of installment payments or of any other amounts payable hereunder or under any Note by Debtor and that its obligation to pay all amounts owing hereunder or under any Note shall be absolute and unconditional under all circumstances, including, without limitation, the following circumstances; (i) set-off, counterclaim, recoupment, defense or other right which Debtor may have against Secured Party, any seller or manufacturer of any Equipment or anyone else for any reason whatsoever; (ii) the existence of any liens, encumbrances or rights of others whatsoever with respect to any Equipment; or (iii) any other event or circumstance whatsoever. Each payment made by Debtor hereunder and under each Note shall be final and Debtor will not seek to recover all or any part of such payment from Secured Party for any reason whatsoever.

18. DELIVERY OF EQUIPMENT

Upon demand of Secured Party as provided in Section 9, Debtor, at its own expense, shall immediately deliver the Equipment described in any Note in the same condition as when delivered to Debtor, ordinary wear and tear excepted, to such location as

Secured Party shall designate. The Equipment shall be delivered to Secured Party free and clear of all liens, encumbrances and rights of others. The risk of loss of the Equipment shall remain with Debtor until the Equipment is accepted by Secured Party or such other entity to whom the Equipment is delivered, and Debtor shall maintain insurance on the Equipment in accordance with Section 13 until such acceptance occurs.

19. ENFORCEABILITY AND GOVERNING LAW

Any provision of this Agreement or any Note which is unenforceable in any jurisdiction, shall be ineffective to the extent of such unenforceability without invalidating the remaining provisions hereof, and any such unenforceability in any jurisdiction shall not render unenforceable such provisions in any other jurisdiction. To the extent permitted by applicable law, Debtor hereby waives any provisions of law which render any provision hereof unenforceable in any respect. Any waiver of the terms hereof shall be effective only in the specific instance and for the specific purpose given. Time is of the essence. The captions in this Agreement are for convenience only and shall not define or limit any of the terms hereof.

THIS AGREEMENT AND EACH NOTE SHALL IN ALL RESPECTS BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF RHODE ISLAND. DEBTOR HEREBY CONSENTS AND SUBMITS TO THE JURISDICTION OF THE COURTS OF THE STATE OF RHODE ISLAND AND THE FEDERAL DISTRICT COURT FOR THE DISTRICT OF RHODE ISLAND FOR THE PURPOSES OF ANY SUIT, ACTION OR OTHER PROCEEDING ARISING OUT OF ITS OBLIGATIONS HEREUNDER OR UNDER THE NOTES, AND EXPRESSLY WAIVES ANY OBJECTIONS THAT IT MAY HAVE TO THE VENUE OF SUCH COURTS. DEBTOR HEREBY EXPRESSLY WAIVES TRIAL BY JURY IN ANY ACTION BROUGHT ON OR WITH RESPECT TO THIS AGREEMENT OR ANY NOTE. Any action by Debtor against Secured Party for any cause of action under this Agreement or any Note shall be brought within one year after any such cause of action first occurs.

This Agreement consists of nineteen sections, and the terms and provisions of any Note, Note Acceptance Certificate, rider, exhibit, amendment or other document now or hereafter attached hereto and made a part hereof. THIS AGREEMENT REPRESENTS THE FINAL AGREEMENT BETWEEN THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS OR SUBSEQUENT ORAL AGREEMENTS BETWEEN THE PARTIES. DEBTOR ACKNOWLEDGES AND CERTIFIES THAT NO SUCH ORAL AGREEMENTS EXIST. This Agreement may not be amended, nor may any rights hereunder be waived, except by an instrument in writing signed by the party charged with such amendment or waiver. The term "Debtor" as used herein shall mean and include any and all Debtors who sign hereunder, each of whom shall be jointly and severally bound hereby. This Agreement will not be binding on Secured Party until executed by Secured Party.

Dated: December 23, 1998

SECURED PARTY:

CITIZENS LEASING CORPORATION

By: /s/ John Young

DEBTOR:

DM Management Company

By: /s/ Peter J. Tulp

Title: VICE PRESIDENT

Title: VP FINANCE

CLC-020

[LETTERHEAD]

One Citizens Plaza
Providence, RI 02903

Amendment

This Amendment No. 1 dated DECEMBER 23, 1998 to the Master Security Agreement dated DECEMBER 23, 1998 (the "Agreement") by and between CITIZENS LEASING CORPORATION and DM MANAGEMENT COMPANY.

This Agreement is hereby amended as follows:

The following new Section 20 is added:

20. PAYMENT OF AFFILIATE OBLIGATIONS

Debtor is or may become indebted under or in respect of one or more leases, loans, notes, credit agreements, reimbursement agreements, security agreements, title retention or conditional sales agreements, or other documents, instruments or agreements, whether now existing or hereafter arising, evidencing Debtor's obligations for the payment of borrowed money or other financial accommodations owing to the Secured Party or to one or more entities that are either a parent, subsidiary or affiliated company of the Secured Party (herein the "Affiliates"). If Debtor pays or repays all or substantially all of its obligations owing to any Affiliate, whether or not such payment or repayment is voluntary or involuntarily made by Debtor before or after any default or acceleration of the obligations, then Debtor shall pay, at Secured Party's option and immediately upon notice from Secured Party, all or any part of Debtor's obligations owing to Secured Party, including but not limited to Debtor's obligations under this Agreement and all Schedules now or hereafter from time to time executed by Secured Party and Debtor and made a part thereof."

Except as specifically set forth herein, all of the terms and provisions of the Agreement remain in full force and effect.

Dated as of: December 23, 1998

SECURED PARTY:

CITIZENS LEASING CORPORATION

By: /s/ John Young

Title: Vice President

DEBTOR:

DM Management Company

By: /s/ Peter J. Tulp

Title: VP Finance

[LOGO]

One Citizens Plaza
Providence, Rhode Island 02903

SECURED PROMISSORY NOTE

SECURED PARTY: CITIZENS LEASING CORPORATION DEBTOR: DM Management Company
One Citizens Plaza
Providence, Rhode Island 02903 Address: 25 Recreation Park Drive
(401)456-7000 Hingham, MA 02043
Telephone: (781)740-2718

1. Secured Party and Debtor have entered into a Master Security Agreement dated as of December 23, 1998, (the "Security Agreement"). To secure payment of the indebtedness set forth below, including the Principal Amount set forth below, and the performance of all obligations contained herein, Debtor hereby grants to Secured Party, its successors and assigns, a security interest in the property set forth in Schedule A hereto, together with all attachments, accessories, additions and accessions thereto, whether now existing or hereafter acquired, all replacements and substitutions therefor, and all proceeds thereof (all hereinafter referred to collectively as the "Equipment").

2. Principal Amount. The original Principal Amount of this Note is: \$2,913,835.83.

3. a. Term. The Term of this Note is 84 months commencing on the Term Commencement Date as set forth in the Note Acceptance Certificate to this Note plus any partial period between the Acceptance Date of the Equipment as set forth in the Note Acceptance Certificate and the Term Commencement Date.

b. Payments. Debtor hereby promises to pay the Principal Amount to Secured Party and Interest thereon as follows:

(i) Interest only on the Term Commencement Date in an amount equal to \$606.07 multiplied by the number of days between the Acceptance Date up to and including the Term Commencement Date.

(ii) Thereafter, the Principal Amount, together with interest thereon at the fixed rate of 7.50 % per annum, shall be payable in (check one) advance/ arrears in consecutive (check one) monthly/ quarterly Installment Payments commencing on the 1st day of January 1999 and thereafter on the same day of each successive (check one) month/ quarter inclusive until fully paid, provided that the final installment shall be in the amount of the unpaid balance hereof together with any accrued interest and late charges. Interest shall be calculated based on the actual number of days elapsed over

twelve (12) thirty (30) day months.

The amount of each Installment Payment hereunder is as follows:

<TABLE>

<CAPTION>

Installment Nos.	Amount of Each Installment Payment
<S>	<C>
1 - 83	\$44,415.62
84	All remaining principal and accrued interest

</TABLE>

c. Debtor agrees to pay Secured Party, in advance, the first Installment Payment.

d. Secured Party acknowledges receipt from Debtor of a payment in the amount of \$ N/A to be held by Secured Party as a deposit to secure Debtor's performance hereunder.

4. The Equipment will be located at the locations specified in Schedule A hereto.

5. This Note is secured by the Equipment, as set forth in Schedule A hereto and as further defined in the Security Agreement, the terms and conditions of which are incorporated herein by reference. This Note is one of the "Notes" referred to in the Security Agreement.

Dated: December 23, 1998

SECURED PARTY:

DEBTOR:

CITIZENS LEASING CORPORATION

DM Management Company

By:

By:

/s/ John Young

/s/ Peter J. Tulp

Title:

Title:

Vice President

VP Finance

[LETTERHEAD]

CITIZENS LEASING CORPORATION
One Citizens Plaza
Providence, Rhode Island 02903

NOTE ACCEPTANCE CERTIFICATE

Note Acceptance Certificate to Secured Promissory Note dated 12/23/98, (the "Note") to Master Security Agreement dated 12/23/98, (the "Security Agreement"), by and between DM Management Company as Debtor, and CITIZENS LEASING CORPORATION as Secured Party.

1. Debtor hereby acknowledges that the Equipment set forth on Schedule A hereto (the "Equipment") is hereby unconditionally accepted by the Debtor for all purposes under the above-referenced Note and hereby agrees to faithfully perform all of its obligations under the Note as of the date hereof. Debtor hereby also reaffirms all of its representations, warranties and covenants as set forth in the Security Agreement and in the Note as of the hereof and certifies that no event or condition has occurred and is continuing which constitutes an Event of Default under the Security Agreement or the Note or would constitute such an Event of Default with the passage of time and/or giving of notice.

2. Debtor represents and warrants the (i) the Equipment has been delivered and is in an operating condition and performing the operation for which it is intended to the satisfaction of the Debtor; and (ii) if requested by the Secured Party, the Equipment has been marked or labeled evidencing the Secured Party's interest therein.

3. Debtor hereby agrees to pay Secured Party the Installment Payments, as set forth in the Note, at the times and in the manner set forth in the Note.

4. The Principal Amount of the Note is: \$2,913,835.83.

5. The Term Commencement Date is the 1st day of January, 1999.

Dated: December 23, 1998
(the "Acceptance Date")

DEBTOR: DM Management Company

By: /s/ Peter J. Tulp

Title: VP Finance

Agreed and Accepted:

CITIZENS LEASING CORPORATION

By: /s/ John Young

Title: Vice President

SCHEDULE A EQUIPMENT
Page 1 of 6

LESSOR: CITIZENS LEASING CORPORATION
a Rhode Island corporation
("Lessor")

LESSEE: DM Management Company
a Delaware Corporation
("Lessee")

ADDRESS: One Citizens Plaza
Providence, RI 02903

ADDRESS: 25 Recreation Park Drive
Hingham, MA 02043

Attached to and made a part of the following documents: Secured Promissory Note, Note Acceptance, Uniform Commercial Code Financial Statements and Consent and Waiver by Owner, Landlord or Mortgagee of Real Estate.

QTY	MANUFACTURER, DESCRIPTION MODEL NO./SERIAL NO.	LOCATION
---	-----	-----
		12 Sandborn St. Tilton, NH 03276

- (1) American Baler Model 6042HAT-930R
- (36) Coils of 10 gauge Baling Wire

ABOVE EQUIPMENT DISTRIBUTED BY: AQUEST CORPORATION

- (1) M8010 Sweeper/Scrubber, Rider Midel 8010 S/N: 8010-218
Machine as equipped:
8010 Battery Sweeper Scrubber
36338 Batt/Chg Pkg. Ext Run, 1PH, 60HZ
87419 Brush, Side Polypropylene
363868 Brush, Main, Polypropylene
363012 Maxpro 1200 Scrub Head
30241 Brush, Non-scuff Poly f/MP1200
30241 Brush, Non-scuff Poly f/MP1200
08682-15 Det, 654 Heavy Duty, 15 Gal
363019 Es+Extended Scrubbing
48600 Wand, off Aisle Power
363455 Light Pkg, Revolving, OHG

- (1) M5700 Scrubber, Walk Behing Model 5700 S/N: 5700-11109
Machine as equipped:
5700 Scrubber, Walk Behind
222342 Scrubhead, 700D, 28" Disk
222803 Squeegee Assy. 700D/700C
222359 Battery, 235AH Wet
374014 Charger, 115V, 20A, 1PH, 60HZ
222320 Brush, Polypropylene 700D
222611 Power Wand, off-Aisle

ABOVE EQUIPMENT DISTRIBUTED BY: TENNANT

- (1) CubiScan 100L S/N: QIL971879
- (1) Mobile Cart-A
- (1) Computer Shuttle Arm-S
- (1) PW800 Inverter/TC20 Charger/Cables
- (1) Portable Power System (PW800-TC20)

ABOVE EQUIPMENT DISTRIBUTED BY: QUANTRONIX

- (2) Composee Turbo 2 Keyboard Wedge
- (2) Serial Input Cable
- (2) BM 3287 Terminal Cable Set
- (2) External Power Supply
- (2) SC QuickScan 600 Scanner w/cabling
- (1) Custom QBIT Interface

ABOVE EQUIPMENT DISTRIBUTED BY: QUANTRONIX

SCHEDULE A EQUIPMENT
Page 2 OF 6

LESSOR: CITIZENS LEASING CORPORATION,
a Rhode Island corporation
("Lessor")

LESSEE: DM Management Company
a Delaware corporation
("Lessee")

ADDRESS: One Citizens Plaza
Providence, RI 02903

ADDRESS: 25 Recreation Park Drive
Hingham, MA 02043

Attached to and made a part of the following documents: Secured Promissory Note, Note Acceptance. Uniform Commercial Code Financial Statements and Consent and Waiver by Owner. Landlord or Mortgagee of Real Estate.

QTY	MANUFACTURER, DESCRIPTION, MODEL NO./SERIAL NO.	LOCATION
---	-----	-----

- (1) 1020-1021 01-00001 Boom Lift 30-45 ELEC N40 ELC
S/N: 0300039334
- (1) 1020-1001-01-0002 Personnel Lifts PERS LFT 25AMDC
S/N: 0900012248

ABOVE EQUIPMENT DISTRIBUTED BY ACTION EQUIPMENT

- (6) Crown PTH50-27-48 Hand Pallet Jacks S/N: 7-142882
7-142883
7-142884
7-142885
7-142886
7-142887

ABOVE EQUIPMENT DISTRIBUTED BY CROWN TRUCKS

- (1) T20497 EASI-Orderpicker Model OPC30TT S/N: EASI-98-AT20497
- (1) T20498 EASI-Orderpicker Model OPC30TT S/N: EASI-98-AT20498
- (1) T20499 EASI-Orderpicker Model OPC30TT S/N: EASI-98-AT20499
- (1) T20500 EASI-Orderpicker Model OPC30TT S/N: EASI-98-AT20500
- (1) T20501 EASI-Orderpicker Model OPC30TT S/N: EASI-98-AT20501
- (1) T20502 EASI-Orderpicker Model OPC30TT S/N: EASI-98-AT20502
- (1) T20503 EASI-Orderpicker Model OPC30TT S/N: EASI-98-AT20503
- (1) T20504 EASI-Orderpicker Model OPC30TT S/N: EASI-98-AT20504
- (1) T20505 EASI-Orderpicker Model OPC30TT S/N: EASI-98-AT20505
- (1) T20506 EASI-Orderpicker Model OPC30TT S/N: EASI-98-AT20506
- (1) BN8691 Battery Model 18-E155W-11 S/N: AWG108691
- (1) BN8692 Battery Model 18-E155W-11 S/N: AWG108692
- (1) BN8693 Battery Model 18-E155W-11 S/N: AWG108693
- (1) BN8694 Battery Model 18-E155W-11 S/N: AWG108694
- (1) BN8695 Battery Model 18-E155W-11 S/N: AWG108695
- (1) BN8696 Battery Model 18-E155W-11 S/N: AWG108696
- (1) BN8697 Battery Model 18-E155W-11 S/N: AWG108697
- (1) BN8698 Battery Model 18-E155W-11 S/N: AWG108698
- (1) BN8699 Battery Model 18-E155W-11 S/N: AWG108699

SCHEDULE A EQUIPMENT
Page 3 of 6

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QTY	MANUFACTURER, DESCRIPTION, MODEL NO./SERIAL NO.	LOCATION
---	-----	-----
		12 Sandborn St. Tilton, NH 03276
(1)	BN8700 Battery Model 18-E155W-11 S/N: AWG108700	
(1)	BN8701 Battery Model 18-E155W-11 S/N: AWG108701	
(1)	BN8702 Battery Model 18-E155W-11 S/N: AWG108702	
(1)	BN8703 Battery Model 18-E155W-11 S/N: AWG108703	
(1)	BN8704 Battery Model 18-E155W-11 S/N: AWG108704	
(1)	BN8705 Battery Model 18-E155W-11 S/N: AWG108705	
(1)	BN8706 Battery Model 18-E155W-11 S/N: AWG108706	
(1)	BN8707 Battery Model 18-E155W-11 S/N: AWG108707	
(1)	BN8708 Battery Model 18-E155W-11 S/N: AWG108708	
(1)	BN8709 Battery Model 18-E155W-11 S/N: AWG108709	
(1)	BN8710 Battery Model 18-E155W-11 S/N: AWG108710	
(1)	CN1941 Charger Model D3E-18-850B S/N: WF91941	
(1)	CN2620 Charger Model D3E-18-850B S/N: WF92620	
(1)	CN2621 Charger Model D3E-18-850B S/N: WF92621	
(1)	CN2622 Charger Model D3E-18-850B S/N: WF92622	
(1)	CN2623 Charger Model D3E-18-850B S/N: WF92623	
(1)	CN2624 Charger Model D3E-18-850B S/N: WF92624	
(1)	CN2625 Charger Model D3E-18-850B S/N: WF92625	
(1)	CN2629 Charger Model D3E-18-850B S/N: WF92629	
(1)	CN2633 Charger Model D3E-18-850B S/N: WF92633	
(1)	CN2682 Charger Model D3E-18-850B S/N: WF92682	
(1)	BN8687 Battery Model 18-E140-17 S/N: AWG108687	
(1)	BN8688 Battery Model 18-E140-17 S/N: AWG108688	
(1)	BN8689 Battery Model 18-E140-17 S/N: AWG108689	
(1)	BN8690 Battery Model 18-E140-17 S/N: AWG108690	
(1)	CN2771 Charger Model D3E-18-1200B S/N: WF92771	
(1)	CN2772 Charger Model D3E-18-1200B S/N: WF92772	
(1)	Smlss Steel Drip Pa	
(1)	UPC Charge, Batt Sys	
(1)	HP Watering System	
(1)	Wire Guide System	
(1)	T10530 EASI Reach Forkltruck Model EASIR45TT S/N: EZ-B-98-10530	
(1)	T10536 EASI Reach Forktruck Model EASIR45TT S/N: EZ-B-98-10536	

ABOVE EQUIPMENT DISTRIBUTED BY ROBERT ABEL & CO., INC.

LESSOR: CITIZENS LEASING CORPORATION
 a Rhode Island corporation
 ("Lessor")

LESSEE: DM Management Company
 a Delaware corporation
 ("Lessee")

ADDRESS: One Citizens Plaza
 Providence, RI 02903

ADDRESS: 25 Recreation Park Drive
 Hingham, MA 020403

Attached to and made a part of the following documents: Secured Promissory Note, Note Acceptance. Uniform Commercial Credit Code Financial Statements and Consent and Waiver by Owner, Landlord or Mortgagee of Real Estate.

QTY	MANUFACTURER, DESCRIPTION, MODEL NO./SERIAL NO.	LOCATION
---	-----	-----
		12 Sandborn St. Tilton, NH 03276
(1)	000063 Wildeck Mezzanine System Phase I	
(1)	000068 Wildeck Mezzanine System Phase II	
(1)	000070 Wildeck Mezzanine System Phase III	
(1)	000294 Vertical Reciprocating Conveyr	

ABOVE EQUIPMENT DISTRIBUTED BY WILDECK, INC.

PALLET/CASE/RAI/RACK

PHASE I

Layout 41 Bays 96" w. 48"d x 84"h with 4 beam levels
 Steel king Tulukar
 55 RTFAP048084 Uprights - 3" X 1 5/8" x 48"d x 84"h
 Capacity: 16,720# on 48" vertical centers
 328 SBRXL300095 Step Beams - 3:h x 96"l x 1,448#capacity
 328 WIRE DECKS 46"w x 48"d X 2" x 4" x 4GA. X 300#

PHASE II

SELECTIVE PALLET RACK

Layout: 75 Bays 144"w x 42"d x 345"/407"h with 6 levels (floors + 5 beam levels)
 8 RTFBW042407 End Uprights - 3" x 3" x 42"d x 407"h
 BASEPLATES 5" x 7" X 3/8" FOR Zone 2A
 Capacity: 30,560# per new 1998 RMI
 71 RTFBW042345 Int. Uprights - 3" x 3" x 42"d x 345"h
 BASEPLATES 5" x 7" x 3/8" for Zone 2A

Capacity:30,560# per new 1997 RMI
 750 SBRXP600144 Step Beams - 6" x 144"l x 6,780# Capacity
 375 BTWSG042 42" Beam Ties (required on all beams 120"+)
 316 ANCHORS 1/2" x 3 3/4"
 6 AISLE MARKERS 12" x 12" at all row ends
 48 RSR3G018 Row Spacers - 18"
 2 STEEL GUARD 102"L x 18"h
 2#GR09 2 1/2" deep x 14"h x 11 Ga. X 102"L+C52
 4FPS3K024 Free Standing Column Protector at S. Rows

RESERVE CARTON RACK

Layout: 225 Bays - 144 w x 60"d x 384"h with 11 beam levels
 30 RTFAP060417 End Uprights - 3" x 1 5/8" x 60"d x 417"h
 BASEPLATES 5" x 7" x 3/8" for Zone 2A
 Capacity: 16,703# per new 1998 RMI
 210 RTFAP060384 Int. Uprights - 3" x 1 5/8" x 60"d x 384"h
 BASEPLATES x3/8 for Zone 2A
 Capacity: 16,730#per new 1998 RMI

SCHEDULE A EQUIPMENT
 Page 5 of 6

LESSOR: CITIZENS LEASING CORPORATION,
 a Rhode Island corporation
 ("Lessor")

LESSEE: DM Management Company
 a Delaware corporation
 ("Lessee")

ADDRESS: One Citizens Plaza
 Providence, RI 02903

ADDRESS: 25 Recreation Park Drive
 Hingham, MA 02043

Attached to and made a part of the following documents: Secured Promissory Note, Note Acceptance, Uniform Commercial Code Financial Statements and Consent and Waiver by Owner, Landlord or Mortgagee of Real Estate.

QTY.	MANUFACTURER, DESCRIPTION, MODEL NO./ SERIAL NO.	LOCATION
----	-----	-----
		12 Sandborn St. Tilton, NH 03276
4950	SBRXP400144 Step Beams-4"x 144"l x 1,870# capacity	
960	ANCHORS 1/2"x 3 3/4"	
4,950	WIRE DECKS 70"w x 60"d x 2" x 4" 4 GA x 1,200# ea.	

30 AISLE MARKERS 12" x 12" at all row ends
30 STEEL GUARD 60"L x 18"H
60#SCL 4" x 4" x 1/4" Tube with 10"sq. x 5/8 Base
30#GRO5 2 1/3"Deep x 14"h x 11 Ga. X 60"L

ACTIVE CARTON RACK (Convertible to G.O.H Rack)

Layout: 1079 Bays - 96"W x 48"d x 84"h with 4 beam levels
1,225 RTFAP048084 Uprights - 3" x 1 5/6 " x 48"d x 84"h
Capacity: 16,730# on 48"vertical centers
8,632 SBRXL300096 Step Beams - 3"h x 96"l x 1,448# capacity
2,450 ANCHORS 1/2" x 3 3/4"
160 AISLE MARKERS 12" x 12" at all row ends
4,904 WIRE DECKS 46"w x 48"d x 2" x 4" x 4Ga x 300#

ACTIVE CARTON FLOW RACK

Layout: 56 Bays - 96" w x 120"d x 96"h with 4 shelf levels (6 runways/12 tracks + 5 guides per shelf)
64 Frames Vertical Frames - 96"d x 96"h
128 ANCHORS 1/2" x 3 3/4"
168 SWAY BRACES 96"
224 shelf frames 96"W x 120"d x 1,200# capacity
1,344 RUNWAYS 2 pcs x 120" long
1,120 GUIDES 120"L
16 AISLE MARKERS 12" x 12" at all row ends

GARMENT ON HANGER RACKS (Convertible to Active Carton Rack)

Layout: 232 Runs - 56"L x 4'D with 50% two high & 50% one high
1,856 RTFAP048084 Uprights - 3" x 1 5/8" x 48"d x 84"h
Capacity: 16,730# on 48" vertical centers
3,248 SBRXL300096 Step Beam 3"h x 96"l x 1,448# capacity
3,712 ANCHORS 1/2" x 3 3/4"
60 PIPE HOLDERS Adjustable Brackets - 48"d
40,194 LN. FT. RAILS 1,315 x 14 ga. Zinc plated round tubing
Note 50% of runs include 2 levels high

SCHEDULE A EQUIPMENT

Page 6 of 6

LESSOR: CITIZENS LEASING CORPORATION
a Rhode Island corporation
("Lessor")

LESSEE: DM Management Company
a Delaware Corporation
("Lessee")

ADDRESS: One Citizens Plaza

ADDRESS: 25 Recreation Park Drive

Attached to and made a part of the following documents: True Lease Schedule, Acceptance Certificate, Bill of Sale and Uniform Commercial Code Financial Statements.

QTY	MANUFACTURER, DESCRIPTION, MODEL NO./SERIAL NO.	LOCATION
---	-----	-----
		12 Sandborn St. Tilton, NH 03276

24,000 TEK SCREWS 1"
 3,016 INSERTS 20" splices
 1,392 CAPS Rubber End Caps
 5,600 CLIPS For attachments of rail to rack
 0 WIRE DECKS 3584 Supplied from Laconia Location
 464 AISLE MARKERS 12" x 12" at all row ends

ABOVE EQUIPMENT DISTRIBUTED BY STEEL KING INDUSTRIES, INC.

(2 9491 SRIENPACKER TYPE S3960 S/N: _____

ABOVE EQUIPMENT DISTRIBUTED BY SET POINT

WITH ALL STANDARD ACCESSORY EQUIPMENT

SECURED PARTY:
CITIZENS LEASING CORPORATION

DEBTOR:
DM Management, Inc.

By: /s/ John Young

 Title: Vice President

By: /s/ Peter J. Tulp

 Title: VP Finance

[LETTERHEAD]

AUTHORIZATION TO CHARGE CHECKING ACCOUNT

TO: CITIZENS LEASING CORPORATION DATE: December 23, ,1998
 One Citizens Plaza
 Providence, RI 02903

Starting with my first payment which is due January 1, 1999*, and until further notice, you are authorized to charge my checking account No. _____ each month on the due date of my Secured Promissory Note dated 12/23/98 in the amount of \$44,415.62 for the monthly payment then due.

Debtor:

DM Management Company

By: /S/ Peter J. Tulp

Title: VP Finance

*The payment due January 1, 1999 will also include a one-time daily interest charge based on the funding date and one-time Documentation Fees of \$1,000.00 and \$117.00 UCC Fees.

[LETTERHEAD]

BORROWER'S AUTHORIZATION CERTIFICATE

DATE: December 23, 1998

I (We) hereby authorize and direct CITIZENS LEASING CORPORATION to disburse the proceeds of my (our) SECURED PROMISSORY NOTE dated December 23, 1998 for \$2,913,835.83 to be disbursed as follows:

TO: DM Management Company

\$2,913,835.83

*In all cases, indicate the manner in which funds are to be disbursed. For check payment indicate the check number. For direct deposit indicate account number. For wire transfer indicate the bank to which the funds are to be sent and the account number to be credited.

DEBTOR: DM Management Company

By: /s/ Peter J. Tulp

Title: VP Finance

December 23, 1998

Citizens Leasing Corporation
One Citizens Plaza
Providence, RI 02903

RE: Secured Promissory Note in an amount of \$2,913,835.83 dated December , 1998 and Secured Promissory Note in an amount of \$4,676,523.20 dated December , 1998, (collectively the "Notes") to Master Security Agreement dated December 1998 between DM Management Company (DM), as Debtor and Citizens Leasing Corporation (CLC), as Secured Party.

Dear Sirs:

DM agrees to provide to CLC by January 31, 1999 proof of payment for the following invoices in connection with the above-referenced Notes:

--Steel King--Invoice Nos. 93553 (\$17,000), 94258 (\$9,638) and 98831 (\$116,362).

--Set Point--Invoice Nos. 180186 (\$83,771) and 172662 (\$83,771)

--Unisource (division of Set Point)--Invoice Nos. 181370 (\$160), 182440 (\$11,922.55), 183767 (\$88,771)

--AM Freece Invoice No. 64944 (\$74,773.03)

--Wildeck Invoice--evidence of payment for \$23,658

In consideration of CLC agreeing to fund the Notes prior to receipt of the above referenced evidence of payment, DM agrees to accept a buy back of the

Notes from CLC on or before January 31, 1999. CLC, may with not further action required on its part, extend the deadline for receipt of all outstanding issues.

If the foregoing correctly sets forth our agreement with respect to this matter, please execute one copy of this letter in the place provided below and return it to the undersigned.

Very truly yours,

DM MANAGEMENT COMPANY

By: /S/ Peter J. Tulp

Title: VP Finance

Acknowledged and Agreed:

CITIZENS LEASING CORPORATION

By: /S/ John Young

Title: Vice President

[LOGO]

Exhibit 10.62

One Citizens Plaza
Providence, Rhode Island 02903

SECURED PROMISSORY NOTE

SECURED PARTY: CITIZENS LEASING CORPORATION	DEBTOR: DM Management Company
One Citizens Plaza	
Providence, Rhode Island 02903	Address: 25 Recreation Park Drive
(401) 456-7000	Hingham, MA 02043
	Telephone: (781) 740-2718

1. Secured Party and Debtor have entered into a Master Security Agreement dated as of December 23, 1998, (the "Security Agreement"). To secure payment of the indebtedness set forth below, including the Principal Amount set forth below, and the performance of all obligations contained herein, Debtor hereby grants to Secured Party, its successors and assigns, a security interest in the property set forth in Schedule A hereto, together with all attachments, accessories, additions and accessions thereto, whether now existing or hereafter acquired, all replacements and substitutions therefor, and all proceeds thereof (all hereinafter referred to collectively as the "Equipment").

2. Principal Amount. The original Principal Amount of this Note is: \$4,676,523.20.

3. a. Term. The Term of this Note is 84 months commencing on the Term Commencement Date as set forth in the Note Acceptance Certificate to this Note plus any partial period between the Acceptance Date of the Equipment as set forth in the Note Acceptance Certificate and the Term Commencement Date.

b. Payments. Debtor hereby promises to pay the Principal Amount to Secured Party and Interest thereon as follows:

(i) Interest only on the Term Commencement Date in an amount equal to \$ 974.28 multiplied by the number of days between the Acceptance Date up to and including the Term Commencement Date.

(ii) Thereafter, the Principal Amount, together with interest thereon at the fixed rate of 7.50 % per annum, shall be payable in (check one) advance/ arrears in consecutive (check one) monthly/ quarterly Installment Payments commencing on the 1st day of January 1999 and thereafter on the same day of each successive (check one) month/ quarter inclusive until fully paid, provided that the final installment shall be in the amount of the unpaid balance hereof together with any accrued interest and late charges. Interest shall be calculated based on the actual number of days elapsed over twelve (12) thirty (30) day months.

The amount of each Installment Payment hereunder is as follows:

Installment Nos.	Amount of Each Installment Payment
1 - 83	\$71,284.28

c. Debtor agrees to pay Secured Party, in advance, the first Installment Payment.

d. Secured Party acknowledges receipt from Debtor of a payment in the amount of \$ N/A to be held by Secured Party as a deposit to secure Debtor's performance hereunder.

4. The Equipment will be located at the locations specified in Schedule A hereto.

5. This Note is secured by the Equipment, as set forth in Schedule A hereto and as further defined in the Security Agreement, the terms and conditions of which are incorporated herein by reference. This Note is one of the "Notes" referred to in the Security Agreement.

Dated: December 23,1998

SECURED PARTY:

DEBTOR:

CITIZENS LEASING CORPORATION

DM Management Company

By:

/s/ John Young

By:

/s/ Peter J. Tulp

Title:

Vice President

Title:

VP Finance

[LETTERHEAD]

CITIZENS LEASING CORPORATION
One Citizens Plaza
Providence, Rhode Island 02903

NOTE ACCEPTANCE CERTIFICATE

Note Acceptance Certificate to Secured Promissory Note dated 12/23/98, (the "Note") to Master Security Agreement dated 12/23/98, (the "Security Agreement"), by and between DM Management Company as Debtor, and CITIZENS LEASING CORPORATION as Secured Party.

1. Debtor hereby acknowledges that the Equipment set forth on Schedule A hereto (the "Equipment") is hereby unconditionally accepted by the Debtor for all purposes under the above-referenced Note and hereby agrees to faithfully perform all of its obligations under the Note as of the date hereof. Debtor hereby also reaffirms all of its representations, warranties and covenants as set forth in the Security Agreement and in the Note as of the date hereof and certifies that no event or condition has occurred and is continued which constitutes an Event of Default under the Security Agreement or the Note or would constitute such an Event of Default with the passage of

time and/or giving of notice.

2. Debtor represents and warrants the (i) the Equipment has been delivered and is in an operating condition and performing the operation for which it is intended to the satisfaction of the Debtor; and (ii) if requested by the Secured Party, the Equipment has been marked or labeled evidencing the Secured Party's interest therein.

3. Debtor hereby agrees to pay Secured Party the Installment Payments, as set forth in the Note, at the times and in the manner set forth in the Note.

4. The Principal Amount of the Note is: \$4,676,523.20.

5. The Term Commencement Date is the 1st day of January, 1999.

Dated: December 23, 1998

DEBTOR: DM Management Company

(the "Acceptance Date")

By: /S/ Peter J. Tulp

Title: VP Finance

Agreed and Accepted:

CITIZENS LEASING CORPORATION

By: /S/ John Young

Title: Vice President

SCHEDULE A EQUIPMENT

LESSOR: CITIZENS LEASING CORPORATION, a Rhode Island corporation ("Lessor")

LESSEE: DM Management Company a Delaware Corporation ("Lessee")

ADDRESS: One Citizens Plaza Providence, RI 02903

ADDRESS: 25 Recreation Park Drive Hingham, MA 02043

Attached to and made a part of the following documents: Secured Promissory Note, Note Acceptance, Uniform Commercial Code Financial Statements and Consent and Waiver by Owner, Landlord or Mortgagee of Real Estate.

<TABLE>
<CAPTION>

Table with 4 columns: QTY, MANUFACTURER, DESCRIPTION MODEL NO./SERIAL NO., LOCATION. Includes sub-headers: Seq. #, Series, Panel, Conveyor Number, Type of Conveyor, and location 12 Sandborn St. Tilton, NH 03276.

1	1	100	100-1	BPE100A	PBE-Powered Belt Extendable
1	2	100	100-1	BPE100B	PBE-Powered Belt Extendable
1	3	100	n/a	T100	Track for Powered Belt Extendables
1	4	100	n/a	GRC102A	RGC160-Roller Gravity Curve
1	5	100	n/a	GRC102B	RGC160-Roller Gravity Curve
1	6	100	n/a	GRC102C	RGC160-Roller Gravity Curve
1	7	100	n/a	GRC102D	RGC160-Roller Gravity Curve
1	8	100	n/a	GRC102E	RGC160-Roller Gravity Curve
1	9	100	n/a	GRC102F	RGC160-Roller Gravity Curve
1	10	100	n/a	GRC104A	RGC160-Roller Gravity Curve
1	11	100	n/a	GRC104B	RGC160-Roller Gravity Curve
1	12	100	n/a	GRC104C	RGC160-Roller Gravity Curve
1	13	100	n/a	GRC104D	RGC160-Roller Gravity Curve
1	14	100	n/a	GRC104E	RGC160-Roller Gravity Curve
1	15	100	n/a	GRC104F	RGC160-Roller Gravity Curve
1	16	100	n/a	GR106A	RG1916-Roller Gravity
1	17	100	n/a	GR106B	RG1916-Roller Gravity
1	18	100	n/a	GR106C	RG1916-Roller Gravity
1	19	100	n/a	GR106D	RG1916-Roller Gravity
1	20	100	n/a	GR106E	RG1916-Roller Gravity
1	21	100	n/a	GR106F	RG1916-Roller Gravity
1	22	100	n/a	GR106G	RG1916-Roller Gravity

</TABLE>

SCHEDULE A EQUIPMENT

LESSOR: CITIZENS LEASING CORPORATION,
a Rhode Island corporation
("Lessor")

LESSEE: DM Management Company
a Delaware Corporation
("Lessee")

ADDRESS: One Citizens Plaza
Providence, RI 02903

ADDRESS: 25 Recreation Park Drive
Hingham, MA 02043

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<TABLE>
<CAPTION>

QTY	MANUFACTURER, DESCRIPTION MODEL NO./SERIAL NO.					LOCATION
	Seq. #	Series	Panel	Conveyor Number	Type of Conveyor	
						12 Sandborn St. Tilton, NH 03276
<S>	<C>	<C>	<C>	<C>	<C>	
1	23	100	100	LR124A	LRTC-Live Roller Transportation	
1	24	100	100	LR124B	LRTC-Live Roller Transportation	
1	25	100	100	LR124C	LRTC-Live Roller Transportation	
1	26	100	100	LR124D	LRTC-Live Roller Transportation	
1	27	100	100	LR124E	LRTC-Live Roller Transportation	
1	28	100	100	IB126A	BSE-Indexing Belt	
1	29	100	100	IB126B	BSE-Indexing Belt	
1	30	100	100	IB126C	BSE-Indexing Belt	
1	31	100	100	IB126D	BSE-Indexing Belt	
1	32	100	100	IB126E	BSE-Indexing Belt	
1	33	100	100	LRM128A	LRSC-Live Roller Spur Curve	
1	34	100	100	LRM128B	LRSC-Live Roller Spur Curve	
1	35	100	100	LRM128C	LRSC-Live Roller Spur Curve	
1	36	100	100	LRM128D	LRSC-Live Roller Spur Curve	
1	37	100	100	LRM128E	LRSC-Live Roller Spur Curve	
1	38	100	100	PB132	BRC-Powered Belt	
1	39	100	100	LRC134	LRC-Live Roller Curve	
1	40	100	100	PB1136	BIC-15 Degree Bell Incline	
1	41	100	100	LRC138	LRC-Live Roller Curve	
1	42	100	100	LRA140	LRZC-Zero Pressure Accumulation	

1	43	100	100	LRC142	LRC-Live Roller Curve
1	44	100	100	LRA144	LRZC-Zero Pressure Accumulation
1	45	100	n/a	LRM146	LRZC-Zero Pressure Accumulation
1	46	100	100	LRA148	LRC-Live Roller Merge
1	47	100	100	LRC150	LRZC-Zero Pressure Accumulation
1	48	100	n/a	LRC152	LRC-Live Roller Curve
1	49	100	100	LRC154	LRZC-Zero Pressure Accumulation
1	50	100	n/a	LRA156	LRC-Live Roller Curve
1	50	100	100	LRA156	LRZC-Zero Pressure Accumulation

</TABLE>

SCHEDULE A EQUIPMENT

LESSOR: CITIZENS LEASING CORPORATION, a Rhode Island corporation ("Lessor")	LESSEE: DM Management Company a Delaware Corporation ("Lessee")
ADDRESS: One Citizens Plaza Providence, RI 02903	ADDRESS: 25 Recreation Park Drive Hingham, MA 02043

Attached to and made a part of the following documents: Secured Promissory Note, Note Acceptance, Uniform Commercial Code Financial Statements and Consent and Waiver by Owner, Landlord or Mortgagee of Real Estate.

<TABLE>
<CAPTION>

QTY	MANUFACTURER, DESCRIPTION MODEL NO./SERIAL NO.					LOCATION
	Seq. #	Series	Panel	Conveyor Number	Type of Conveyor	
						12 Sandborn St. Tilton, NH 03276
<S>	<C>	<C>	<C>	<C>	<C>	
1	51	100	100	LR160	LRTC-Live Roller Transportation	
1	52	100	100	PB1162	BIC-15 Degree Belt Incline	
1	53	100	n/a	LRC164	LRC-Live Roller Curve	
1	54	100	100	LRA166	LRZC-Zero Pressure Accumulation	
48	55	100	n/a	GA100	1.5" Angle Guard Rail (bulk)	

43	56	100	n/a	GCL100	5.75" Lapped Channel Guard Rail (bulk)
1	57	200	200	BSB200A	BMSE-Brake/Meter Belt
1	58	200	200	BSB200B	BMSE-Brake/Meter Belt
1	59	200	200	BSB200C	BMSE-Brake/Meter Belt
1	60	200	200	BSB200D	BMSE-Brake/Meter Belt
1	61	200	200	LRS201A	LRS-Live Roller Spur
1	62	200	200	LRS201B	LRS-Live Roller Spur
1	63	200	200	LRS201C	LRS-Live Roller Spur
1	64	200	200	LRS201D	LRS-Live Roller Spur
1	65	200	200	LR202	LRTC-Live Roller Transportation
1	66	200	n/a	LRC204	LRC-Live Roller Curve
1	67	200	200	LR206	SP-Skewed Roller Section
1	68	200	200	LRA208	LRS-Live Roller Spur
1	69	200	200	BSB210	BMSE-Brake/Meter Belt
1	70	200	200	SOR212	BRE-Sort Belt
1	71	200	200	SOR214	BRE-Sort Belt
1	72	200	n/a	DIV220	LFS-Line Flow Spur
1	73	200	n/a	DIV230	LFS-Line Flow Spur
1	74	200	200	DIV260	LRSC-Live Roller Spur Curve
1	75	200	200	PBD262	BDC-15 Degree Belt Decline
1	76	200	n/a	GR264	RG1916-Roller Gravity
1	77	200	n/a	DIV280	LFS-Line Flow Spur
18	78	200	n/a	GCL200	5.75"-Lapped Channel Guard Rail (bulk)
1	79	300	n/a	DIV310	LFS-Line Flow Spur

</TABLE>

SCHEDULE A EQUIPMENT

LESSOR: CITIZENS LEASING CORPORATION,
a Rhode Island corporation
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("Lessee")

ADDRESS: One Citizens Plaza
Providence, RI 02903

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Hingham, MA 02043

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---	Seq. #	Series	Panel	Conveyor Number	Type of Conveyor	-----
<S>	<C>	<C>	<C>	<C>	<C>	
1	95	300	300-1	LRC332	LRC-Live Roller Curve	12 Sandborn St. Tilton, NH 03276
1	96	300	300-1	PBD333	BDC-15 Degree Belt Decline	
1	97	300	n/a	LRC334A	LRC-Live Roller Curve	
1	98	300	300-1	LR334B	LRTE-Live Roller Transportation	
1	99	300	n/a	LRC334C	LRC-Live Roller Curve	
1	100	300	300-1	LRA336	LRZC-Zero Pressure Accumulation	
1	101	300	300-1	BSB338	BMSE-Brake/Motor Belt	
1	102	300	300-1	SOR340	BRE-Sort Belt	
1	103	300	300-1	LRA342	LRZC-Zero Pressure Accumulation	
1	104	300	300-1	BSB344	BMSE-Brake/Motor Belt	
1	105	300	300-1	BC346	PBC-Powered Belt Curve	
1	106	300	300-2	SOR347	BRC-Sort Belt	
1	107	300	300-2	SOR348	BRC-Sort Belt	
1	108	300	300-2	LRA349	LRZC-Zero Pressure Accumulation	
1	109	300	n/a	DIV350A	LFS-Line Flow Spur	
1	110	300	n/a	DIV350B	LFS-Line Flow Spur	
1	111	300	n/a	DIV350C	LFS-Line Flow Spur	
1	112	300	n/a	GRC351A	RGCl60-Roller Gravity Curve	
1	113	300	n/a	GRC351B	RGCl60-Roller Gravity Curve	
1	114	300	n/a	GRC351C	RGCl60-Roller Gravity Curve	
1	115	300	n/a	CH352A	CHT-Chute	
1	116	300	n/a	CH352B	CHT-Chute	

1	117	300	n/a	CH352C	CHT-Chute
1	118	300	n/a	CH352D	CHT-Chute
1	119	300	n/a	GR353A	RG1916-Roller Gravity
1	120	300	n/a	GR353B	RG1916-Roller Gravity
1	121	300	n/a	GR353C	RG1916-Roller Gravity
1	122	300	n/a	GR353D	RG1916-Roller Gravity

</TABLE>

SCHEDULE A EQUIPMENT

LESSOR: CITIZENS LEASING CORPORATION,
a Rhode Island corporation
("Lessor")

LESSEE: DM Management Company
a Delaware Corporation
("Lessee")

ADDRESS: One Citizens Plaza
Providence, RI 02903

ADDRESS: 25 Recreation Park Drive
Hingham, MA 02043

Attached to and made a part of the following documents: Secured Promissory Note, Note Acceptance, Uniform Commercial Code Financial Statements and Consent and Waiver by Owner, Landlord or Mortgagee of Real Estate.

<TABLE>

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QTY	MANUFACTURER, DESCRIPTION MODEL NO./SERIAL NO.					LOCATION
Seq. #	Series	Panel	Conveyor Number	Type of Conveyor		
1	123	300	n/a	DIV355A	LFS-Line Flow Spur	12 Sandborn St. Tilton, NH 03276
1	124	300	n/a	DIV355B	LFS-Line Flow Spur	
1	125	300	n/a	DIV355C	LFS-Line Flow Spur	
1	126	300	n/a	GRC356A	RGCl60-Roller Gravity Curve	
1	127	300	n/a	GRC356B	RGCl60-Roller Gravity Curve	
1	128	300	n/a	GRC356C	RGCl60-Roller Gravity Curve	
1	129	300	n/a	CH357A	CHT-Chute	
1	130	300	n/a	CH357B	CHT-Chute	
1	131	300	n/a	CH357C	CHT-Chute	

1	132	300	n/a	CH357D	CHT-Chute
1	133	300	n/a	GR358A	RG1916-Roller Gravity
1	134	300	n/a	GR358B	RG1916-Roller Gravity
1	135	300	n/a	GR358C	RG1916-Roller Gravity
1	136	300	n/a	GR358D	RG1916-Roller Gravity
1	137	300	n/a	DIV360A	LFS-Lina Flow Spur
1	138	300	n/a	DIV360B	LFS-Lina Flow Spur
1	139	300	n/a	DIV360C	LFS-Lina Flow Spur
1	140	300	n/a	GRC361A	RGC160-Roller Gravity Curve
1	141	300	n/a	GRC361B	RGC160-Roller Gravity Curve
1	142	300	n/a	GRC361C	RGC160-Roller Gravity Curve
1	143	300	n/a	CH362A	CHT-Chute
1	144	300	n/a	CH362B	CHT-Chute
1	145	300	n/a	CH362C	CHT-Chute
1	146	300	n/a	CH362D	CHT-Chute
1	147	300	n/a	GR363A	RG1916-Roller Gravity
1	148	300	n/a	GR363B	RG1916-Roller Gravity
1	149	300	n/a	GB363C	RG1916-Roller Gravity

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SCHEDULE A EQUIPMENT

LESSOR: CITIZENS LEASING CORPORATION,
a Rhode Island corporation
("Lessor")
ADDRESS: One Citizens Plaza
Providence, RI 02903

LESSEE: DM Management Company
a Delaware Corporation
("Lessee")
ADDRESS: 25 Recreation Park Drive
Hingham, MA 02043

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	Seq. #	Series	Panel	Conveyor Number	Type of Conveyor	
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1	150	300	n/a	GR363D	RG1916-Roller Gravity	12 Sandborn St. Tilton, NH 03276
1	151	300	n/a	DIV365A	LFS-Line Flow Spur	
1	152	300	n/a	DIV365B	LFS-Line Flow Spur	
1	153	300	n/a	DIV365C	LFS-Line Flow Spur	
1	154	300	n/a	GRC366A	RGC160-Roller Gravity Curve	
1	155	300	n/a	GRC366B	RGC160-Roller Gravity Curve	
1	156	300	n/a	GRC366C	RGC160-Roller Gravity Curve	
1	157	300	n/a	CH367A	CHT-Chule	
1	158	300	n/a	CH367B	CHT-Chule	
1	159	300	n/a	CH367C	CHT-Chule	
1	160	300	n/a	CH367D	CHT-Chule	
1	161	300	n/a	GR368A	RG1916-Roller Gravity	
1	162	300	n/a	GR368B	RG1916-Roller Gravity	
1	163	300	n/a	GR368C	RG1916-Roller Gravity	
1	164	300	n/a	GR368D	RC1916-Roller Gravity	
1	165	300	300-1	BC370	PBC-Powered Belt Curve	
1	166	300	300-1	SOR377	BRC-Sort Belt	
1	167	300	300-1	SOR378	BRC-Sort Belt	
1	168	300	300-1	LRA379	LRZC-Zero Pressure Accumulation	
1	169	300	300-1	LRC382	LRC-Live Roller Curve	
1	170	300	300-1	LR383	LRC-Live Roller Transportation	
1	171	300	n/a	LRC384	LRC-Live Roller Curve	
1	172	300	300-1	LRA386	LRZC-Zero Pressure Accumulation	
1	173	300	300-1	BSB388	BMSE-Brake/Meter Belt	
1	174	300	300-1	SOR390	BRE-Sort Belt	
1	175	300	300-1	LRA392	LRZC-Zero Pressure Accumulation	
1	176	300	300-1	BSB394	BMSE-Brake/Meter Belt	
1	177	300	300-1	BC396	PBC-Powered Belt Curve	

1	178	300	300-2	SOR397	BRC-Sort Belt
1	179	300	300-2	SOR398	BRC-Sort Belt

</TABLE>

SCHEDULE A EQUIPMENT

LESSOR: CITIZENS LEASING CORPORATION, a Rhode Island corporation ("Lessor")	LESSEE: DM Management Company a Delaware Corporation ("Lessee")
ADDRESS: One Citizens Plaza Providence, RI 02903	ADDRESS: 25 Recreation Park Drive Hingham, MA 02043

Attached to and made a part of the following documents: Secured Promissory Note, Note Acceptance, Uniform Commercial Code Financial Statements and Consent and Waiver by Owner, Landlord or Mortgagee of Real Estate.

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QTY	MANUFACTURER, DESCRIPTION MODEL NO./SERIAL NO.					LOCATION
	Seq. #	Series	Panel	Conveyor Number	Type of Conveyor	
						12 Sandborn St. Tilton, NH 03276
<S>	<C>	<C>	<C>	<C>	<C>	
1	180	300	300-2	LRA399	LRZC-Zero Pressure Accumulation	
90	181	300	n/a	GCL300	5.75" Lapped Channel Guard Rail (bulk)	
1	182	400	n/a	GR400	RG1916-Roller Gravity	
1	183	400	400	PB1401	BRE-12 Degree Booster Belt	
1	184	400	400	LRA402	LRZC-Zero Pressure Accumulation	
1	185	400	n/a	GR403	RG1916-Roller Gravity	
1	186	400	400	PB1401	BRE-12 Degree Booster Belt	
1	187	400	n/a	LRM405	LREWS-Live Roller Merge	
1	188	400	400	LRA406	LRZC-Zero Pressure Accumulation	
1	189	400	n/a	GR407	RG1916-Roller Gravity	
1	190	400	400	PB1408	BRE-12 Degree Booster Belt	

1	191	400	n/a	LRM409	LREWS-Live Roller Merge
1	192	400	n/a	GR410	RG1916-Roller Gravity
1	193	400	400	PB1411	BRE-12 Degree Booster Belt
1	194	400	n/a	LRM412	LREWS-Live Roller Merge
1	195	400	400	LRA413	LRZC-Zero Pressure Accumulation
1	196	400	n/a	GR414	RG1916-Roller Gravity
1	197	400	400	PB1415	BRE-12 Degree Booster Belt
1	198	400	n/a	LRM416	LREWS-Live Roller Merge
1	199	400	n/a	GR417	RG1916-Roller Gravity
1	200	400	400	PB1418	BRE-12 Degree Booster Belt
1	201	400	n/a	LRM419	LREWS-Live Roller Merge
1	202	400	400	PB1420	BRE-12 Degree Booster Belt
1	203	400	400	LRC421	LRC-Live Roller Curve
1	204	400	400	PB1422	BRE-12 Degree Booster Belt
1	205	400	400	LRA423	LRZC-Zero Pressure Accumulation
1	206	400	n/a	LRC424	LRC-Live Roller Curve
1	207	400	400	LRA425	LRZC-Zero Pressure Accumulation
1	208	400	n/a	GR450	RG1916-Roller Gravity
1	209	400	400	PB1451	BRE-12 Degree Booster Belt

</TABLE>

SCHEDULE A EQUIPMENT

LESSOR: CITIZENS LEASING CORPORATION
a Rhode Island corporation
("Lessor")

LESSEE: DM Management Company
a Delaware corporation
("Lessee")

ADDRESS: One Citizens Plaza
Providence, RI 02903

ADDRESS: 25 Recreation Park Drive
Hingham, MA 02043

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QTY	MANUFACTURER, DESCRIPTION MODEL NO./SERIAL NO.					LOCATION
	Seq. #	Series	Panel	Conveyor Number	Type of Conveyor	
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1	210	400	400	LRA452	LRZC-Zero Pressure Accumulation	12 Sandborn St. Tilton, NH 03276
1	211	400	n/a	GR453	RG-1916-Roller Gravity	
1	212	400	400	PB1454	BRE-12 Degree Booster Belt	
1	213	400	n/a	LRM455	LREWS-Live Roller Merge	
1	214	400	400	LRA456	LRZC-Zero Pressure Accumulation	
1	215	400	n/a	GR457	RG1916-Roller Gravity	
1	216	400	400	PB1458	BRE-12 Degree Booster Belt	
1	217	400	n/a	LRM459	LREWS-Live Roller Marge	
1	218	400	n/a	GR460	RG1916-Roller Gravity	
1	219	400	400	PB1461	BRE-12 Degree Booster Belt	
1	220	400	n/a	LRM462	LREWS-Live Roller Merge	
1	221	400	400	LRM463	LRZC-Zero Pressure Accumulation	
1	222	400	n/a	GR464	RG1916-Roller Gravity	
1	223	400	400	PB1465	BRE-12 Degree Booster Belt	
1	224	400	n/a	LRM466	LREWS-Live Roller Merge	
1	225	400	n/a	GR467	RG1916-Roller Gravity	
1	226	400	400	PB1468	BRE-12 Degree Booster Belt	
1	227	400	n/a	LRM469	LREWS-Live Roller Merge	
1	228	400	400	LRC471	LRC-Live Roller Curve	
1	229	400	400	LRA473	LRZC-Zero Pressure Accumulation	
1	230	400	n/a	LRC474	LRC-Live Roller Curve	
1	231	400	400	LRA475	LRZC-Zero Pressure Accumulation	
1	232	400	n/a	GCL400	5.75"Lapped Channel Guard Rail (bulk)	
1	233	500	200	DIV500	LRSC-Live Roller Spur Curve	
1	234	500	200	PB1502	BIC-15 Degree Belt Incline	
1	235	500	n/a	LRC504	LRC-Live Roller Curve	
1	236	500	200	LRA506	LRZC-Zero Pressure Accumulation	

1	237	500	200	LRA508	LRZC-Zero Pressure Accumulation
1	238	500	n/a	LRC510	LRC-Live Roller Curve
1	239	500	500	PBD512	BDC-15 Degree Belt Decline

SCHEDULE A EQUIPMENT

LESSOR: CITIZENS LEASING CORPORATION,
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("Lessor")
ADDRESS: One Citizens Plaza
Providence, RI 02903

LESSEE: DM Management Company
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("Lessee")
ADDRESS: 25 Recreation Park Drive
Hingham, MA 02043

Attached to and made a part of the following documents: Secured Promissory Note, Note Acceptance, Uniform Commercial Code Financial Statements and Consent and Waiver by Owner, Landlord or Mortgagee of Real Estate.

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QTY	MANUFACTURER, DESCRIPTION MODEL NO./SERIAL NO.					LOCATION
Seq. #	Series	Panel	Conveyor Number	Type of Conveyor		12 Sandborn St. Tilton, NH 03276
1	240	500	500	LRA514	LRZE-Zero Pressure Accumulation	
1	241	500	n/a	LRM516	LREWS-Live Roller Merge	
1	242	500	n/a	LRC518	LRC-Live Roller Curve	
1	243	500	500	LRC520	LRC-Live Roller Curve	
1	244	500	500	LRA522	LRZE-Zero Pressure Accumulation	
1	245	500	500	BSB524	BMSE-Brake/Meter Belt	
1	246	500	500	SOR526	BRC-Sort Belt	
1	247	500	500	SOR528	BRC-Sort Belt	
1	248	500	500	SOR530	BRC-Sort Belt	
1	249	500	500	BC532	PBC-Powered Belt Curve	
1	250	500	500	SOR534	BRC-Sort Belt	
1	251	500	500	SOR536	BRC-Sort Belt	

1	252	500	500	SOR538	BRC-Sort Belt
1	253	500	500	LRA540	LRZC-Zero Pressure Accumulation
1	254	500	500	DIV545	LRSC-Live Roller Spur Curve
1	255	500	500	GRC546	RGC160-Roller Gravity Curve
1	256	500	n/a	GR547	RG1916-Roller Gravity
1	257	500	n/a	DIV550A	LFS-Line Flow Spur
1	258	500	n/a	DIV550B	LFS-Line Flow Spur
1	259	500	n/a	DIV550C	LFS-Line Flow Spur
1	260	500	n/a	DIV550D	LFS-Line Flow Spur
1	261	500	n/a	DIV550E	LFS-Line Flow Spur
1	262	500	n/a	DIV550F	LFS-Line Flow Spur
1	263	500	n/a	DIV550G	LFS-Line Flow Spur
1	264	500	n/a	DIV550H	LFS-Line Flow Spur
1	265	500	n/a	DIV550J	LFS-Line Flow Spur
1	266	500	n/a	DIV550K	LFS-Line Flow Spur
1	267	500	n/a	DIV550L	LFS-Line Flow Spur
1	268	500	n/a	DIV550M	LFS-Line Flow Spur
1	269	500	n/a	DIV550N	LFS-Line Flow Spur
1	270	500	n/a	DIV550P	LFS-Line Flow Spur
1	271	500	n/a	DIV550Q	LFS-Line Flow Spur

</TABLE>

SCHEDULE A EQUIPMENT

LESSOR: CITIZENS LEASING CORPORATION,
a Rhode Island corporation
("Lessor")

ADDRESS: One Citizens Plaza
Providence, RI 02903

LESSEE: DM Management Company
a Delaware Corporation
("Lessee")

ADDRESS: 25 Recreation Park Drive
Hingham, MA 02043

Attached to and made a part of the following documents: Secured
Promissory Note, Note Acceptance, Uniform Commercial Code Financial

Statements and Consent and Waiver by Owner, Landlord or Mortgagee of Real Estate.

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QTY	MANUFACTURER, DESCRIPTION MODEL NO./SERIAL NO.					LOCATION
	Seq. #	Series	Panel	Conveyor Number	Type of Conveyor	12 Sandborn St. Tilton, NH 03276
<S>	<C>	<C>	<C>	<C>	<C>	
1	301	500	n/a	GR552N	RG1916-Roller Gravity	
1	302	500	n/a	GR552P	RG1916-Roller Gravity	
1	303	500	n/a	GR552Q	RG1916-Roller Gravity	
1	304	500	n/a	GR552R	RG1916-Roller Gravity	
36	305	500	n/a	GCL500	5.75" Lapped Channel Guard Rail	
1	306	600	600	LR600A	LRTE-Live Roller Transportation	
1	307	600	600	LR600B	LRTE-Live Roller Transportation	
1	308	600	600	LR600C	LRTE-Live Roller Transportation	
1	309	600	600	LR600D	LRTE-Live Roller Transportation	
1	310	600	600	LR600E	LRTE-Live Roller Transportationt	
1	311	600	600	LR600F	LRTE-Live Roller Transportation	
1	312	600	600	LR600G	LRTE-Live Roller Transportation	
1	313	600	600	LR600H	LRTE-Live Roller Transportation	
1	314	600	600	LR600J	LRTE-Live Roller Transportation	
1	315	600	600	LR600K	LRTE-Live Roller Transportation	
1	316	600	600	LR600L	LRTE-Live Roller Transportation	
1	317	600	600	LR600M	LRTE-Live Roller Transportation	
1	318	600	600	LR600N	LRTE-Live Roller Transportation	
1	319	600	600	LR600P	LRTE-Live Roller Transportation	
1	320	600	600	LR600Q	LRTE-Live Roller Transportation	
1	321	600	600	LR600R	LRTE-Live Roller Transportation	
1	322	600	600	LR600S	LRTE-Live Roller Transportation	
1	323	600	600	IB602A	BSE-Indexing Belt	
1	324	600	600	IB602B	BSE-Indexing Belt	

1	325	600	600	IB602C	BSE-Indexing Belt
1	326	600	600	IB602D	BSE-Indexing Belt
1	327	600	600	IB602E	BSE-Indexing Belt
1	328	600	600	IB602F	BSE-Indexing Belt
1	329	600	600	IB602G	BSE-Indexing Belt
1	330	600	600	IB602H	BSE-Indexing Belt

</TABLE>

SCHEDULE A EQUIPMENT

LESSOR: CITIZENS LEASING CORPORATION,
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QTY	MANUFACTURER, DESCRIPTION MODEL NO./SERIAL NO.					LOCATION
	Seq. #	Series	Panel	Conveyor Number	Type of Conveyor	12 Sandborn St. Tilton, NH 03276
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1	272	500	n/a	DIV550R	LFS-Line Flow Spur	
1	273	500	n/a	GRC551A	RGC160-Roller Gravity Curve	
1	274	500	n/a	GRC551B	RGC160-Roller Gravity Curve	
1	275	500	n/a	GRC551C	RGC160-Roller Gravity Curve	
1	276	500	n/a	GRC551D	RGC160-Roller Gravity Curve	
1	277	500	n/a	GRC551E	RGC160-Roller Gravity Curve	
1	278	500	n/a	GRC551F	RGC160-Roller Gravity Curve	
1	279	500	n/a	GRC551G	RGC160-Roller Gravity Curve	

1	280	500	n/a	GRC551H	RGC160-Roller Gravity Curve
1	281	500	n/a	GRC551J	RGC160-Roller Gravity Curve
1	282	500	n/a	GRC551K	RGC160-Roller Gravity Curve
1	283	500	n/a	GRC551L	RGC160-Roller Gravity Curve
1	284	500	n/a	GRC551M	RGC160-Roller Gravity Curve
1	285	500	n/a	GRC551N	RGC160-Roller Gravity Curve
1	286	500	n/a	GRC551P	RGC160-Roller Gravity Curve
1	287	500	n/a	GRC551Q	RGC160-Roller Gravity Curve
1	288	500	n/a	GRC551R	RGC160-Roller Gravity Curve
1	289	500	n/a	GR552A	RGC160-Roller Gravity Curve
1	290	500	n/a	GR552B	RG1916-Roller Gravity
1	291	500	n/a	GR552C	RG1916-Roller Gravity
1	292	500	n/a	GR552D	RG1916-Roller Gravity
1	293	500	n/a	GR552E	RG1916-Roller Gravity
1	294	500	n/a	GR552F	RG1916-Roller Gravity
1	295	500	n/a	GR552G	RG1916-Roller Gravity
1	296	500	n/a	GR552H	RG1916-Roller Gravity
1	297	500	n/a	GR552J	RG1916-Roller Gravity
1	298	500	n/a	GR552K	RG1916-Roller Gravity
1	299	500	n/a	GR552L	RG1916-Roller Gravity
1	300	500	n/a	GR552M	RG1916-Roller Gravity

</TABLE>

SCHEDULE A EQUIPMENT

LESSOR: CITIZENS LEASING CORPORATION,
a Rhode Island corporation
("Lessor")

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Providence, RI 02903

LESSEE: DM Management Company
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("Lessee")

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Hingham, MA 02043

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QTY	MANUFACTURER, DESCRIPTION MODEL NO./SERIAL NO.					LOCATION
---	Seq. #	Series	Panel	Conveyor Number	Type of Conveyor	----- 12 Sandborn St. Tilton, NH 03276
<S>	<C>	<C>	<C>	<C>	<C>	
1	331	600	600	IB602J	BSE-Indexing Belt	
1	332	600	600	IB802K	BSE-Indexing Belt	
1	333	600	600	IB602L	BSE-Indexing Belt	
1	334	600	600	IB602M	BSE-Indexing Belt	
1	335	600	600	IB602N	BSE-Indexing Belt	
1	336	600	600	IB602P	BSE-Indexing Belt	
1	337	600	600	IB602Q	BSE-Indexing Belt	
1	338	600	600	IB602R	BSE-Indexing Belt	
1	339	600	600	IB602S	BSE-Indexing Belt	
1	340	600	600	LRM604A	LRSC-Live Roller Spur Curve	
1	341	600	600	LRM604B	LRSC-Live Roller Spur Curve	
1	342	600	600	LRM604C	LRSC-Live Roller Spur Curve	
1	343	600	600	LRM604D	LRSC-Live Roller Spur Curve	
1	344	600	600	LRM604E	LRSC-Live Roller Spur Curve	
1	345	600	600	LRM604F	LRSC-Live Roller Spur Curve	
1	346	600	600	LRM604G	LRSC-Live Roller Spur Curve	
1	347	600	600	LRM604H	LRSC-Live Roller Spur Curve	
1	348	600	600	LRM604J	LRSC-Live Roller Spur Curve	
1	349	600	600	LRM604K	LRSC-Live Roller Spur Curve	
1	350	600	600	LRM604L	LRSC-Live Roller Spur Curve	
1	351	600	600	LRM604M	LRSC-Live Roller Spur Curve	
1	352	600	600	LRM604N	LRSC-Live Roller Spur Curve	
1	353	600	600	LRM604P	LRSC-Live Roller Spur Curve	
1	354	600	600	LRM604Q	LRSC-Live Roller Spur Curve	

1	355	600	600	LRM604R	LRSC-Live Roller Spur Curve
1	356	600	600	LRC606	LRSC-Live Roller Curve
1	357	600	600	PB610	BRC-Powered Belt
1	358	600	600	PB612	BRC-Powered Belt

</TABLE>

SCHEDULE A EQUIPMENT

LESSOR: CITIZENS LEASING CORPORATION,
a Rhode Island corporation
("Lessor")
ADDRESS: One Citizens Plaza
Providence, RI 02903

LESSEE: DM Management Company
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Hingham, MA 02043

Attached to and made a part of the following documents: Secured Promissory Note, Note Acceptance, Uniform Commercial Code Financial Statements and Consent and Waiver by Owner, Landlord or Mortgagee of Real Estate.

<TABLE>
<CAPTION>

QTY	MANUFACTURER, DESCRIPTION MODEL NO./SERIAL NO.					LOCATION
Seq. #	Series	Panel	Conveyor Number	Type of Conveyor		12 Sandborn St. Tilton, NH 03276
<S> 1	<C> 359	<C> 500	<C> 600	<C> LRC614	<C> LRC-Live Roller Curve	
1	360	500	600	LRC616	LRC-Live Roller Curve	
1	361	500	600	PB1618	BIC-15 Degree Incline Belt	
1	362	500	600	LRA620	LRZC-Zero Pressure Accumulation	
1	363	500	600	BSB622	BMSE-Brake/Motor Belt	
1	364	600	600	PB630	BRC-Powered Belt	
1	365	600	600	PB632	BRC-Powered Belt	
1	366	600	600	LRC634	LRC-Live Roller Curve	
1	367	600	600	LRC636	LRC-Live Roller Curve	
1	368	600	600	PB1638	BIC-15 Degree Belt Incline	

1	369	600	600	LRA640	LRZE-Zero Pressure Accumulation
1	370	600	600	BSB642	BMSE-Brake/Meter Belt
1	371	600	600	BM650	PBM-Powered Belt Merge
1	372	600	600	SOR652	BRC-Sort Belt
1	373	600	600	LRA854	LRZE-Zero Pressure Accumulation
1	374	600	600	DIV680	LRSC-Live Roller Spur Curve
1	375	600	600	PB1662	BIC-15 Degree Belt Incline
1	376	600	600	LRA664	LRZE-Zero Pressure Accumulation
1	377	600	n/a	DIV670	LFS-Line Flow Spur
1	378	600	n/a	LRC674	LRC-Live Roller Curve
1	379	600	600	LRA676	LRZE-Zero Pressure Accumulation
1	380	600	n/a	CH678	CHT-Chute
1	381	600	n/a	GR680	RG1916-Roller Gravity
105	382	600	n/a	GA500	1.5" Angle Guard Rail (bulk)
43	383	600	n/a	GCL600	5.75" Lapped Channel Guard Rail
1	384	700	n/a	LRC724	LRC-Live Roller Curve
1	385	700	700	LRA726	LRZE-Zero Pressure Accumulation
1	386	700	700	BSB728	BMSE-Brake/Motor Belt
1	387	700	700	BM730	PAM-Powered Belt Merge

</TABLE>

SCHEDULE A EQUIPMENT

LESSOR: CITIZENS LEASING CORPORATION,
a Rhode Island corporation
("Lessor")

LESSEE: DM Management Company
a Delaware Corporation
("Lessee")

ADDRESS: One Citizens Plaza
Providence, RI 02903

ADDRESS: 25 Recreation Park Drive
Hingham, MA 02043

Attached to and made a part of the following documents: Secured Promissory Note, Note Acceptance, Uniform Commercial Code Financial Statements and Consent and Waiver by Owner, Landlord or Mortgagee of Real Estate.

<TABLE>
<CAPTION>

Qty	Manufacturer, Description Model No./Serial No.					Location
	Seq. #	Series	Panel	Conveyor Number	Type of Conveyor	12 Sandborn St. Tilton, NH 03276
<S>	<C>	<C>	<C>	<C>	<C>	
1	388	700	700	BC732	PBC-Powered Belt Curve	
1	389	700	700	SB734	SB-Scale Belt	
1	390	700	700	SOR736	BRC-Sort Belt	
1	391	700	700	SOR738	BRC-Sort Belt	
1	392	700	700	LRC740	LRC-Live Roller Curve	
1	393	700	n/a	LRC742	LRC-Live Roller Curve	
1	394	700	n/a	LRM744	LREWS-Live Roller Merge	
1	395	700	n/a	LRA746	LRZC-Zero Pressure Accumulation	
1	396	700	n/a	BSB748	BMSE-Brake/Meter Belt	
1	397	700	n/a	DIV750A	LFS-Line Flow Spur	
1	398	700	n/a	DIV750B	LFS-Line Flow Spur	
1	399	700	n/a	DIV750C	LFS-Line Flow Spur	
1	400	700	n/a	DIV750D	LFS-Line Flow Spur	
1	401	700	n/a	DIV750E	LFS-Line Flow Spur	
1	402	700	n/a	GRC751A	RGC150-Roller Gravity Curve	
1	403	700	n/a	GRC751B	RGC150-Roller Gravity Curve	
1	404	700	n/a	GRC751C	RGC150-Roller Gravity Curve	
1	405	700	n/a	GRC751D	RGC150-Roller Gravity Curve	
1	406	700	n/a	GRC751E	RGC150-Roller Gravity Curve	
1	407	700	n/a	CH752A	CHT-Chute	
1	408	700	n/a	CH752B	CHT-Chute	
1	409	700	n/a	CH752C	CHT-Chute	
1	410	700	n/a	CH752D	CHT-Chute	
1	411	700	n/a	CH752E	CHT-Chute	
1	412	700	n/a	GR753A	RG1916-Roller Gravity	
1	413	700	n/a	GR753B	RG1916-Roller Gravity	
1	414	700	n/a	GR753C	RG1916-Roller Gravity	
1	415	700	n/a	GR753D	RG1916-Roller Gravity	

1	416	700	n/a	GR753E	RG1916-Roller Gravity
1	417	700	n/a	DIV760	LFS-Line Flow Spur

</TABLE>

SCHEDULE A EQUIPMENT

LESSOR: CITIZENS LEASING CORPORATION, a Rhode Island corporation ("Lessor")
 ADDRESS: One Citizens Plaza Providence, RI 02903

LESSEE: DM Management Company a Delaware Corporation ("Lessee")
 ADDRESS: 25 Recreation Park Drive Hingham, MA 02043

Attached to and made a part of the following documents: Secured Promissory Note, Note Acceptance, Uniform Commercial Code Financial Statements and Consent and Waiver by Owner, Landlord or Mortgagee of Real Estate.

<TABLE>
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QTY	MANUFACTURER,	DESCRIPTION	MODEL NO./SERIAL NO.	LOCATION	
Seq. #	Series	Panel	Conveyor Number	Type of Conveyor	
1	418	700	n/a	GRC761	RG160-Roller Gravity Curve
1	419	700	700	PB1762	BIC-15 Degree Belt Incline
1	420	700	n/a	GRC764	RG160-Roller Gravity Curve
1	421	700	n/a	GR766	RG1916-Roller Gravity
1	422	700	n/a	GRC768	RG160-Roller Gravity Curve
1	423	700	n/a	CH770	CHT-Chule
1	424	700	n/a	GR772	RG1916-Roller Gravity
59	425	700	n/a	GCL700	5.75" Lapped Channel Guard Rail (bulk)
1	426	800	100	PB800A	BIC-12.5 Degree Incline Trash Belt
1	427	800	100	PB800B	BIC-12.5 Degree Incline Trash Belt
1	428	800	100	PB800C	BIC-12.5 Degree Incline Trash Belt
1	429	800	100	PB800D	BIC-12.5 Degree Incline Trash Belt

1	430	800	100	PB810	BIC-15 Degree Incline Trash Belt
1	431	800	300-2	PB820	BIC-12.5 Degree Incline Trash Belt
1	432	800	n/a	CH821	CT-Chule
1	433	800	300-2	PB822	BSC-Trash Belt
1	434	800	300-2	PB824	BIC-15 Degree Incline Trash Belt
1	435	800	300-2	PB830	BIC-12.5 Degree Incline Trash Belt
1	436	800	n/a	CH832	CHT-Chule
1	437	800	300-2	PB833	BSC-Trash Belt
1	438	800	300-2	PB834	BIC-15 Degree Incline Trash Belt
1	439	800	400	PB840	BSC-Trash Belt
1	440	800	400	PB842	BSC-Trash Belt
1	441	800	800	PB844	BIC-15 Degree Incline Trash Belt
1	442	800	800	PB850	BSC-Trash Belt
1	443	800	800	PB855	BSC-Trash Belt
1	444	800	800	CH857	CHT-Chule
1	445	800	800	PB860A	BSSE-Pitched Trash Belt
1	446	800	800	PB860B	BSE-Pitched Trash Belt
1	447	800	800	PB860C	BSE-Pitched Trash Belt

</TABLE>

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Seq. #	Series	Panel	Conveyor Number	Type of Conveyor	12 Sandborn St. Tilton, NH 03276	
<S>	<C>	<C>	<C>	<C>	<C>	
1	448	800	800	PB860D	BSE-Pitched Trash Belt	
1	449	800	800	PB860E	BSE-Pitched Trash Belt	
1	450	800	800	PB860F	BSE-Pitched Trash Belt	
1	451	800	800	PB860G	BSE-Pitched Trash Belt	
1	452	800	800	PB860H	BSE-Pitched Trash Belt	
1	453	800	800	PB860J	BSE-Pitched Trash Belt	
1	454	800	800	PB860K	BSE-Pitched Trash Belt	
1	455	800	800	PB860L	BSE-Pitched Trash Belt	
1	456	800	800	PB860M	BSE-Pitched Trash Belt	
1	457	800	800	PB860N	BSE-Pitched Trash Belt	
1	458	800	800	PB860P	BSE-Pitched Trash Belt	
1	459	800	800	PB860Q	BSE-Pitched Trash Belt	
1	460	800	800	PB860R	BSE-Pitched Trash Belt	
1	461	800	800	PB862	BSC-Trash Belt	
1	462	800	800	PB864	BSC-Trash Belt	
1	463	800	800	PB866	BIC-15 Degree Incline Trash Belt	
1	464	800	n/a	CH870A	CHT-Drop Chute	
1	465	800	n/a	CH870B	CHT-Drop Chute	
1	466	800	n/a	CH870C	CHT-Drop Chute	
1	467	800	n/a	CH870D	CHT-Drop Chute	
1	468	800	n/a	CH880A	CHT-Drop Chute	
1	469	800	n/a	CH880B	CHT-Drop Chute	
1	470	800	n/a	CH880C	CHT-Drop Chute	

</TABLE>

SCHEDULE A EQUIPMENT

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	Seq. #	Series	Panel	Conveyor Number	Type of Conveyor	
						12 Sandborn St. Tilton, NH 03276
<S>	<C>	<C>	<C>	<C>	<C>	
1	471	800	n/a	CH880D	CHT-Drop Chule	
81	472	800	n/a	GA800	1.5" Angle Guard Rail (bulk)	
118	473	800	n/a	GCL800	5.75" Lapped Channel Guard Rail (bulk)	
52	474	800	n/a	GCL18-800	18" Channel Guard Rail (bulk)	
	475	900	500		Auto Bag Sorter	
1	476	PL	n/a	PL01	Platform (Crossovers Only)	
1	477	PL	n/a	PL02	Platform	
1	478	PL	n/a	PL03	Platform	
1	479	PL	n/a	PL04	Platform	
1	480	PL	n/a	PL05	Platform	

</TABLE>

Above equipment distributed by: Designed Conveyor Systems, Inc.

WITH ALL STANDARD AND ACCESSORY EQUIPMENT

Citizens Leasing Corporation
By: /S/ John Young

Title: Vice President

DM Management Company
By: /S/ Peter J. Tulp

Title: VP Finance

[LETTERHEAD]

AUTHORIZATION TO CHARGE CHECKING ACCOUNT

TO: CITIZENS LEASING CORPORATION DATE: December 23, , 1998
One Citizens Plaza
Providence, RI 02903

Starting with my first payment which is due January 1, 1999*, and until

further notice, you are authorized to charge my checking account
No. each month on the due date of my Secured Promissory Note

dated 12/23/98 in the amount of \$71,284.28 for the monthly payment then due.

Debtor:

DM Management Company

By: /S/ Peter J. Tulp

Title: VP Finance

*The payment due January 1, 1999 will also include a one-time daily interest

charge based on the funding date.

[LETTERHEAD]

BORROWER'S AUTHORIZATION CERTIFICATE

DATE: December 23, 1998

I (We) hereby authorize and direct CITIZENS LEASING CORPORATION to disburse
the proceeds of my (our) SECURED PROMISSORY NOTE dated December 23, 1998 for

\$4,676,523.20 to be disbursed as follows:

TO: DM Management Company

\$4,676,523.20

*In all cases, indicate the manner in which funds are to be disbursed. For check payment indicate the check number. For direct deposit indicate account number. For wire transfer indicate the bank to which the funds are to be sent and the account number to be credited.

DEBTOR: DM Management Company

By: /S/ Peter J. Tulp

Title: VP Finance

MORTGAGE NOTE

\$12,000,000.00

Tilton, New Hampshire
March 1, 1999

FOR VALUE RECEIVED, BIRCH POND REALTY CORPORATION, a Delaware corporation (doing business in the State of New Hampshire as BPRC), having its principal place of business at 100 Birch Pond Drive, Tilton, New Hampshire 03289 (hereinafter referred to as "MAKER"), promises to pay to the order of JOHN HANCOCK REAL ESTATE FINANCE, INC. ("JHREF"), a Delaware corporation, its successors and assigns, at its principal place of business at John Hancock Place, T-53, 200 Clarendon Street, Boston, Massachusetts 02116 (JHREF and each successor or assign being hereinafter referred to as "PAYEE"), or at such place as the holder hereof may from time to time designate in writing, the principal sum of TWELVE MILLION AND 00/100 DOLLARS (\$12,000,000.00) in lawful money of the United States of America with interest thereon to be computed from the date of disbursement of the loan proceeds at the Applicable Interest Rate (hereinafter defined).

1. PAYMENT OF PRINCIPAL AND INTEREST. Principal and interest shall be paid as follows:

- (a) If the loan proceeds are not disbursed on the first day of a month, then interest only at the Applicable Interest Rate from and including the date of disbursement of the loan proceeds to the first day of the month following such disbursement shall be due and payable in advance on the date of such disbursement;
- (b) Principal and interest is to be paid in installments as follows: \$95,209.00 on May 1, 1999, and on the first day of each calendar month thereafter up to and including March 1, 2009; and
- (c) The outstanding principal balance and all accrued and unpaid interest thereon and all other sums and fees due under this Note shall be due and payable on April 1, 2009 (the "MATURITY DATE").

Interest on the principal balance of this Note shall be calculated on a

monthly basis using, as the agreed method of calculation, an actual/360 day formula. Such formula shall use, as the numerator, the actual number of days elapsed in each month and, as the denominator, 360 days; PROVIDED, HOWEVER, that interest for a period of less than a full month shall be calculated using, as the agreed method of calculation, an actual/365 formula, using, as the numerator, the actual number of days elapsed in each such period and, as the denominator, 365 days.

The term "APPLICABLE INTEREST RATE" as used in this Note shall mean from the date of disbursement of the loan proceeds through and including the Maturity Date, a rate of SEVEN AND THIRTY ONE HUNDREDTHS PERCENT (7.30%) per annum.

Loan No. 3212525

If at any time Payee receives, from Maker or otherwise, any amount applicable to the Debt (hereinafter defined) which is less than all amounts due and payable at such time, Payee may apply that payment to amounts then due and payable in any manner and in any order determined by Payee, in Payee's sole discretion. Payee shall, however, be under no obligation to accept any amount less than all amounts then due and payable. Maker agrees that neither Payee's acceptance of a payment from Maker in an amount that is less than all amounts then due and payable nor Payee's application of such payment shall constitute or be deemed to constitute either a waiver of the unpaid amounts or an accord and satisfaction. This provision shall control notwithstanding any inconsistent direction by Maker or any other obligor hereunder.

The whole of the principal sum of this Note, together with all interest accrued and unpaid thereon and all other sums due under this Note and any other instrument now or hereafter evidencing, securing, guaranteeing or executed in connection with the indebtedness evidenced hereby (the "LOAN DOCUMENTS") (all such sums hereinafter collectively referred to as the "DEBT") shall without notice become immediately due and payable at the option of Payee if any payment required in this Note is not paid within five (5) days after the same is due or on the happening of any other default, after the expiration of any applicable notice and grace periods, herein or under the terms of any other Loan Document (hereinafter collectively an "EVENT OF DEFAULT"). All of the terms, covenants and conditions contained in the Mortgage (hereinafter defined) and the other Loan Documents are hereby made part of this Note to the same extent and with the same force as if they were fully set forth herein.

2. PREPAYMENT.

(a) The principal balance of this Note may not be prepaid in whole or in part except as expressly permitted pursuant hereto.

(b) At any time after the Lockout Period Expiration Date (as hereinafter defined), and provided no event of default exists, Maker may obtain the release of the Mortgaged Property (as hereinafter defined) from the lien of the Mortgage upon the satisfaction of the following conditions precedent:

- (i) Maker shall provide Payee with not less than sixty (60) days prior written notice before a Defeasance (as hereinafter defined) is to occur, which Defeasance shall occur on a regularly scheduled payment date (the "Release Date");
- (ii) Maker shall pay to Payee all interest accrued and unpaid on the principal balance of the Note to and including the Release Date, and all other sums then due and payable under the Note, the Mortgage and the other Loan Documents;

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Loan No. 3212525

- (iii) If Payee is to purchase the U.S. Obligations (as hereinafter defined) on behalf of Maker, as provided below, Maker shall pay to Payee the Defeasance Deposit (as hereinafter defined); and
- (iv) Maker shall deliver to Payee:
 - (A) a security agreement (the "Defeasance Security Agreement"), in form and substance satisfactory to Payee, creating a first priority lien on and a perfected security interest in the Defeasance Deposit and the U.S. Obligations;
 - (B) a form of release ("Release") of the Mortgaged Property from the lien of the Mortgage (for execution by Payee) in a form acceptable to Payee and appropriate for the jurisdiction in which the Mortgaged Property is located;
 - (C) a certificate from an officer of Maker certifying that the requirements set forth in this Section have been satisfied;

(D) an opinion of counsel for Maker in form and substance and delivered by counsel satisfactory to Payee, stating, among other things, (x) that the U.S. Obligations and the Defeasance Collateral Account and the proceeds thereof have been duly and validly assigned and delivered to Payee and that Payee has a valid perfected first priority security interest in the U.S. Obligations and the Defeasance Collateral Account (as hereinafter defined); (y) that the Defeasance Security Agreement is enforceable against Maker in accordance with its terms; (z) if the Mortgage has been placed in a secondary market transaction, (1) the U.S. Obligations and the Defeasance Collateral Account have been validly assigned to a REMIC, and (2) that the Defeasance will not cause any trust or other entity to fail to qualify as a "real estate mortgage investment conduit" (a "REMIC"), within the meaning of Section 860D of the Internal Revenue Code of 1986, as amended from time to time or any successor statute and has been effected in accordance with such statute and the regulations promulgated therefore; (aa) the Defeasance will not result in a deemed exchange for purposes of the Internal Revenue Code and will not adversely affect the status of the Note as indebtedness for federal income tax purposes; and (bb) the delivery of the U.S. Obligations and the grant of the security interest therein and in the Defeasance Collateral

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Loan No. 3212525

Account to Payee shall not constitute an avoidable preference under Section 547 of the Bankruptcy Code or applicable state law;

(E) evidence in writing from the applicable Rating Agencies to the effect that such release will not result in a

re-qualification, reduction or withdrawal of any rating in effect immediately prior to such Defeasance for any securities issued in connection with a secondary market transaction;

(F) if the U.S. Obligations are purchased by Maker, a certificate of Maker's independent certified public accountant certifying that the U.S. Obligations will generate the Scheduled Defeasance Payments;

(G) such other certificates, opinions, documents or instruments as Payee may reasonably request; and

(v) in connection with a Defeasance under this Section, if the Maker shall continue to own assets other than the U.S. Obligations and the Defeasance Collateral Account following the Defeasance, Maker may, and at the request of Payee shall, at Maker's expense, establish or designate a successor entity (the "Successor Maker"), which shall be a single purpose bankruptcy remote entity approved by Payee. Maker shall transfer and assign all obligations, rights and duties under and to this Note and the Defeasance Security Agreement together with the pledged U.S. Obligations to such Successor Maker. Such Successor Maker shall execute an assumption agreement in form and substance satisfactory to Payee in its sole discretion, pursuant to which such Successor Maker shall assume Maker's obligations under the Note and the Defeasance Security Agreement. As a condition to such assignment and assumption, Maker shall (i) deliver to Payee an opinion of counsel in form and substance and delivered by counsel satisfactory to Payee in its sole discretion, stating, among other things, (x) that such assumption agreement is enforceable against Maker and such Successor Maker in accordance with its terms and that the Note, the Defeasance Security Agreement, and the other Loan Documents, as so assumed, are enforceable against such Successor Maker in accordance with their respective terms, and (y) if required by the applicable Rating Agencies, a non-consolidation opinion with respect to the Successor Maker; and (ii) pay all costs and expenses incurred by Payee or its agents in connection with such assignment and assumption (including, without limitation, the review of the proposed Successor

Maker and the preparation of the assumption agreement and related documentation). Maker shall pay \$1,000.00 to any such Successor Maker as consideration for assuming the obligations under the Note and the Defeasance Security Agreement. No other assumption fee shall be payable upon a transfer of the Note in accordance with this Section.

- (vi) Payment of all costs and expenses incurred in connection with the Defeasance, including, without limitation, reasonable attorneys' fees, revenue, documentary stamp or intangible taxes or any other tax or charge due in connection with the Defeasance.

(c) Maker shall either purchase the U.S. Obligations itself and establish the Defeasance Collateral Account, or at its option may request Payee to purchase the U.S. Obligations on its behalf. If Maker elects to have Payee purchase the U.S. Obligations on its behalf, Maker shall pay to Payee the Defeasance Deposit, and Maker hereby appoints Payee as its agent and attorney-in-fact for the purpose of using the Defeasance Deposit to purchase U.S. Obligations which will provide for the Scheduled Defeasance Payments. Maker, pursuant to the Defeasance Security Agreement or other appropriate document, shall authorize and direct that the payments received from the U.S. Obligations may be made directly to Payee and applied to satisfy the obligations of Maker under the Note. Maker shall, at Payee's option, open a Defeasance Collateral Account in an institution acceptable to Payee. The Defeasance Collateral Account shall contain only the U.S. Obligations and cash from interest and principal paid on the U.S. Obligations. All cash from interest and principal payments paid on the U.S. Obligations shall be paid over to Payee as Scheduled Defeasance Payments and applied first to accrued and unpaid interest and then to principal. Maker shall cause the institution at which the U.S. Obligations are deposited to enter into an agreement with Maker and Payee, satisfactory to Payee in its discretion, pursuant to which such institution shall agree to hold and distribute the U.S. Obligations in accordance with this Section. Maker shall be the owner of the Defeasance Collateral Account and shall report all income accrued on the U.S. Obligations for federal, state and local income tax purposes in its income tax return. Maker shall prepay all costs and expenses associated with opening and maintaining the Defeasance Collateral Account. Payee shall not, in any way, be liable by reason of any insufficiency in the Defeasance Collateral Account.

(d) Upon compliance with the requirements of this Section, the Mortgaged Property shall be released from the lien of the Mortgage and the pledged U.S. Obligations and the Defeasance Collateral Account shall be the sole

source of collateral securing the Note. If Maker elects to have Payee purchase the U.S. Obligations with the Defeasance Deposit, any portion of the Defeasance Deposit in excess of the amount necessary to purchase the U.S. Obligations required by clause (b) above to satisfy Maker's obligations under this Section shall be remitted to Maker with the release of the Mortgaged Property from the lien of the Mortgage.

(e) For purposes of this Section, the following terms shall have the following meanings:

- (i) The term "Defeasance" shall mean the Release, the delivery of the Defeasance Deposit to Payee (if Payee is to purchase the U.S. Obligations on Maker's behalf), the establishing of the Defeasance Collateral Account, and the providing of the Defeasance Security Agreement;
- (ii) The term "Defeasance Collateral Account" shall mean an account acceptable to Payee at an institution acceptable to Payee into which the U.S. Obligations shall be placed at Payee's option;
- (iii) The term "Defeasance Deposit" shall mean an amount equal to the remaining principal amount of the Note, the Yield Maintenance Premium (as hereinafter described), any costs and expenses incurred or to be incurred in the purchase of U.S. Obligations necessary to meet the Scheduled Defeasance Payments and any revenue, transfer, transaction, documentary stamp or intangible taxes or any other tax or charge due in connection with the transfer of the Note or otherwise required to accomplish the agreements of this Section;
- (iv) The term "Lock Out Period Expiration Date" shall mean the date which is the earlier of (1) the third anniversary of the date that is the "start up day", within the meaning of Section 860G(a)(9) of the Internal Revenue Code, as amended from time to time or any successor statute, of a REMIC that holds this Note, or (2) the fourth anniversary of the first day of the first full calendar month following the date of this Note;

- (v) The term "Scheduled Defeasance Payments" shall mean payments on or prior, but as close as possible, to all successive scheduled payment dates of this Note after the Release Date upon which interest and principal payments are required under this Note (including, without limitation, through and including the Maturity Date) and in amounts equal to or greater than the scheduled payments of interest and principal due under this Note, including the principal balance of this Note scheduled to be outstanding on the Maturity Date;
- (vi) The term "U.S. Obligations" shall mean direct, non-callable and non-redeemable obligations of the United States of America; and

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Loan No. 3212525

- (vii) The term "Yield Maintenance Premium" shall mean the amount (if any) which, when added to the remaining principal amount of the Note, will be sufficient to purchase U.S. Obligations providing the required Scheduled Defeasance Payments.

(f) Upon release of the Mortgaged Property in accordance with this Section, Maker shall have no further right to prepay the Note in whole or in part or to be the subject of any further Defeasance.

(g) If a Default Prepayment (defined below) occurs, at Payee's option, Maker shall pay to Payee the entire Debt, including, without limitation, an amount (the "Default Consideration") equal to the greater of (i) the amount (if any) which when added to the then outstanding principal amount of this Note will be sufficient to purchase U.S. Obligations providing the required Scheduled Defeasance Payments assuming Defeasance would be permitted hereunder, or (ii) one percent (1%) of the Default Prepayment. For purposes of this Section, the term "Default Prepayment" shall mean a prepayment of the principal amount of the Note made after the occurrence of any Event of Default or an acceleration of the maturity date under any circumstances.

(h) Notwithstanding anything to the contrary herein, Maker may prepay the principal balance of this Note without premium or penalty (i) in whole during the 90 days prior to the maturity date or (ii) in whole or in part in connection with a prepayment resulting from the application of insurance proceeds or condemnation awards pursuant to the Mortgage, but in each instance Maker shall be required to pay all other sums due hereunder, and no principal amount repaid may be reborrowed.

3. INTENTIONALLY DELETED.

4. DEFAULT RATE. Maker does hereby agree that upon the occurrence of an Event of Default and while any Event of Default exists, including, without limitation, the failure of Maker to pay the Debt in full on the Maturity Date, Payee shall be entitled to receive and Maker shall pay interest on the entire unpaid principal sum, effective from the date of Maker's initial default with respect to such Event of Default without allowance for any applicable notice and/or grace period, at a rate (the "DEFAULT RATE") equal to seven percent (7%) above the Applicable Interest Rate, but in no event to exceed the highest rate permitted under the laws of the jurisdiction where the property secured by the Mortgage is situated. This charge shall be added to the Debt, and shall be deemed secured by the Mortgage. This clause, however, shall not be construed as an agreement or privilege to extend the date of the payment of the Debt, nor as a waiver of any other right or remedy available to Payee by reason of the occurrence of any Event of Default.

5. LATE CHARGE. If any monthly principal and interest payment payable under this Note is not paid in full within five (5) days of the date on which it is due, Maker shall pay to Payee an amount equal to the lesser of five percent (5%) of such unpaid sum or the maximum amount

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permitted by applicable law to defray the expenses incurred by Payee in handling and processing such delinquent payment and to compensate Payee for the loss of the use of such delinquent payment and such amount shall be secured by the Loan Documents.

6. SECURITY FOR LOAN. This Note is secured by the Mortgage and certain other Loan Documents. The term "MORTGAGE" as used in this Note shall mean the Mortgage(s), Assignment(s) of Leases and Rents and Security Agreement(s) dated the date hereof in the principal sum of \$12,000,000 given by Maker for the use and benefit of Payee covering certain premises located at Tilton, Belknap County, New Hampshire, as more particularly described therein.

7. COMPLIANCE WITH LAW. It is expressly stipulated and agreed to be the intent of Maker and Payee at all times to comply with applicable state law or applicable United States federal law (to the extent that it permits Payee to contract for, charge, take, reserve or receive a greater amount of interest than under state law) and that this paragraph shall control every other covenant and agreement in this Note and the other Loan Documents. If the applicable law (state or federal) is ever judicially interpreted so as to render usurious any amount called for under this Note or any of the other Loan Documents, or contracted for, charged, taken, reserved or received with respect to the Debt,

or if Payee's exercise of the option to accelerate the Maturity Date, or if any prepayment by Maker results in Maker's having paid any interest in excess of that permitted by applicable law, then it is Payee's express intent that all excess amounts theretofore collected by Payee shall be credited on the principal balance of this Note and all other Debt and the provisions of this Note, and the other Loan Documents immediately be deemed reformed and the amounts thereafter collectible hereunder and thereunder reduced, without the necessity of the execution of any new documents, so as to comply with the applicable law, but so as to permit the recovery of the fullest amount otherwise called for hereunder or thereunder. All sums paid or agreed to be paid to Payee for the use or forbearance of the Debt shall, to the extent permitted by applicable law, be amortized, prorated, allocated and spread throughout the full stated term of the Debt until payment in full so that the rate or amount of interest on account of the Debt does not exceed the maximum lawful rate from time to time in effect and applicable to the Debt for so long as the Debt is outstanding. Notwithstanding anything to the contrary contained herein, in the Mortgage or in any of the other Loan Documents, it is not the intention of Payee to accelerate the maturity of any interest that has not accrued at the time of such acceleration or to collect unearned interest at the time of such acceleration.

8. AMENDMENTS. This Note may not be modified, amended, waived, extended, changed, discharged or terminated orally or by any act or failure to act on the part of Maker or Payee, but only by an agreement in writing signed by the party against whom enforcement of any modification, amendment, waiver, extension, change, discharge or termination is sought.

9. JOINT AND SEVERAL LIABILITY. If Maker consists of more than one person or party, the obligations and liabilities of each such person or party shall be joint and several.

10. CONSTRUCTION. Whenever used, the singular number shall include the plural, the plural the singular, and the words "PAYEE" and "MAKER" shall include their respective successors, assigns, heirs, executors and administrators.

11. WAIVERS. Maker and all others who may become liable for the payment of all or any part of the Debt do hereby severally waive presentment and demand for payment, notice of dishonor, protest, notice of protest and non-payment and notice of intent to accelerate the maturity hereof (and of such acceleration). No release of any security for the Debt or extension of time for payment of this Note or any installment hereof and no alteration, amendment or waiver of any provision of this Note, the Mortgage or any other Loan Documents made by agreement between Payee and any other person or party shall release, modify, amend, waive, extend, change, discharge, terminate or affect the liability of Maker and any other who may become liable for the payment of all or any part of

the Debt, under this Note, the Mortgage or any other Loan Documents.

12. AUTHORITY. Maker (and the other undersigned representative of Maker, if any) represents that Maker has full power, authority and legal right to execute, deliver and perform its obligations pursuant to this Note, the Mortgage and the other Loan Documents and that this Note, the Mortgage and the other Loan Documents constitute valid and binding obligations of Maker.

13. TIME. Time is of the essence of this Note.

14. REPLACEMENT NOTE. In the event of the loss, theft or destruction of this Note, upon Maker's receipt of a reasonably satisfactory indemnification agreement executed in favor of Maker by Payee or in the event of the mutilation of this Note, upon the surrender of the mutilated Note by Payee to Maker, Maker shall execute and deliver to Payee a new Mortgage note in form and content identical to this Note in lieu of the lost, stolen, destroyed or mutilated Note.

15. NOTICE. All notices required to be given pursuant hereto shall be given in the manner specified in the Mortgage directed to the parties at their respective addresses as provided therein.

16. COSTS AND EXPENSES. Borrower shall pay all expenses and costs, including fees and out-of-pocket expenses of attorneys and expert witnesses and costs of investigation incurred by Payee as a result of any Event of Default or in connection with efforts to collect any amount due under this Note or to enforce the provisions of any of the Loan Documents, including those incurred in post-judgment collection efforts and in any bankruptcy proceeding (including any action for relief from the automatic stay of any bankruptcy proceeding) or judicial or non-judicial foreclosure proceeding.

17. FORBEARANCE. Any forbearance by Payee in exercising any right or remedy under this Note, the Mortgage or any other Loan Document or otherwise afforded by applicable law shall not be a waiver of or preclude the exercise of that or any other right or remedy. The acceptance by Payee of any payment after the due date of such payment or in an amount which is less than the required payment shall not be a waiver of Payee's right to require prompt payment when due of all

other payments or to exercise any right or remedy with respect to any failure to make prompt payment. Enforcement by Payee of any security for Maker's obligations under this Note shall not constitute an election by Payee of remedies so as to preclude the exercise of any other right or remedy available to Payee.

18. SECTION HEADINGS. The Section headings inserted in this Note have been included for convenience only and are not intended and shall not be construed to limit or define in any way the substance of any section contained herein.

19. LIMITATION ON LIABILITY. Notwithstanding anything to the contrary contained herein, but subject to the obligations of PARAGRAPH 45 of the Mortgage, any claim based on or in respect of any liability of Maker under this Note, the Mortgage or any other Loan Document shall be enforced only against the Mortgaged Property (as such term is defined in the Mortgage) and any other collateral now or hereafter given to secure this Note and not against any other assets, properties or funds of Maker; PROVIDED, HOWEVER, that the liability of Maker for loss, costs or damage arising out of the matters described in subsections (i) through (vi) below (collectively, "NON-RECOURSE CARVEOUT OBLIGATIONS") shall not be limited solely to the Mortgaged Property and other collateral now or hereafter given to secure this Note but shall include all of the assets, properties and funds of Maker: (i) fraud, misrepresentation and waste, (ii) any rents, issues or profits collected more than one (1) month in advance of their due dates, (iii) any misapplication of loan proceeds, rents, issues or profits, security deposits and any other payments from tenants or occupants (including, without limitation, lease termination fees), insurance proceeds, condemnation awards or other sums of a similar nature, (iv) liability under environmental covenants, conditions and indemnities contained in the Mortgage and in any separate environmental indemnity agreements, (v) the unauthorized sale, conveyance or transfer of title to the Mortgaged Property or encumbrance of the Mortgaged Property and (vi) the failure of Maker to maintain its status as a single purpose, bankruptcy-remote entity pursuant to its organizational documents and the Loan Documents. Nothing herein shall be deemed (w) to be a waiver of any right which Payee may have under any bankruptcy law of the United States or the state where the Mortgaged Property is located including, but not limited to, Section 506(a), 506(b), 1111(b) or any other provisions of the U.S. Bankruptcy Code to file a claim for the full amount of the indebtedness secured by the Mortgage or to require that all collateral securing the indebtedness secured hereby shall continue to secure all of the indebtedness owing to Payee in accordance with this Note, the Mortgage and the other Loan Documents; (x) to impair the validity of the indebtedness secured by the Mortgage; (y) to impair the right of Payee as mortgagee or secured party to commence an action to foreclose any lien or security interest; or (z) to modify, diminish or discharge the liability of any guarantor under any guaranty or of any indemnitor under any indemnity agreement.

This Note shall be governed and construed in accordance with the laws of the State of New Hampshire and the applicable laws of the United States of America.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK; SIGNATURE PAGE(S) FOLLOW(S)]

IN WITNESS WHEREOF, Maker has duly executed and delivered this Note the day and year first above written.

BIRCH POND REALTY CORPORATION
(doing business in the State of New Hampshire as
BPRC)

By: /s/ Olga L. Conley

Name: Olga L. Conley

Its: Treasurer

ASSIGNMENT OF LEASES AND RENTS

BIRCH POND REALTY CORPORATION
(Assignor)

TO

JOHN HANCOCK REAL ESTATE FINANCE, INC.
(Assignee)

Dated: As of March 1, 1999

LOCATION OF PROPERTY:

100 Birch Pond Drive
Tilton, Belknap County, New Hampshire

RECORD AND RETURN TO:

Hebb & Gitlin
A Professional Corporation
One State Street
Hartford, CT 06103
Attention: John B. D'Agostino, Esq.

THIS ASSIGNMENT OF LEASES AND RENTS (this "ASSIGNMENT") made as of March 1, 1999, by BIRCH POND REALTY CORPORATION, a Delaware corporation (doing business in the State of New Hampshire as BPRC), having its principal place of business at 100 Birch Pond Drive, Tilton, New Hampshire 03289 ("ASSIGNOR") to JOHN HANCOCK REAL ESTATE FINANCE, INC., a Delaware corporation, having its principal place of business at John Hancock Place, T-53, 200 Clarendon Street, Boston, Massachusetts 02116 ("ASSIGNEE").

W I T N E S S E T H:

THAT Assignor for good and valuable consideration, receipt whereof is hereby acknowledged, hereby grants, transfers and absolutely and unconditionally assigns to Assignee the entire lessor's interest in and to all current and future leases and other agreements affecting the use, enjoyment or occupancy of all or any part of that certain lot or piece of land, more particularly described in EXHIBIT A hereto, together with the buildings, structures, fixtures, additions, enlargements, extensions, modifications, repairs, replacements and improvements now or hereafter located thereon (hereinafter collectively referred to as the "MORTGAGED PROPERTY") (including any use or occupancy arrangements created pursuant to Section 365(h) of Title 11 of the United States Code (the "BANKRUPTCY CODE") or otherwise in connection with the commencement or continuance of any bankruptcy, reorganization, arrangement, insolvency, dissolution, receivership or similar proceedings, or any assignment for the benefit of creditors in respect of any tenant or occupant of any portion of the Mortgaged Property), together with any extension or renewal of the same;

The leases and other agreements described above together with all other present and future leases and present and future agreements and any extension or renewal of the same are hereinafter collectively referred to as the "LEASES";

TOGETHER WITH all income, rents, issues, revenues and profits arising from the Leases and renewals thereof and together with all income, rents, issues and profits, revenues and proceeds (including, but not limited to, all oil and gas or other mineral royalties and bonuses) from the use, enjoyment and occupancy of the Mortgaged Property (including any payments received pursuant to Section 502(b) of the Bankruptcy Code or otherwise in connection with the commencement or continuance of any bankruptcy, reorganization, arrangement, insolvency, dissolution, receivership or similar proceedings, or any assignment for the benefit of creditors, in respect of any tenant or occupant of any portion of the Mortgaged Property and all claims as a creditor in connection with any of the foregoing) (hereinafter collectively referred to as the "RENTS") and all proceeds from the sale, cancellation, surrender or other disposition of the Leases and the right to receive and apply the Rents to the payment of the Loan (as hereinafter defined).

THIS ASSIGNMENT is made in consideration of that certain loan (the "LOAN") made by Assignee to Assignor evidenced by that certain mortgage note made by Assignor to Assignee, dated the date hereof, in the principal sum of \$12,000,000.00 (the "NOTE") and secured by that certain mortgage, assignment of

leases and rents and security agreement given by Assignor to Assignee, dated the date hereof, in the principal sum of \$12,000,000.00, covering the Mortgaged Property (the "MORTGAGE").

This Assignment, the Note, the Mortgage and other documents now or hereafter executed by Assignor and/or others and by or in favor of Assignee which evidence, secure, guarantee or are executed in connection with the Loan shall be hereinafter referred to as the "LOAN DOCUMENTS".

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ASSIGNOR WARRANTS that (i) Assignor is the sole owner of the entire lessor's interest in the Leases; (ii) that the rent roll or occupancy schedule attached as an exhibit to the application, in connection with the Loan, given by Assignor to Assignee (the "RENT ROLL") is a true, accurate and complete list of all Leases or options to lease now in effect at the Mortgaged Property; (iii) the Leases are valid and enforceable and have not been altered, modified or amended in any manner whatsoever except as herein set forth; (iv) none of the Rents reserved in the Leases have been assigned or otherwise pledged or hypothecated; (v) none of the Rents have been collected for more than one (1) month in advance; (vi) Assignor has full power and authority to execute and deliver this Assignment and the execution and delivery of this Assignment has been duly authorized and does not conflict with or constitute a default under any law, judicial order or other agreement affecting Assignor or the Mortgaged Property; (vii) the premises demised under the Leases have been completed and the tenants under the Leases have accepted the same and have taken possession of the same on a rent-paying basis; and (viii) there exist no offsets or defenses to the payment of any portion of the Rents.

ASSIGNOR COVENANTS with Assignee that Assignor shall not, without the prior written consent of Assignee, (a) lease all or any part of the Mortgaged Property, (b) alter or change the terms of any Lease or cancel or terminate, abridge or otherwise modify the terms of any Lease, (c) consent to any assignment of or subletting under any Lease not in accordance with its terms, (d) cancel, terminate, abridge or otherwise modify any guaranty of any Lease or the terms thereof, (e) collect or accept prepayments of installments of Rents for a period of more than one (1) month in advance or (f) further assign the whole or any part of the Leases or the Rents.

ASSIGNOR FURTHER COVENANTS with Assignee that, with respect to each Lease, Assignor shall (a) observe and perform each and every provision thereof on the lessor's part to be fulfilled or performed under each Lease and not do or permit to be done anything to impair the value of the Lease as security for the Loan, (b) promptly send to Assignee copies of all notices of default which Assignor shall send or receive thereunder, (c) enforce all of the terms, covenants and conditions contained in such Lease upon the lessee's part to be

performed, short of termination thereof, (d) execute and deliver, at the request of Assignee, all such further assurances, confirmations and assignments in connection with the Mortgaged Property as Assignee shall, from time to time, require and (e) upon request, furnish Assignee with executed copies of all Leases.

THIS ASSIGNMENT is made on the following terms, covenants and conditions:

1. PRESENT ASSIGNMENT. Assignor does hereby absolutely and unconditionally assign to Assignee Assignor's right, title and interest in all current and future Leases and Rents, it being intended by Assignor that this assignment constitutes a present, absolute and unconditional assignment and not an assignment for additional security only. Such assignment to Assignee shall not be construed to bind Assignee to the performance of any of the covenants, conditions or provisions contained in any such Lease or otherwise to impose any obligation upon Assignee. Assignor agrees to execute and deliver to Assignee such additional instruments, in form and substance reasonably satisfactory to Assignee, as may hereinafter be requested by Assignee to further evidence and confirm said assignment. Nevertheless, subject to the terms of this PARAGRAPH 1, Assignee grants to Assignor a revocable license to operate and manage the Mortgaged Property and to collect the Rents. Assignor shall hold the Rents or a portion thereof sufficient

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to discharge all current sums due on the Loan for use in the payment of such sums. Upon an Event of Default (as defined in the Mortgage), the license granted to Assignor herein shall be automatically revoked by Assignee and Assignee shall immediately be entitled to receive and apply all Rents, whether or not Assignee enters upon and takes control of the Mortgaged Property. Assignee is hereby granted and assigned by Assignor the right, at its option, upon the revocation of the license granted herein to enter upon the Mortgaged Property in person, by agent or by court-appointed receiver to collect the Rents. Any Rents collected after the revocation of the license herein granted may be applied toward payment of the Loan in such priority and proportion as Assignee, in its discretion, shall deem proper. Notwithstanding the license granted to Assignor in this Paragraph 1, if any Lease is terminated (including without limitation a voluntary termination of the Lease approved by Assignee and a termination or rejection of a Lease in a bankruptcy or other similar proceeding) and in connection with such termination or rejection there is the payment of (i) a lump sum settlement, (ii) a termination fee, premium or penalty, or (iii) any other amount or amounts paid in conjunction with such termination (collectively and singly, the "TERMINATION AMOUNT") then in such event, whether or not Assignor is in default under the Note, the Mortgage, any other Loan Document or any Lease, the Termination Amount shall be payable directly to Assignee and, at Assignee's

option, may be (x) applied to outstanding amounts due under the Loan, without premium, or (y) held by Assignee as additional collateral securing the Note until a new Lease or other collateral acceptable to Assignee in its reasonable discretion is substituted for the terminated Lease. Nothing herein shall be deemed approval by Assignee of the termination of any Lease or the payment of any Termination Amount.

2. REMEDIES OF ASSIGNEE. Upon or at any time after an Event of Default, Assignee may, at its option, without waiving such Event of Default, without notice and without regard to the adequacy of the security for the Loan, either in person or by agent, with or without bringing any action or proceeding, or by a receiver appointed by a court, enforce its interest in the Leases and Rents and take possession of the Mortgaged Property and have, hold, manage, lease and operate the Mortgaged Property on such terms and for such period of time as Assignee may deem proper and either with or without taking possession of the Mortgaged Property in its own name, demand, sue for or otherwise collect and receive all Rents, including those past due and unpaid with full power to make from time to time all alterations, renovations, repairs or replacements thereto or thereof as may seem proper to Assignee and may apply the Rents to the payment of the following in such order and proportion as Assignee in its sole discretion may determine, any law, custom or use to the contrary notwithstanding: (a) all reasonable expenses of managing and securing the Mortgaged Property, including, without being limited thereto, the salaries, fees and wages of a managing agent and such other employees or agents as Assignee may deem necessary or desirable and all reasonable expenses of operating and maintaining the Mortgaged Property, including, without being limited thereto, all taxes, charges, claims, assessments, water charges, sewer rents and any other liens, and premiums for all insurance which Assignee may deem necessary or desirable, and the reasonable cost of all alterations, renovations, repairs or replacements, and all expenses incident to taking and retaining possession of the Mortgaged Property; and (b) the Loan, together with all costs and attorneys' fees. In addition to the rights which Assignee may have herein, upon the occurrence of an Event of Default, Assignee, at its option, may either require Assignor to pay monthly in advance to Assignee, or any receiver appointed to collect the Rents, the fair and reasonable rental value for the use and occupation of such part of the Mortgaged Property as may be in possession of Assignor or may require Assignor to vacate and surrender possession of the Mortgaged Property to Assignee or to such receiver and, in default thereof, Assignor may be evicted by summary proceedings or otherwise. For purposes of Paragraphs 1 and 2,

Assignor grants to Assignee its irrevocable power of attorney, coupled with an interest, to take any and all of the aforementioned actions and any or all other actions designated by Assignee for the proper management and preservation of the Mortgaged Property. The exercise by Assignee of the option granted it in this Paragraph 2 and the collection of the Rents and the application thereof as

herein provided shall not be considered a waiver of any default by Assignor under the Note, the Mortgage, the Leases, this Assignment or the Loan Documents.

3. NO LIABILITY OF ASSIGNEE. Assignee shall not be liable for any loss sustained by Assignor resulting from Assignee's failure to let the Mortgaged Property after an Event of Default or from any other act or omission of Assignee in managing the Mortgaged Property after default unless such loss is caused by the willful misconduct and bad faith of Assignee. Assignee shall not be obligated to perform or discharge any obligation, duty or liability under the Leases or under or by reason of this Assignment and Assignor shall, and hereby agrees to, indemnify Assignee for and hold Assignee harmless from, any and all liability, loss or damage which may or might be incurred under the Leases or under or by reason of this Assignment and from any and all claims and demands whatsoever, including the defense of any such claims or demands which may be asserted against Assignee by reason of any alleged obligations and undertakings on its part to perform or discharge any of the terms, covenants or agreements contained in the Leases. Should Assignee incur any such liability, the amount thereof, including costs, expenses and reasonable attorneys' fees, shall be secured hereby and by the Mortgage and the Loan Documents and Assignor shall reimburse Assignee therefor immediately upon demand and upon the failure of Assignor so to do Assignee may, at its option, declare all sums secured hereby, the Note, and the Mortgage and the Loan Documents immediately due and payable. This Assignment shall not operate to place any obligation or liability for the control, care, management or repair of the Mortgaged Property upon Assignee, nor for the carrying out of any of the terms and conditions of the Leases; nor shall it operate to make Assignee responsible or liable for any waste committed on the Mortgaged Property by the tenants or any other parties, or for any dangerous or defective condition of the Mortgaged Property, including, without limitation, the presence of any Hazardous Materials (as defined in the Mortgage), or for any negligence in the management, upkeep, repair or control of the Mortgaged Property resulting in loss or injury or death to any tenant, licensee, employee or stranger.

4. NOTICE TO LESSEES. Assignor hereby authorizes and directs the lessees named in the Leases or any other or future lessees or occupants of the Mortgaged Property upon receipt from Assignee of written notice to the effect that Assignee is then the holder of the Mortgage and that a default exists thereunder or under this Assignment, the Note or the other Loan Documents to pay over to Assignee all Rents and to continue so to do until otherwise notified by Assignee.

5. OTHER SECURITY. Assignee may take or release other security for the payment of the Loan, release any party primarily or secondarily liable therefor and apply any other security held by it to the reduction or satisfaction of the Loan without prejudice to any of its rights under this Assignment.

6. OTHER REMEDIES. Nothing contained in this Assignment and no act done or omitted by Assignee pursuant to the power and rights granted to Assignee hereunder shall be deemed to be a waiver by Assignee of its rights and remedies under the Note, the Mortgage or the Loan Documents and this Assignment is made and accepted without prejudice to any of the rights and remedies possessed by

Assignee under the terms thereof. The right of Assignee to collect the Loan and to enforce any other security therefor held by it may be exercised by Assignee either prior to, simultaneously with, or subsequent to any action taken by it hereunder.

7. NO MORTGAGEE IN POSSESSION. Nothing herein contained shall be construed as constituting Assignee a "mortgagee in possession" in the absence of the taking of actual possession of the Mortgaged Property by Assignee. In the exercise of the powers herein granted Assignee, no liability shall be asserted or enforced against Assignee, all such liability being expressly waived and released by Assignor.

8. CONFLICT OF TERMS. In case of any conflict between the terms of this Assignment and the terms of the Mortgage, the terms of the Mortgage shall prevail.

9. NO ORAL CHANGE. This Assignment and any provisions hereof may not be modified, amended, waived, extended, changed, discharged or terminated orally, or by any act or failure to act on the part of Assignor or Assignee, but only by an agreement in writing signed by the party against whom the enforcement of any modification, amendment, waiver, extension, change, discharge or termination is sought.

10. CERTAIN DEFINITIONS. Unless the context clearly indicates a contrary intent or unless otherwise specifically provided herein, words used in this Assignment may be used interchangeable in singular or plural form and the word "ASSIGNOR" shall mean "each Assignor and any subsequent owner or owners of the Mortgaged Property or any part thereof or any interest therein," the word "ASSIGNEE" shall mean "Assignee and any subsequent holder of the Note," the word "NOTE" shall mean "the Note and any other evidence of indebtedness secured by the Mortgage," the word "PERSON" shall include an individual, corporation, partnership, trust, unincorporated association, government, governmental authority, and any other entity, the words "MORTGAGED PROPERTY" shall include any portion of the Mortgaged Property and any interest therein, and the word "LOAN" shall mean the principal balance of the Note with interest thereon as provided in the Note and the Mortgage and all other sums due pursuant to the Note, the Mortgage, this Assignment and the other Loan Documents; whenever the context may require, any pronouns used herein shall include the corresponding masculine, feminine or neuter forms, and the singular form of nouns and pronouns shall include the plural and vice versa.

11. NON-WAIVER. The failure of Assignee to insist upon strict performance of any term hereof shall not be deemed to be a waiver of any term of

this Assignment. Assignor shall not be relieved of Assignor's obligations hereunder by reason of (i) failure of Assignee to comply with any request of Assignor or any other party to take any action to enforce any of the provisions hereof or of the Mortgage, the Note or the other Loan Documents, (ii) the release, regardless of consideration, of the whole or any part of the Mortgaged Property, or (iii) any agreement or stipulation by Assignee extending the time of payment or otherwise modifying or supplementing the terms of this Assignment, the Note, the Mortgage or the Other Security Documents. Assignee may resort for the payment of the Loan to any other security held by Assignee in such order and manner as Assignee, in its discretion, may elect. Assignee may take any action to recover the Loan, or any portion thereof, or to enforce any covenant hereof without prejudice to the right of Assignee thereafter to enforce its rights under this Assignment. The rights of Assignee under this Assignment shall be separate, distinct and cumulative and none shall be given effect to the exclusion of the

others. No act of Assignee shall be construed as an election to proceed under any one provision herein to the exclusion of any other provision.

12. INAPPLICABLE PROVISIONS. If any term, covenant or condition of this Assignment is held to be invalid, illegal or unenforceable in any respect, this Assignment shall be construed without such provision.

13. DUPLICATE ORIGINALS. This Assignment may be executed in any number of duplicate originals and each such duplicate original shall be deemed to be an original.

14. GOVERNING LAW. This Assignment shall be governed and construed in accordance with the laws of the State in which the real property encumbered by the Mortgage is located.

15. TERMINATION OF ASSIGNMENT. Upon payment in full of the Loan and the delivery and recording of a satisfaction or discharge of Mortgage duly executed by Assignee, this Assignment shall become and be void and of no effect.

16. LIMITATION ON LIABILITY. The provisions of Paragraph 46 of the Mortgage are incorporated herein by this reference to the fullest extent as if the text of such paragraph were set forth in its entirety herein.

THIS ASSIGNMENT, together with the covenants and warranties therein contained, shall inure to the benefit of Assignee and any subsequent holder of the Mortgage and shall be binding upon Assignor, his heirs, executors, administrators, successors and assigns and any subsequent owner of the Mortgaged Property.

IN WITNESS WHEREOF, Assignor has executed this Assignment as of the day and year first above written.

ASSIGNOR:

BIRCH POND REALTY CORPORATION
(doing business in the State of New Hampshire
as BPRC)

Witnessed By:

By: /s/ Olga L. Conley

Name: Olga L. Conley
Its: Treasurer

Name: /s/ Deborah B. Breznay

Name: /s/ Deborah B. Breznay

COMMONWEALTH OF MASSACHUSETTS)

)

COUNTY OF SUFFOLK

)

The foregoing instrument was acknowledged before me this 1st day of March, 1999 by Olga L. Conley, Treasurer, of Birch Pond Realty Corporation, a Delaware corporation (doing business in the State of New Hampshire as BPRC), on behalf of said corporation.

/s/ Katherine Culkin

[SEAL]

EXHIBIT A

That certain lot or tract of land, with the buildings and improvements thereon, located in Tilton, Belknap County, New Hampshire, and being bounded and described as follows:

Beginning at the northeast corner of the described premises at land now or formerly of the State of New Hampshire and at a re-bar on the westerly sideline of Route 132, Sanborn Road:

1. S 19(Degree)20'44" E 45.87' by said Route 132 to a point; then
2. By a curve to the right having a Delta of 17(Degree)00'15", a radius of 930.00 feet, an arc distance of 276.00 feet, and a chord bearing of S 10(Degree) 50' 37" E and a chord distance of 274.99 feet by said Route to a re-bar; then
3. S 02(Degree)20'29" E 155.23' by said Route to a re-bar; then
4. S 03(Degree)47'32" W 86.83' by said Route to a re-bar; then
5. S 03(Degree)05'40" W 523.55' by said Route to a re-bar; then
6. By a curve to the left having a Delta of 01(Degree)40'53" and a radius of 11,489.16 feet, an arc distance of 337.18 feet, and a chord bearing of S 02(Degree)15' 13" W and a chord distance of 337.17 feet by said Route to a re-bar; then
7. By a curve to the left having a Delta of 02(Degree)59'59" and a radius of 11, 492.87 feet, an arc distance of 601.71 feet, and a chord bearing of S 01(Degree) 03' 20" W and a chord distance of 601.64 feet, by said Route to a re-bar; then
8. By a curve to the left having a Delta of 01(Degree)52'45" and a radius of 11,501.15 feet, an arc distance of 377.22 feet, and a chord bearing of S 02(Degree) 31' 31" W and a chord distance of 377.20 feet, by said Route to a re-bar; then

9. S 03(Degree)27'54" E 248.12' by said Route to a point at now or formerly of Oliver; then
10. S 89(Degree)39'25" W 287.08' by said land of Oliver to a re-bar, then
11. S 08(Degree)48'25" W 225.00' by said land of Oliver to a re-bar; then
12. S 08(Degree)48'25" W, a distance of 20.00' to a point at land now or formerly of the State of New Hampshire; then

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13. N70(Degree)50'37"W 54.78' by land of the State; then
14. N 81(Degree)42'19" W 58.01' by land of the State; then
15. S 82(Degree)53'59" W142.27' by land of the State; then
16. S76(Degree)57'22"W 157.00' by land of the State; then
17. S 89(Degree)46'48"W 67.18' by land of the State; then
18. N65(Degree)59'17"W 79.43' by land of the State; then
19. N47(Degree)43'27"W 87.84' by land of the State; then
20. N27(Degree)29'46"W 83.28' by land of the State; then
21. S73(Degree)59'49"W 53.30' by land of the State; then
22. N45(Degree)19'18"W 43.24' by land of the State; then
23. N26(Degree)13'08" W16.85'by land of the State; then
24. S83(Degree)49'28"W 29.65' by land of the State; then
25. N60(Degree)40'11"W 56.97' by land of the State; then
26. N38(Degree)05'58"W 37.81' by land of the State; then
27. N60(Degree)17'32"W 38.15' by land of the State; then
28. N31(Degree)50'23"W 27.09' by land of the State; then

29. N74 (Degree) 42'14"W 22.80' by land of the State; then
30. S74 (Degree) 47'09" W 91.21' by land of the State; then
31. N87 (Degree) 39'11"W 149.12' by land of the State; then
32. S72 (Degree) 41'13"W 67.05' by land of the State; then
33. N72 (Degree) 57'33" W 454.56' by land of the State; then
34. N29 (Degree) 36'39"W 498.10' by land of the State; then

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35. N29 (Degree) 36'39"W 56.30' by land of the State; then
36. N16 (Degree) 46'49"W 348.61' by land of the State to a concrete bound; then
37. N14 (Degree) 31'44"E 885.88' by land of the State to a concrete bound; then
38. N58 (Degree) 29'32"E 430.73' by land of the State to a re-bar; then
39. N05 (Degree) 11'37"W 335.93' by land of the State to a re-bar; then
40. S76 (Degree) 46'28"W 55.90' by land of the State to a concrete bound; then
41. N85 (Degree) 46'21"W 3.96' by land of the State to a point at land now or formerly of DM Management Company ("DM") ; then
42. N66 (Degree) 32'51"E 1044.50 feet by land of said DM, then
43. N85 (Degree) 07'38"E 305.57' by land of said DM to a stone wall; then
44. S25 (Degree) 23'01"E 51.24' by land now or formerly of Miller and said wall to a re-bar at land of the State; then
45. S66 (Degree) 06'34"W 50.17' by land of the State and a stone wall to a drill hole in the wall; then
46. S21 (Degree) 06'31"E 95.43' by land of the State; then
47. S18 (Degree) 16'00"E 175.19' by land of the State to a re-bar; then

48. N69(Degree)11'55"E 499.88' by land of the State to the point of beginning.

Meaning and intending to describe and convey the land shown on Plan entitled, "ALTA/ACSM LAND TITLE SURVEY, Plan of Land Prepared for DM Management Company, Route 132 (Sanborn Road), Tilton, NH," dated November 19, 1998, by Yerkes Surveying Consultants and recorded in the Belknap County Registry of Deeds (the "Registry") on February 16, 1999, in Drawer L-31 #'s 61 and 62.

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MORTGAGE, ASSIGNMENT OF LEASES AND RENTS AND
SECURITY AGREEMENT

Dated as of March 1, 1999

BIRCH POND REALTY CORPORATION
(doing business in the State of New Hampshire as BPRC)
(Mortgagor)

TO

JOHN HANCOCK REAL ESTATE FINANCE, INC.
(Mortgagee)

LOCATION OF PROPERTY:

100 Birch Pond Drive
Tilton, Belknap County, New Hampshire

RECORD AND RETURN TO:

Hebb & Gitlin
A Professional Corporation
One State Street
Hartford, CT 06103
Attention: John B. D'Agostino, Esq.

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Loan No. 3212525

THIS MORTGAGE, ASSIGNMENT OF LEASES AND RENTS AND SECURITY AGREEMENT (this "MORTGAGE"), made as of March 1, 1999, by BIRCH POND REALTY CORPORATION, a Delaware corporation (doing business in the State of New Hampshire as BPRC), having its principal place of business at 100 Birch Pond Drive, Tilton, New Hampshire 03289 ("MORTGAGOR"), to and for the benefit of JOHN HANCOCK REAL ESTATE FINANCE, INC. having its principal place of business at John Hancock Place, T-53, 200 Clarendon Street, Boston, Massachusetts 02116 ("MORTGAGEE").

W I T N E S S E T H:

To secure the payment of an indebtedness in the principal sum of TWELVE MILLION AND 0/100 DOLLARS (\$12,000,000.00), lawful money of the United States of America, to be paid with interest and all other sums and fees payable according to a certain mortgage note dated the date hereof made by Mortgagor to Mortgagee (the mortgage note, together with all extensions, renewals or modifications thereof, being hereinafter collectively called the "NOTE"; and the loan evidenced by the Note being hereinafter referred to as the "LOAN") and all indebtedness, obligations, liabilities and expenses due hereunder and under any other Loan Document (as hereinafter defined) (the indebtedness, interest, other sums, fees, obligations and all other sums due under the Note and/or hereunder and/or any other Loan Document being collectively called the "INDEBTEDNESS"), Mortgagor has mortgaged, given, granted, bargained, sold, alienated, enfeoffed, conveyed, confirmed, pledged, assigned and hypothecated and by these presents does mortgage, give, grant, bargain, sell, alien, enfeoff, convey, confirm, pledge, assign and hypothecate unto Mortgagee with MORTGAGE COVENANTS and hereby grants unto Mortgagee a security interest in the following property and rights, whether now owned by Mortgagor or held or hereafter acquired by Mortgagor (collectively, the "MORTGAGED PROPERTY"):

GRANTING CLAUSE ONE

All right, title and interest in and to the real property or properties described on EXHIBIT A hereto (collectively, the "LAND").

GRANTING CLAUSE TWO

All additional lands, estates and development rights hereafter acquired by Mortgagor for use in connection with the Land and the development of the Land and all additional lands and estates therein which may, from time to time, by supplemental mortgage or otherwise, be expressly made subject to the lien hereof (collectively, the "ADDITIONAL LAND").

GRANTING CLAUSE THREE

Any and all buildings, structures, fixtures, additions, enlargements, extensions, modifications, repairs, replacements and improvements now or hereafter located on the Land or any part thereof (collectively, the "IMPROVEMENTS"; the Land, the Additional Land and the Improvements hereinafter collectively referred to as the "REAL PROPERTY").

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GRANTING CLAUSE FOUR

All easements, rights-of-way, strips and gores of land, streets, ways, alleys, passages, sewer rights, water, water courses, water rights and powers, oil, gas and mineral rights, air rights and development rights, zoning rights, tax credits or benefits and all estates, rights, titles, interests, privileges, liberties, tenements, hereditaments and appurtenances of any nature whatsoever in any way belonging, relating or pertaining to the Real Property or any part thereof and the reversion and reversions, remainder and remainders and all land lying in the bed of any street, road or avenue, opened or proposed, in front of or adjoining the Land or any part thereof to the center line thereof and all the estates, rights, titles, interests, dower and rights of dower, curtesy and rights of curtesy, property, possession, claim and demand whatsoever, both in law and in equity, of Mortgagor in, of and to the Real Property and every part and parcel thereof, with the appurtenances thereto.

GRANTING CLAUSE FIVE

All machinery, equipment, fixtures and other property of every kind and nature whatsoever owned by Mortgagor or in which Mortgagor has or shall have an interest (to the extent of such interest) now or hereafter located upon the Real Property or appurtenant thereto and usable in connection with the present or future operation and occupancy of the Real Property and all building equipment, materials and supplies of any nature whatsoever owned by Mortgagor or in which Mortgagor has or shall have an interest (to the extent of such interest) now or hereafter located upon the Real Property or appurtenant thereto or usable in connection with the present or future operation and occupancy of the Real Property, including but not limited to all heating, ventilating, air conditioning, plumbing, lighting, communications and elevator machinery, equipment and fixtures (hereinafter collectively called the "EQUIPMENT") and the right, title and interest of Mortgagor in and to any of the Equipment which may be subject to any security agreements (as defined in the Uniform Commercial Code of the State in which the Mortgaged Property is located (the "UNIFORM COMMERCIAL CODE")) superior, inferior or PARI PASSU in lien to the lien of this Mortgage. In connection with Equipment which is leased to Mortgagor or which is subject to a lien or security interest which is superior to the lien of this Mortgage, this Mortgage shall also cover all right, title and interest of each Mortgagor in and to all deposits and the benefit of all payments now or hereafter made with respect to such Equipment. It is expressly agreed that the fixtures and personal property listed on EXHIBIT B attached hereto are owned by the tenant of Real Property, are not owned by Mortgagor and shall not be included in the Mortgaged Property.

GRANTING CLAUSE SIX

All awards or payments, including interest thereon, which may heretofore and hereafter be made with respect to the Real Property or any part thereof, whether from the exercise of the right of eminent domain (including but not limited to any transfer made in lieu of or in anticipation of the exercise of said right), or for a change of grade or for any other injury to or decrease in the value of the Real Property.

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GRANTING CLAUSE SEVEN

All leases and subleases (including, without limitation, all guarantees thereof) and other agreements affecting the use, enjoyment and/or occupancy of the Real Property or any part thereof, now or hereafter entered into (including any use or occupancy arrangements created pursuant to Section 365(h) of Title 11 of the United States Code (the "BANKRUPTCY CODE") or otherwise in connection with the commencement or continuance of any bankruptcy, reorganization, arrangement, insolvency, dissolution, receivership or similar proceedings or any assignment for the benefit of creditors in respect of any tenant or occupant of any portion of the Real Property), together with any extension or renewal of the same (the "LEASES") and all income, rents, issues, profits, revenues and proceeds including, but not limited to, all oil and gas or other mineral royalties and bonuses from the Real Property (including any payments received pursuant to Section 502(b) of the Bankruptcy Code or otherwise in connection with the commencement or continuance of any bankruptcy, reorganization, arrangement, insolvency, dissolution, receivership or similar proceedings or any assignment for the benefit of creditors in respect of any tenant or occupant of any portion of the Real Property and all claims as a creditor in connection with any of the foregoing) (the "RENTS") and all proceeds from the sale, cancellation, surrender or other disposition of the Leases and the right to receive and apply the Rents to the payment of the Indebtedness.

GRANTING CLAUSE EIGHT

All proceeds of and any unearned premiums on any insurance policies covering the Real Property or any part thereof including, without limitation, the right to receive and apply the proceeds of any insurance, judgments or settlements made in lieu thereof, for damage to the Real Property or any part thereof.

GRANTING CLAUSE NINE

All tax refunds, including interest thereon, tax credits and tax abatements and the right to receive or benefit from the same, which may be payable or available with respect to the Real Property.

GRANTING CLAUSE TEN

The right, in the name and on behalf of Mortgagor, to appear in and defend any action or proceeding brought with respect to the Real Property or any part thereof and to commence any action or proceeding to protect the interest of Mortgagee in the Real Property or any part thereof.

GRANTING CLAUSE ELEVEN

All accounts receivable, utility or other deposits, intangibles, contract

rights, interests, estate or other claims, both in law and in equity, which Mortgagor now has or may hereafter acquire in the Real Property or any part thereof.

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GRANTING CLAUSE TWELVE

All rights which Mortgagor now has or may hereafter acquire to be indemnified and/or held harmless from any liability, loss, damage, cost or expense (including, without limitation, attorneys' fees and disbursements) relating to the Real Property or any part thereof.

GRANTING CLAUSE THIRTEEN

All plans and specifications, maps, surveys, studies, reports, contracts, subcontracts, service contracts, management contracts, and other agreements, approvals, consents, permits, special permits, licenses and rights, whether governmental or otherwise, respecting the use, occupation, development, construction and/or operation of the Real Property or any part thereof or the activities conducted thereon or therein, or otherwise pertaining to the Real Property or any part thereof.

GRANTING CLAUSE FOURTEEN

Any and all proceeds and products of any of the foregoing any and all other security and collateral of any nature whatsoever, now or hereafter given to secure the repayment of the Indebtedness and/or the performance of Mortgagor's obligations to Mortgagee, including, without limitation, any escrow or reserve fund held by Mortgagee.

TO HAVE AND TO HOLD the above granted and described Mortgaged Property unto and to the use and benefit of Mortgagee and the successors and assigns of Mortgagee forever.

This mortgage is upon the STATUTORY CONDITION and upon the other terms and conditions of the Note and other Loan Documents, and upon the further condition that in the event of any breach thereof or upon the occurrence of any Event of Default (as hereinafter defined), Mortgagee shall have the STATUTORY POWER OF SALE.

PROVIDED, HOWEVER, these presents are upon the express condition, if Mortgagor shall well and truly pay to Mortgagee the Indebtedness at the time and in the manner provided in the Note and this Mortgage and shall well and truly abide by and comply with each and every covenant and condition set forth herein, in the Note and in the other Loan Documents, these presents and the estate hereby granted shall cease, terminate and be void.

PART I - GENERAL PROVISIONS

AND Mortgagor represents to, covenants with and warrants to Mortgagee that:

1. PAYMENT OF INDEBTEDNESS AND INCORPORATION OF COVENANTS, CONDITIONS AND AGREEMENTS. Mortgagor shall pay the Indebtedness at the time and in the manner provided in the Note, this Mortgage and the other Loan Documents. All the covenants, conditions and agreements contained in the Note and the other Loan

Documents are hereby made a part of this Mortgage to the same extent and with the same force as if fully set forth herein.

2. WARRANTY OF TITLE. Mortgagor has good and marketable title to the Mortgaged Property; Mortgagor has the right to mortgage, give, grant, bargain, sell, alienate, enfeoff, convey, confirm, pledge, lease, assign, hypothecate and grant a security interest in the Mortgaged Property; Mortgagor possesses an indefeasible fee estate in the Real Property; and Mortgagor owns the Mortgaged Property free and clear of all liens, encumbrances and charges whatsoever except those

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exceptions shown in the title insurance policy insuring the lien of this Mortgage (this Mortgage and the liens, encumbrances and charges shown as exceptions in such title policy, hereinafter collectively referred to as the "PERMITTED ENCUMBRANCES"). Mortgagor shall forever warrant, defend and preserve such title and the validity and priority of the lien of this Mortgage and shall forever warrant and defend the same to Mortgagee against the claims of all persons whomsoever.

3. INSURANCE; CASUALTY.

(a) Mortgagor, at its sole cost and expense, shall keep, or shall cause to be kept, the Mortgaged Property insured during the term of this Mortgage for the mutual benefit of Mortgagor and Mortgagee against loss or damage by any peril covered by a standard "all risk of physical loss" insurance policy including, without limitation, riot and civil commotion, vandalism, malicious mischief, burglary and theft in an amount (i) equal to at least one hundred percent (100%) of the then "full replacement cost" of the Improvements and Equipment, without deduction for physical depreciation and (ii) such that the insurer would not deem Mortgagor a coinsurer under such policies. The policies of insurance carried in accordance with this PARAGRAPH 3 shall be paid annually in advance and shall contain the "Replacement Cost Endorsement", and shall have a deductible no greater than \$10,000 unless so agreed by Mortgagee.

(b) Mortgagor, at its sole cost and expense, for the mutual benefit of Mortgagor and Mortgagee, shall also obtain and maintain during the term of this Mortgage the following policies of insurance:

(i) Flood insurance if any part of the Real Property is located in an area identified by the Secretary of Housing and Urban Development as an area having special flood hazards and in which flood insurance has been made available under the National Flood Insurance Act of 1968 (and any successor act thereto) in an amount at least equal to the outstanding principal amount of the Note or the maximum limit of coverage available with respect to the Improvements and Equipment under said Act, whichever is less.

(ii) Comprehensive public liability insurance, including broad form property damage, blanket contractual and personal injuries (including death resulting therefrom) coverages.

(iii) Rental loss insurance in an amount equal to at least one hundred percent of the aggregate annual amount of all rents and additional rents payable by all of the tenants under the Leases (whether or not such Leases are terminable in the event of a fire or casualty), such rental loss insurance to cover rental losses for a period of at least one (1) year after the date of the fire or casualty in question. The amount of such rental loss insurance shall be increased from time to time during the term of this Mortgage as and when new Leases and renewal Leases are entered into

with the terms of this Mortgage, to reflect all increased rent and increased additional rent payable by all of the tenants under such renewal Leases and all rent and additional rent payable by all of the tenants under such new Leases.

(iv) Insurance against loss or damage from explosion of steam boilers, air conditioning equipment, high pressure piping, machinery and equipment, pressure vessels or similar apparatus now or hereafter installed in the Improvements.

(v) Such other insurance (including, without limitation, earthquake insurance) as may from time to time be reasonably required by Mortgagee in order to protect its interests or, in the event of a Secondary Market Transaction, as required by the Rating Agencies (as such terms are hereinafter defined).

(c) All policies of insurance (the "POLICIES") required pursuant to this PARAGRAPH 3 (i) shall be issued by an insurer satisfactory to Mortgagee (and, in the event of a Secondary Market Transaction, to the Rating Agencies), (ii) shall contain the standard New York Mortgagee non-contribution clause naming Mortgagee as the person to which all payments made by such insurance company shall be paid, (iii) shall be maintained throughout the term of this Mortgage without cost to Mortgagee, (iv) shall be delivered to Mortgagee, (v) shall contain such provisions as Mortgagee deems reasonably necessary or desirable to protect its interest including, without limitation, endorsements providing that neither Mortgagor, Mortgagee nor any other party shall be a co-insurer under such Policies and that Mortgagee shall receive at least thirty (30) days prior written notice of any modification or cancellation and (vi) shall be satisfactory in form and substance to Mortgagee (and, in the event of a Secondary Market Transaction, to the Rating Agencies) and shall be approved by Mortgagee (and, in the event of a Secondary Market Transaction, by the Rating Agencies) as to amounts, form, risk coverage, deductibles, loss payees and insureds. Not later than thirty (30) days prior to the expiration date of each of the Policies, Mortgagor will deliver to Mortgagee satisfactory evidence of the renewal of each of the Policies.

(d) If the Improvements shall be damaged or destroyed, in whole or in part, by fire or other casualty, Mortgagor shall give prompt notice thereof to Mortgagee and prior to the making of any repairs thereto. Following the occurrence of fire or other casualty, Mortgagor, regardless of whether insurance proceeds are payable under the Policies or, if paid, are made available to Mortgagor by Mortgagee, shall promptly proceed with the repair, alteration, restoration, replacement or rebuilding of the Improvements as near as possible to their value, utility, condition and character prior to such damage or destruction. Such repairs, alterations, restoration, replacement and rebuilding are herein collectively referred to as the "RESTORATION". The Restoration shall be performed in accordance with the following provisions:

(i) Mortgagor shall procure, pay for and furnish to Mortgagee true copies of all required governmental permits, certificates and approvals with respect to the Restoration.

(ii) Mortgagor shall furnish Mortgagee, within thirty (30) days of the casualty, evidence reasonably satisfactory to Mortgagee of the cost to complete the Restoration.

(iii) If the Restoration involves structural work or the estimated cost to complete the Restoration exceeds \$600,000, the Restoration shall be conducted under the supervision of an architect (the "ARCHITECT") selected by Mortgagor and approved by Mortgagee (which approval shall not be unreasonably withheld), and no such Restoration shall be made except in accordance with detailed plans and specifications, detailed cost estimates and detailed work schedules approved by Mortgagee (which approval shall not be unreasonably withheld).

(iv) If the estimated cost of the Restoration shall exceed \$1,200,000 in the aggregate, at the request of Mortgagee, Mortgagor, before commencing any work, shall cause to be furnished to Mortgagee a surety bond or bonds, in form and substance reasonably satisfactory to Mortgagee, naming Mortgagor and Mortgagee as co-obligees, in an amount that is not less than the estimated cost of the Restoration, issued by a surety company or companies reasonably satisfactory to Mortgagee.

(v) The Restoration shall be prosecuted to completion with all due diligence and in an expeditious and first class workmanlike manner and in compliance with all laws and other governmental requirements, all permits, certificates and approvals, all requirements or fire underwriters and all insurance policies then in force with respect to the Real Property.

(vi) At all times when any work is in progress, Mortgagor shall maintain all insurance then required by law or customary with respect to such work, and, prior to the commencement of any work, shall furnish to Mortgagee duplicate originals or certificates of the policies therefor.

(vii) Upon completion of the Restoration, Mortgagor shall obtain (A) any occupancy permit which may be required for the Improvements and (B) all other governmental permits, certificates and approvals and all permits, certificates and approvals of fire underwriters which are required for or with respect to the Restoration, and shall furnish true copies thereof to Mortgagee.

(viii) An Event of Default (as hereinafter defined) shall be deemed to have occurred under this Mortgage if Mortgagor, after having commenced demolition or construction of any Improvements, shall abandon such demolition or the construction work or shall fail to complete such demolition and construction within a reasonable time after the commencement thereof.

(e) Mortgagor and Mortgagee shall jointly adjust and settle all insurance claims, PROVIDED, HOWEVER, if an Event of Default shall have occurred and be continuing, Mortgagee shall have the right to adjust and settle such claims without the prior consent of Mortgagor. In the event of any insured loss, the payment for such loss shall be made directly to Mortgagee. Mortgagee shall have the option in its sole discretion to apply any insurance proceeds payable under any of the Policies to the payment of the Indebtedness or to allow all or a

portion of such proceeds to be used for the Restoration. Notwithstanding the foregoing, provided (i) no Event of Default or event that with the passage of time or giving of notice or both would constitute a default has occurred hereunder, under the Note or under any of the other Loan Documents and remains uncured at the time of such application, (ii) the insurer does not deny liability to any named insured, (iii) each major and/or anchor tenant (as determined by Mortgagee) whose Lease permits termination thereof as a result of such insured loss, agrees in writing to continue its Lease, (iv) rental loss insurance is available and in force and effect to offset in full any abatement of rent to which any tenant may be entitled as a result of such damage, destruction or loss, (v) the remaining Improvements continue at all times to comply with all applicable building, zoning and other land use laws and regulations, (vi) in Mortgagee's judgment, the Restoration is practicable and can be completed within one (1) year after the damage, destruction or loss and at least one (1) year prior to the Maturity Date (as such term is defined in the Note) and (vii) rebuilding of the Improvements to substantially identical size, condition and use as existed prior to the casualty is permitted by all applicable laws and ordinances, then all of such proceeds shall be used for Restoration. Any application of insurance proceeds to the Indebtedness shall be to the unpaid installments of principal due under the Note in the inverse order of their maturity, such that the regular payments under the Note shall not be reduced or altered in any manner. In the event the above criteria are satisfied (including that no Event of Default or event that, with the passage of time or giving of notice or both, would constitute a default has occurred hereunder, under the Note or other Loan Documents) or Mortgagee otherwise elects to allow the use of such proceeds for the Restoration, such proceeds shall be disbursed in accordance with the following provisions:

(i) Each request for an advance of insurance proceeds shall be made on seven (7) days' prior notice to Mortgagee and shall be accompanied by a certificate of the Architect, if one be required under PARAGRAPH 3(d)(III) above, otherwise by an executive officer or managing general partner or managing member of Mortgagor, stating (A) that all work completed to date has been performed in compliance with the approved plans and specifications and in accordance with all provisions of law, (B) the sum requested is properly required to reimburse Mortgagor for payments by Mortgagor to, or is properly due to, the contractor, subcontractors, materialmen, laborers, engineers, architects or other persons rendering services or materials for the Restoration (giving a brief description of such services and materials), and that when added to all sums, if any, previously disbursed by Mortgagee, does not exceed the value of the work done to the date of such certificate and (C) that the amount of such proceeds remaining in the hands of Mortgagee will be sufficient on completion of the

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work to pay the same in full (giving, in such reasonable detail as Mortgagee may require, an estimate of the cost of such completion).

(ii) Each request for an advance of insurance proceeds shall, to the extent permitted under applicable law, be accompanied by waivers of liens satisfactory to Mortgagee covering that part of the Restoration previously paid for, if any, and by a search prepared by a title company or by other evidence reasonably satisfactory to Mortgagee including without limitation a title endorsement satisfactory to Mortgagee if available in the state where the Real

Property is located, that there has not been filed with respect to the Real Property any mechanic's lien or other lien or instrument and that there exist no encumbrances on or affecting the Real Property other than the Permitted Encumbrances or otherwise approved by Mortgagee. In addition to the foregoing, the request for the final advance shall be accompanied by (A) any final occupancy permit which may be required for the Improvements, (B) all other governmental permits, certificates and approvals and all other permits necessary for the occupancy and operation of the Real Property, (C) Tenant estoppels from tenants whose space was affected and (D) final lien waivers from all contractors, subcontractors and materialmen.

(iii) No advance of insurance proceeds shall be made if there exists an Event of Default or event which with the passage of time or the giving of notice or both would constitute a default on the part of Mortgagor under this Mortgage, the Note or any other Loan Document.

(iv) If the cost of the Restoration (as reasonably estimated by Mortgagee) at any time shall exceed the amount of the insurance proceeds available therefor, insurance proceeds shall not be advanced until Mortgagor, before commencing the Restoration or continuing the Restoration, as the case may be, shall deposit the full amount of the deficiency (or other assurances reasonably satisfactory to Mortgagee) with Mortgagee and the amount so deposited shall first be applied toward the cost of the Restoration before any portion of the insurance proceeds is disbursed for such purpose.

Upon completion of the Restoration and payment in full therefor, or upon failure on the part of Mortgagor promptly to commence or diligently to continue the Restoration, or at any time upon request by Mortgagor, Mortgagee may apply the amount of any such proceeds then or thereafter in the hands of Mortgagee to the payment of the Indebtedness; PROVIDED, HOWEVER, that nothing herein contained shall prevent Mortgagee from applying at any time the whole or any part of such proceeds to the curing of any default that has not been cured within the applicable cure period under this Mortgage, the Note or any other Loan Document.

(f) Insurance proceeds and any additional funds deposited by Mortgagor with Mortgagee shall constitute additional security for the Indebtedness. Mortgagor shall execute,

deliver, file and/or record, at its expense, such documents and instruments as Mortgagee deems necessary or advisable to grant to Mortgagee a perfected, first priority security interest in the insurance proceeds and such additional funds. If the insurance proceeds are applied to Restoration, (i) the insurance proceeds shall be, at Mortgagee's election, disbursed in installments by Mortgagee or by a disbursing agent ("DEPOSITORY") selected by Mortgagee and whose fees and expenses shall be paid by Mortgagor in the manner provided in PARAGRAPH 3(e) above and (ii) Mortgagee shall be entitled to receive a fee in the amount of one percent (1%) of the insurance proceeds as compensation for administering the use of insurance proceeds, such fee to be in addition to fees paid the Depository.

4. PAYMENT OF TAXES, ETC.

(a) Mortgagor shall pay all taxes, assessments, water rates and sewer

rents, now or hereafter levied or assessed or imposed against the Mortgaged Property or any part thereof (the "TAXES") and all ground rents, maintenance charges, other governmental impositions, and other charges, including, without limitation, vault charges and license fees (collectively, "Other Charges") for the use of vaults, chutes and similar areas adjoining the Real Property, as same become due and payable. Mortgagor will deliver to Mortgagee, promptly upon Mortgagee's request, evidence satisfactory to Mortgagee that the Taxes and Other Charges have been so paid and are not then delinquent. Mortgagor shall not suffer or permit any lien or charge (including, without limitation, any mechanic's lien) against all or any part of the Mortgaged Property and Mortgagor shall promptly cause to be paid and discharged any lien or charge whatsoever which may be or become a lien or charge against the Mortgaged Property. Mortgagor shall promptly pay for all utility services provided to the Mortgaged Property. In addition, Mortgagee may, at its option, retain the services of a firm to monitor the payment of Taxes, the cost of which shall be borne by Mortgagor.

(b) Notwithstanding the provisions of subsection (a) of this PARAGRAPH 4, Mortgagor shall have the right to contest in good faith the amount or validity of any such Taxes, liens or Other Charges (including, without limitation, tax liens and mechanics' liens) referred to in subsection (a) above by appropriate legal proceedings and in accordance with all applicable law, after notice to, but without cost or expense to, Mortgagee, provided that (i) no Event of Default or event that, with the passage of time or giving of notice or both, would constitute a default hereunder, under the Note or other Loan Documents has occurred and is continuing, (ii) Mortgagor pays such Taxes, liens or Other Charges as same become due and payable, unless Mortgagor delivers evidence satisfactory to Mortgagee that, as a result of Mortgagor's contest, Mortgagor's obligation to pay such Taxes, liens or Other Charges has been deferred by the appropriate governmental authority, in which event, Mortgagor may defer such payment of such Taxes, liens or Other Charges until the date specified by such governmental authority, (iii) such contest shall be promptly and diligently prosecuted by and at the expense of Mortgagor, (iv) Mortgagee shall not thereby suffer any civil penalty, or be subjected to any criminal penalties or sanctions, (v) such contest shall be discontinued and such Taxes, liens or Other Charges promptly paid if at any time all or any part of the Mortgaged Property shall be in

imminent danger of being foreclosed, sold, forfeited or otherwise lost or if the liens of this Mortgage or the priority thereof shall be in imminent danger of being impaired, (vi) Mortgagor shall have set aside adequate reserves (in Mortgagee's judgment) for the payment of such Taxes, liens or Other Charges, together with all interest and penalties thereon and (vii) Mortgagor shall have furnished such security as may be required in the proceeding or as may be requested by Mortgagee, to insure the payment of any such Taxes, liens or Other Charges, together with all interest and penalties thereon.

5. ESCROW FUND.

(a) TAX AND INSURANCE FUND. Mortgagor shall pay to Mortgagee on the first day of each calendar month an amount equal to (i) one-twelfth of an amount which would be sufficient to pay, at least thirty (30) days prior to the date the Taxes and Other Charges are due without the payment of any penalties or interest, the Taxes and Other Charges estimated by Mortgagee to be payable, during the next ensuing twelve (12) months and (ii) one-twelfth of an amount which would be sufficient to pay, at least thirty (30) days prior to their due

date for the renewal of the coverage afforded by the Policies upon the expiration thereof, the insurance premiums for the Policies estimated by Mortgagee to be payable on such due date, (said amounts in (i) and (ii) above hereafter called the "Tax and Insurance Fund").

(b) REPLACEMENT ESCROW FUND. Mortgagor shall enter into a Replacement Reserve Agreement which shall require Mortgagor to pay to Mortgagee on the first day of each calendar month one twelfth (1/12) of the amount reasonably estimated by Mortgagee to be due for the replacements and capital repairs required to be made to the Mortgaged Property during each calendar year (the "REPLACEMENT ESCROW FUND"). At least thirty (30) days prior to the end of each calendar year, Mortgagor shall deliver to Mortgagee for Mortgagee's review and approval, a capital expenditure budget (the "BUDGET") itemizing the replacements and capital repairs which are anticipated to be made to the Mortgaged Property during the next immediately succeeding calendar year. Mortgagee may, upon notice to Mortgagor, adjust the monthly amounts required to be deposited into the Replacement Escrow Fund to a monthly amount equal to one twelfth (1/12) of the total amount specified in each approved Budget. Mortgagee shall make disbursements from the Replacement Escrow Fund for items specified in each approved Budget or in the Replacement Reserve Agreement as set forth in such Agreement. Mortgagee may require an inspection of the Mortgaged Property prior to making a disbursement in order to verify completion of replacements and repairs. Mortgagee reserves the right to make any disbursement from the Replacement Escrow Fund directly to the party furnishing materials and/or services. Provided that (i) the Mortgagor named herein is the owner of the Mortgaged Property, (ii) there is no default by Mortgagor under the Loan Documents and (iii) the Mortgaged Property is being properly maintained by Mortgagor, then the monthly deposits to the Replacement Escrow Fund may be suspended so long as the balance of the Replacement Escrow Fund is equal to at least twenty-four times the monthly deposit required (the "CAP AMOUNT"), it being understood that if any disbursements under the Replacement Reserve Agreement shall cause said balance to be less than the Cap Amount, or

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if such balance shall for any other reason be less than the Cap Amount, the monthly deposits shall resume until the balance of the Replacement Escrow Fund is again equal to the Cap Amount.

(c) TENANT IMPROVEMENT AND LEASING COMMISSION ESCROW. Mortgagor shall enter into a Tenant Improvement and Leasing Commission Agreement which shall require Mortgagor to pay to Mortgagee on the first day of each calendar month deposits for additional collateral in the amount of \$8,400.00 each for payment of costs and expenses incurred by Mortgagor in connection with the performance of work to refit and release space in the Improvements that may be vacated during the term of the Loan, and for payment of leasing commissions incurred by Mortgagor in connection with the releasing of space in the Improvements that may be vacated during the term of the Loan (the "TENANT IMPROVEMENT AND LEASING COMMISSION ESCROW FUND"), all according to the Tenant Improvement and Leasing Commission Agreement.

The amounts in (a), (b) and (c) above shall hereinafter be collectively called the "ESCROW FUND". Mortgagor hereby pledges to Mortgagee any and all monies now or hereafter deposited as the Escrow Fund as additional security for the payment of the Indebtedness. Mortgagee may apply the Escrow Fund to payments of Taxes, Other Charges, insurance premiums and, as applicable, payments for replacements and capital repairs, tenant improvements and leasing commissions and repairs and remediations required to be made by Mortgagor pursuant to the

terms hereof or pursuant to the terms of any other Loan Documents (even though subsequent owners of the Mortgaged Property may benefit thereby); PROVIDED, HOWEVER, if there is an Event of Default which is continuing, then Mortgagee may credit such Escrow Fund against the Indebtedness in such priority and proportions as Mortgagee in its discretion shall deem proper. If the Escrow Fund is not sufficient to fully pay for the Taxes, Other Charges and/or the insurance premiums or, as applicable, amounts for replacements and capital repairs, tenant improvements and leasing commissions and repairs and remediation when due, Mortgagor shall promptly pay to Mortgagee, upon demand, an amount which Mortgagee shall estimate as sufficient to make up the deficiency. The Escrow Fund shall not constitute a trust fund and may be commingled with other monies held by Mortgagee. No earnings or interest on the Escrow Fund shall be payable to Mortgagor, except as otherwise provided in a written agreement between Mortgagor and Mortgagee.

6. CONDEMNATION. Mortgagor shall promptly give Mortgagee written notice of the actual or threatened commencement of any condemnation or eminent domain proceeding and shall deliver to Mortgagee copies of any and all papers served in connection with such proceedings. Following the occurrence of a condemnation, Mortgagor, regardless of whether an award is available, shall promptly proceed to restore, repair, replace or rebuild the Improvements to the extent practicable to be of at least equal value and of substantially the same character as prior to such condemnation, all to be effected in accordance with applicable law. Notwithstanding any taking by any public or quasi-public authority through eminent domain or otherwise (including but not limited to any transfer made in lieu of or in anticipation of the exercise of such taking), Mortgagor shall continue to pay the Indebtedness at the time and in the manner provided for its payment in the Note, in this Mortgage and the other

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Loan Documents and the Indebtedness shall not be reduced until any award or payment therefor shall have been actually received after expenses of collection and applied by Mortgagee to the discharge of the Indebtedness. Mortgagor shall cause the award or payment made in any condemnation or eminent domain proceeding, which is payable to Mortgagor, to be paid directly to Mortgagee. Mortgagee may apply any such award or payment (for purposes of this PARAGRAPH 6, the award or payment that may be made in any condemnation or eminent domain proceeding shall mean the entire award allocated to Mortgagor in any capacity) to the discharge of the Indebtedness whether or not then due and payable (such application to be without prepayment fee or premium, except that if an Event of Default, or an event with notice and/or the passage of time, or both, would constitute an Event of Default, has occurred, then such application shall be subject to a prepayment premium computed in accordance with the Note). If the Mortgaged Property is sold, through foreclosure or otherwise, prior to the receipt by Mortgagee of such award or payment, Mortgagee shall have the right, whether or not a deficiency judgment on the Note shall have been sought, recovered or denied, to receive said award or payment or a portion thereof sufficient to pay the Indebtedness.

7. LEASES AND RENTS.

(a) Mortgagor does hereby absolutely and unconditionally assign to Mortgagee its right, title and interest in all current and future Leases and Rents and all proceeds from the sale, cancellation, surrender or other disposition of the Leases, it being intended by Mortgagor that this assignment constitutes a present, absolute assignment and not an assignment for additional security only. Such assignment to Mortgagee shall not be construed to bind

Mortgagee to the performance of any of the covenants, conditions or provisions contained in any such Lease or otherwise to impose any obligation upon Mortgagee. Mortgagor agrees to execute and deliver to Mortgagee such additional instruments in form and substance satisfactory to Mortgagee, as may hereafter be requested by Mortgagee to further evidence and confirm such assignment. Nevertheless, subject to the terms of this PARAGRAPH 7, Mortgagee grants to Mortgagor a revocable license to operate and manage the Mortgaged Property and to collect the Rents. Mortgagor shall hold the Rents, or a portion thereof sufficient to discharge all current sums due on the Indebtedness, in trust for the benefit of Mortgagee for use in the payment of such sums. The grant of the foregoing license is subject to the provisions of PARAGRAPH 1 of the separate Assignment of Leases and Rents of even date herewith granted by the Mortgagor as "Assignor" to the Mortgagee as "Assignee" with respect to the Mortgaged Property ("ASSIGNMENT OF LEASES AND RENTS"). Upon the occurrence of an Event of Default, the license granted to Mortgagor herein shall be automatically revoked and Mortgagee shall immediately be entitled to possession of all Rents, whether or not Mortgagee enters upon or takes control of the Mortgaged Property. Mortgagee is hereby granted and assigned by Mortgagor the right, at its option, upon the revocation of the license granted herein to enter upon the Mortgaged Property in person, by agent or by court-appointed receiver to collect the Rents. Any Rents collected after the revocation of the license herein granted may be applied toward payment of the Indebtedness in such priority and proportion as Mortgagee in its discretion shall deem proper. It is further the intent of Mortgagor and Mortgagee that the Rents hereby absolutely assigned are no longer, during the term of this Mortgage, property of

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Mortgagor or property of any estate of Mortgagor as defined in Section 541 of the Bankruptcy Code and shall not constitute collateral, cash or otherwise, of Mortgagor. The term "Rents" as used herein shall mean the gross rents without deduction or offsets of any kind.

(b) All Leases executed after the date of this Mortgage shall provide that they are subordinate to this Mortgage and that the lessee agrees to attorn to Mortgagee; PROVIDED, HOWEVER, that nothing herein shall affect Mortgagee's right to designate from time to time any one or more Leases as being superior to this Mortgage and Mortgagor shall execute and deliver to Mortgagee and shall cause to be executed and delivered to Mortgagee from each tenant under such Lease any instrument or agreement as Mortgagee may deem necessary to make such Lease superior to this Mortgage. Upon request, Mortgagor shall promptly furnish Mortgagee with executed copies of all Leases.

(c) Mortgagor shall not, without the prior consent of Mortgagee, (i) lease all or any part of the Mortgaged Property, (ii) alter or change the terms of any Lease or cancel or terminate, abridge or otherwise modify the terms of any Lease, (iii) consent to any assignment of or subletting under any Lease not in accordance with its terms, (iv) cancel, terminate, abridge or otherwise modify any guaranty of any Lease or the terms thereof, (v) collect or

accept prepayments of installments of Rents for a period of more than one (1) month in advance or (vi) further assign the whole or any part of the Leases or the Rents.

(d) With respect to each Lease, Mortgagor shall (i) observe and perform each and every provision thereof on the lessor's part to be fulfilled or performed under each Lease and not do or permit to be done anything to impair the value of the Lease as security for the Loan, including surrender or

voluntary termination of any Lease, (ii) promptly send to Mortgagee copies of all notices of default which Mortgagor shall send or receive thereunder, (iii) enforce all of the terms, covenants and conditions contained in such Lease upon the lessee's part to be performed, short of termination thereof, (iv) execute and deliver, at the request of Mortgagee, all such further assurances, confirmations and assignments in connection with the Mortgaged Property as Mortgagee shall, from time to time, require and (v) upon request, furnish Mortgagee with executed copies of all Leases. Upon the occurrence of any Event of Default under this Mortgage, Mortgagor shall pay monthly in advance to Mortgagee, or any receiver appointed to collect the Rents, the fair and reasonable rental value for the use and occupation of the Mortgaged Property or part of the Mortgaged Property as may be occupied by Mortgagor or any one Mortgagor and upon default in any such payment Mortgagor shall vacate and surrender possession of the Mortgaged Property to Mortgagee or to such receiver and, in default thereof, Mortgagor may be evicted by summary proceedings or otherwise.

(e) All security deposits of tenants, whether held in cash or any other form, shall not be commingled with any other funds of Mortgagor and, if cash, shall be deposited by Mortgagor at such commercial or savings bank or banks as may be reasonably satisfactory to Mortgagee. Any bond or other instrument which Mortgagor is permitted to hold in lieu of cash

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security deposits under any applicable legal requirements shall be maintained in full force and effect in the full amount of such deposits unless replaced by cash deposits as hereinabove described, shall be issued by an institution reasonably satisfactory to Mortgagee, shall, if permitted pursuant to any legal requirements, name Mortgagee as payee or Mortgagee thereunder (or at Mortgagee's option, be fully assignable to Mortgagee) and shall, in all respects, comply with any applicable legal requirements and otherwise be reasonably satisfactory to Mortgagee. Mortgagor shall, upon request, provide Mortgagee with evidence reasonably satisfactory to Mortgagee of Mortgagor's compliance with the foregoing. Following the occurrence and during the continuance of any Event of Default, Mortgagor shall, upon Mortgagee's request, if permitted by any applicable legal requirements, turn over to Mortgagee the security deposits (and any interest theretofore earned thereon) with respect to all or any portion of the Mortgaged Property, to be held by Mortgagee subject to the terms of the Leases.

8. MAINTENANCE AND USE OF MORTGAGED PROPERTY. Mortgagor shall, at its sole cost and expense, keep and maintain the Mortgaged Property, including, without limitation, parking lots and recreational and landscaped portions thereof, if any, in the same condition which exists as of the date hereof, reasonable wear and tear excepted, but in any event, in good order and condition. The Improvements and the Equipment shall not be diminished, removed, demolished or materially altered (except for normal replacement of Equipment) and Mortgagor shall not erect any new buildings, structures or building additions on the Mortgaged Property without the prior consent of Mortgagee. So long as no Event of Default shall have occurred and be continuing, Mortgagor shall have the right at any time and from time to time after providing Mortgagee with written notice to make or cause to be made reasonable alterations of and additions to the Mortgaged Property or any part thereof, PROVIDED that any alteration or addition (a) shall not change the general character of the Mortgaged Property or reduce the fair market value thereof below its value immediately before such alteration or addition, or impair the usefulness of the Mortgaged Property, (b) is effected with due diligence, in a good and workmanlike manner and in compliance with all applicable laws and with all provisions of any insurance policy covering or

applicable to the Mortgaged Property and all requirements of the issuers thereof, (c) is promptly and fully paid for, or caused to be paid for, by Mortgagor, (d) the estimated cost of such alteration or addition does not exceed \$600,000, and (e) is made under the supervision of a qualified architect or engineer, (f) shall not violate the terms of any Leases, and (g) upon completion, Mortgagor shall provide Mortgagee with (i) a satisfactory final improvement survey if the footprint of the building has been altered, (ii), any final occupancy permit which may be required for the Improvements, (iii) all other governmental permits, certificates and approvals and all other permits, certificates and approvals of fire underwriters which are required with respect to the alterations and additions and the use and occupancy thereof, and shall furnish true copies thereof to Mortgagee, and (iv) final lien waivers from all contractors, subcontractors and materialmen. Mortgagor shall promptly comply with all laws, orders and ordinances affecting the Mortgaged Property, or the use thereof, PROVIDED, HOWEVER, that nothing in the foregoing clause shall require Mortgagor to comply with any such law, order or ordinance so long as Mortgagor shall in good faith, after notice to, but without cost or expense to, Mortgagee, contest the validity of such law, order or ordinance by appropriate legal proceedings and in accordance with all applicable law, which proceedings must operate to prevent (a) the enforcement thereof, (b) the payment of any fine, charge

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or penalty, (c) the sale or forfeiture of the Mortgaged Property or any part thereof, (d) the lien of this Mortgage and the priority thereof from being impaired, (e) the imposition of criminal liability on Mortgagee and (f) the imposition, unless stayed, of civil liability on Mortgagee; PROVIDED that during such contest Mortgagor shall, at the option of Mortgagee, provide cash, bonds or other security satisfactory to Mortgagee, indemnifying and protecting Mortgagee against any liability, loss or injury by reason of such non-compliance or contest, and PROVIDED FURTHER, that such contest shall be promptly and diligently prosecuted by and at the expense of Mortgagor. Mortgagor shall promptly, at its sole cost and expense, repair, replace or rebuild any part of the Mortgaged Property which may be destroyed by any casualty, or become damaged, worn or dilapidated. Mortgagor shall not commit any waste at the Mortgaged Property. Mortgagor shall not initiate, join in, acquiesce in or consent to any change in any private restrictive covenant, zoning law or other public or private restriction, limiting or defining the uses which may be made of the Mortgaged Property or any part thereof. If under applicable zoning provisions the use of all or any portion of the Mortgaged Property is or shall become a nonconforming use, Mortgagor will not cause or permit such nonconforming use to be discontinued or abandoned without the express consent of Mortgagee. Mortgagor covenants and agrees that it shall operate, or cause to be operated, the Mortgaged Property at all times as a first-class office, warehouse, distribution and industrial building. Without limiting the foregoing, Mortgagor agrees that if any of the fixtures or personal property listed on EXHIBIT B are removed from the Improvements, then Mortgagor shall restore (or cause to be restored) any damage to the Mortgaged Property caused by or resulting from such removal.

9. TRANSFER OR ENCUMBRANCE OF THE MORTGAGED PROPERTY.

(a) Mortgagor acknowledges that Mortgagee has examined and relied on the creditworthiness and experience of Mortgagor in owning and operating properties such as the Mortgaged Property in agreeing to make the Loan, and that Mortgagee will continue to rely on Mortgagor's ownership of the Mortgaged Property as a means of maintaining the value of the Mortgaged Property as security for

repayment of the Indebtedness. Mortgagor acknowledges that Mortgagee has a valid interest in maintaining the value of the Mortgaged Property so as to ensure that, should Mortgagor default in the repayment of the Indebtedness, Mortgagee can recover the Indebtedness by a sale of the Mortgaged Property. Mortgagor shall not, without the prior consent of Mortgagee, sell, convey, alienate, mortgage, encumber, pledge or otherwise transfer the Mortgaged Property or any part thereof, or permit the Mortgaged Property or any part thereof to be sold, conveyed, alienated, mortgaged, encumbered, pledged or otherwise transferred.

(b) A sale, conveyance, alienation, mortgage, encumbrance, pledge or transfer within the meaning of this PARAGRAPH 9 shall be deemed to include (i) an installment sales agreement wherein Mortgagor agrees to sell the Mortgaged Property or any part thereof for a price to be paid in installments, (ii) an agreement by Mortgagor leasing all or a substantial part of the Mortgaged Property for other than actual occupancy by a space tenant thereunder or a sale, assignment or other transfer of, or the grant of a security interest in, Mortgagor's right, title and interest in and to any Leases or any Rents, (iii) if Mortgagor, the guarantor of any Non-Recourse Carveout Obligations, or any general partner or managing member of Mortgagor or such guarantor is a corporation, the voluntary or involuntary sale, conveyance or transfer of such corporation's stock (or the stock of any corporation directly or indirectly

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controlling such corporation by operation of law or otherwise, except the stock of DM Management Company in the event such stock is traded on a public stock exchange or NASDAQ) or the creation or issuance of new stock in one or a series of transactions by which an aggregate of more than 10% of such corporation's stock (other than the stock of DM Management Company in the event such stock is traded on a public stock exchange or NASDAQ) shall be vested in a party or parties who are not now stockholders or any change in the control of such corporation (other than a change in control with respect to the stock of DM Management Company in the event such stock is traded on a public stock exchange or NASDAQ) and (iv) if Mortgagor, any said guarantor or any general partner or managing member of Mortgagor or any said guarantor is a limited or general partnership, joint venture or limited liability company, the change, removal, resignation or addition of a general partner, managing partner, limited partner, joint venturer or member or the transfer of the partnership interest of any general partner, managing partner or limited partner or the transfer of the interest of any joint venturer or member.

(c) Mortgagee shall not be required to demonstrate any actual impairment of its security or any increased risk of default hereunder in order to declare the Indebtedness immediately due and payable upon Mortgagor's sale, conveyance, alienation, mortgage, encumbrance, pledge or transfer of the Mortgaged Property without Mortgagee's consent. This provision shall apply to every sale, conveyance, alienation, mortgage, encumbrance, pledge or transfer of the Mortgaged Property regardless of whether voluntary or not, or whether or not Mortgagee has consented to any previous sale, conveyance, alienation, mortgage, encumbrance, pledge or transfer of the Mortgaged Property.

(d) Mortgagee's consent to a sale, conveyance, alienation, mortgage, encumbrance, pledge or transfer of the Mortgaged Property shall not be deemed to be a waiver of Mortgagee's right to require such consent to any future occurrence of same. Any sale, conveyance, alienation, mortgage, encumbrance, pledge or transfer of the Mortgaged Property made in contravention of this PARAGRAPH 9 shall be null and void and of no force and effect.

(e) Mortgagor agrees to bear and shall pay or reimburse Mortgagee on demand

for all reasonable expenses (including, without limitation, reasonable attorneys' fees and disbursements, title search costs and title insurance endorsement premiums) incurred by Mortgagee in connection with the review, approval and documentation of any such sale, conveyance, alienation, mortgage, encumbrance, pledge or transfer.

(f) Mortgagee's consent to the sale or transfer of the Mortgaged Property will not be unreasonably withheld after consideration of all relevant factors, PROVIDED that:

(i) no Event of Default shall have occurred and remain uncured;

(ii) the proposed transferee ("TRANSFEREE"), the guarantors of Non-Recourse Carveout Obligations (hereinafter defined) and the indemnitors of

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environmental liabilities shall be reputable entities or persons of good character, creditworthy, with sufficient financial worth considering the obligations assumed and undertaken, as evidenced by financial statements and other information reasonably requested by Mortgagee;

(iii) the Transferee and its property manager shall have sufficient experience in the ownership and management of properties similar to the Mortgaged Property, and Mortgagee shall be provided with reasonable evidence thereof (and Mortgagee reserves the right to approve the Transferee without approving the substitution of the property manager);

(iv) that Mortgagee has received a written request for approval from the Mortgagor at least sixty (60) days prior to the proposed transfer (including a description of the proposed terms of the transfer), together with a diagram showing the legal structure of the Transferee, the proposed guarantor of Non-Recourse Carveout Obligations and the proposed indemnitor of environmental liabilities and all of the constituent entities of each, after the contemplated transfer, and a list of the names, types of interests and ownership percentages of all persons to have ownership interests in any of the foregoing or any constituent entity thereof, financial statements for all such entities and an administrative fee of \$5,000, which shall be deemed fully earned on the date of receipt and shall be retained by Mortgagee regardless of whether or not the transfer occurs and whether or not approval is given;

(v) Mortgagee and its counsel have received (aa) certification from Mortgagor and the Transferee that the proposed terms of the transfer described in its subparagraph 9(f)(iv) are the actual terms of the transfer, (bb) evidence of casualty insurance and other applicable insurance, (cc) all corporate, partnership or other entity documents and (dd) all other certificates, legal opinions, title materials and other documents which Mortgagee may reasonably require, all in form and substance reasonably satisfactory to Mortgagee, at least 30 days prior to the proposed transfer;

(vi) Mortgagee shall be provided satisfactory evidence concerning the effect of any change in the real estate taxes to result from the sale and the effect of such change on the ability of the Security to generate a cash flow sufficient to pay the debt service on the Loan and to maintain a debt service coverage ratio satisfactory to Mortgagee;

(vii) to the extent applicable, Mortgagee shall have received in

writing evidence from the Rating Agencies to the effect that such transfer will not result in a re-qualification, reduction or withdrawal of any rating initially assigned or to be assigned in a Secondary Market Transaction together with such legal opinions as may be requested by the Rating Agencies. The term "RATING AGENCIES" as used herein shall mean each of Standard & Poor's Ratings Group, Moody's Investors Service, Inc., Duff & Phelps

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Credit Rating Co., Fitch Investors Service, Inc. or any other nationally-recognized statistical rating agency who shall then be rating the certificates or securities issued in connection with the Secondary Market Transaction;

(viii) the Transferee and its constituent entities shall comply with all of the Single Purpose Entity/Separateness requirements set forth in Paragraph 19 hereof;

(ix) the Transferee shall have executed and delivered to Mortgagee an assumption agreement in form and substance acceptable to Mortgagee, evidencing such Transferee's agreement to abide and be bound by the terms of the Note, this Mortgage and the other Loan Documents, together with an executed guaranty of Non- Recourse Carveout Obligations under the Note from an approved guarantor and an executed separate environmental indemnity agreement from an approved indemnitor, both in form and substance acceptable to Mortgagee, and such legal opinions and title insurance endorsements as may be reasonably requested by Mortgagee; and

(x) Mortgagee shall have received an assumption fee equal to one percent (1%) of the then unpaid principal balance of the Note (against which the administrative fee shall be credited) in addition to the payment of all costs and expenses incurred by Mortgagee in connection with such assumption (including reasonable attorney's fees and costs).

In the event all of the foregoing conditions are satisfied and Mortgagee consents to the sale or transfer, Mortgagee agrees to release (aa) the transferor Mortgagor and the prior guarantors of Non- Recourse Carveout Obligations with respect to matters first arising solely after the transfer, and (bb) the prior indemnitors of environmental liabilities with respect to a presence and/or release which first occurs solely after acquisition of title to the Mortgaged Property by Mortgagee upon a foreclosure or acceptance of a deed in lieu of foreclosure and surrender of possession and occupancy of the Mortgaged Property by the transferor Mortgagor, the prior guarantors and the prior indemnitors, their agents, affiliates, employees and independent contractors. The transferor Mortgagor, the prior guarantors and the prior indemnitors, respectively, shall have the burden of proving that the conditions in this PARAGRAPH 9 (including, without limitation, the time as to which matters described herein arose) were satisfied by clear and convincing evidence and shall continue to defend with counsel satisfactory to Mortgagee and shall indemnify and hold Mortgagee harmless for all matters set forth in PARAGRAPH 39 and in the Non-Recourse Carveout Obligations unless and until a court of competent jurisdiction finds that such transferor Mortgagor, prior guarantors or prior indemnitors, respectively, met such burden.

10. ESTOPPEL CERTIFICATES.

(a) Mortgagor, within ten (10) business days after request by

Mortgagee, shall furnish Mortgagee from time to time with a statement, duly acknowledged and certified, setting forth (i) the amount of the original principal amount of the Note, (ii) the unpaid principal

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amount of the Note, (iii) the rate of interest in the Note, (iv) the date through which all installments of interest, commitment fees and/or principal have been paid, (v) any offsets or defenses to the payment of the Indebtedness, if any, (vi) that the Note and this Mortgage have not been modified or if modified, giving particulars of such modification and (vii) such other information as shall be reasonably requested by Mortgagee.

(b) Mortgagor, after request by Mortgagee, will obtain and furnish (within the time periods, if any, provided in the applicable Leases or if no time period is so specified, within ten (10) business days after request) Mortgagee from time to time with estoppel certificates from any tenants under then existing Leases, which certificates shall be in form and substance as required by such Leases, or if not required, then in form and substance reasonably satisfactory to Mortgagee.

11. NO COOPERATIVE OR CONDOMINIUM. Mortgagor shall not operate the Mortgaged Property, or permit the Mortgaged Property to be operated as a cooperative or condominium building or buildings in which the tenants or occupants participate in the ownership, control or management of the Mortgaged Property or any part thereof, as tenant stockholders or otherwise.

12. CHANGES IN THE LAWS REGARDING TAXATION. If any law is enacted or adopted or amended after the date of this Mortgage which deducts the Indebtedness or any portion thereof from the value of the Mortgaged Property for the purpose of taxation or which imposes a tax, either directly or indirectly, on the principal amount of the Note or Mortgagee's interest in the Mortgaged Property, Mortgagor will pay such tax, with interest and penalties thereon, if any. In the event Mortgagee is advised by counsel chosen by it that the payment of such tax or interest and penalties by Mortgagor would be unlawful or taxable to Mortgagee or unenforceable or provide the basis for a defense of usury, then in any such event, Mortgagee shall have the option, by notice of not less than sixty (60) days, to declare the Indebtedness immediately due and payable.

13. NO CREDITS ON ACCOUNT OF THE INDEBTEDNESS. Mortgagor will not claim or demand or be entitled to any credit or credits on account of the Indebtedness for any part of the Taxes assessed against the Mortgaged Property or any part thereof and no deduction shall otherwise be made or claimed from the taxable value of the Mortgaged Property, or any part thereof, by reason of this Mortgage or the Indebtedness. In the event such claim, credit or deduction shall be required by law, Mortgagee shall have the option, by notice of not less than sixty (60) days, to declare the Indebtedness immediately due and payable without premium.

14. DOCUMENTARY STAMPS. If at any time the United States of America, any State thereof or any subdivision of any such State shall require revenue or other stamps to be affixed to the Note or this Mortgage, or impose any other tax or charge on the same, Mortgagor will pay for the same, with interest and penalties thereon, if any.

15. RIGHT OF ENTRY. Mortgagee and its agents shall have the right to enter and inspect the Mortgaged Property at any time during reasonable business hours upon twenty-four (24) hour notice

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to Mortgagor, except in the case of an emergency, in which event Mortgagee and its agents may enter and inspect the Mortgaged Property at any time.

16. BOOKS AND RECORDS.

(a) Mortgagor will maintain full, accurate and complete books of accounts and other records reflecting the results of the operations of the Mortgaged Property as well as its other operations and will furnish, or cause to be furnished, to Mortgagee the following:

(i) (A) within ninety (90) days after the end of each fiscal year, the Mortgagor will furnish to Mortgagee, a statement of Mortgagor's financial condition, including a balance sheet and profit and loss statement, and a statement of annual income and expenses satisfactory in form and substance to Mortgagee in connection with the operation of the Mortgaged Property, in detail satisfactory to Mortgagee, prepared by Mortgagor, and audited and certified by a certified public accountant who is a member of the American Institute of Certified Public Accountants; provided, that so long as there are no Events of Default in existence, if such statements audited and certified by such accountant are not available within such ninety (90) day period, then Mortgagor shall furnish such statements prepared and certified by Borrower within such ninety (90) day period, provided, further that in any event such statements audited and certified by such accountant shall be delivered no later than one hundred eighty (180) days after the end of such fiscal year, and, (B) in addition, within forty-five (45) days after the end of each fiscal quarter of Mortgagor, Mortgagor shall provide the above information except that it may be prepared and certified by the financial officer of Mortgagor who is responsible for the preparation of such annual financial statements.

(ii) accompanying the submission of the certified statements of annual and quarterly income and expenses, shall be a certified current rent roll, which shall include among other things tenant names, lease commencement and expiration dates, square footage, annual rent, annual operating expense and real estate tax contributions and any and all other fees paid by tenants and security deposits currently held.

(iii) accompanying the submission of the certified statements of annual and quarterly income and expenses shall be such additional financial information as Mortgagee shall reasonably require.

(b) Mortgagee shall have the right, upon five (5) business days' prior notice to Mortgagor, to inspect and make copies of Mortgagor's books and records and income tax returns and notices.

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(c) In the event of a Secondary Market Transaction, Mortgagor shall furnish from time to time such information relating to Mortgagor and the Mortgaged Property as shall be requested by the Rating Agencies.

17. PERFORMANCE OF OTHER AGREEMENTS. Mortgagor shall observe and perform each and every term to be observed or performed by such Mortgagor pursuant to the terms of any agreement or recorded instrument affecting or pertaining to the Mortgaged Property.

18. REPRESENTATIONS AND COVENANTS CONCERNING LOAN. Mortgagor represents, warrants and covenants as follows:

(a) The Note, this Mortgage and the other Loan Documents are not subject to any right of rescission, set-off, counterclaim or defense, including the defense of usury, nor would the operation of any of the terms of the Note, this Mortgage and the other Loan Documents, or the exercise of any right thereunder, render this Mortgage unenforceable, in whole or in part, or subject to any right of rescission, set-off, counterclaim or defense, including the defense of usury.

(b) All certifications, permits, licenses and approvals, including, without limitation, certificates of completion and occupancy permits required for the legal use, occupancy of the Mortgaged Property, have been obtained and are in full force and effect. The Mortgaged Property is free of material damage and is in good repair, and there is no proceeding pending for the total or partial condemnation of, or affecting, the Mortgaged Property.

(c) All of the Improvements which were included in determining the appraised value of the Mortgaged Property lie wholly within the boundaries and building restriction lines of the Mortgaged Property, and no improvements on adjoining properties encroach upon the Mortgaged Property, and no easements or other encumbrances upon the Land encroach upon any of the Improvements, so as to affect the value or marketability of the Mortgaged Property except those which are insured against by title insurance. All of the Improvements comply with all requirements of applicable zoning and subdivision laws and ordinances in all material respects.

(d) The Mortgaged Property is not subject to any Leases other than the Leases described in the rent roll delivered to Mortgagee in connection with this Mortgage. No person has any possessory interest in the Mortgaged Property or right to occupy the same except under and pursuant to the provisions of the Leases. Except as otherwise disclosed in writing to Mortgagee, the current Leases are in full force and effect and there are no defaults thereunder by either party and there are no conditions that, with the passage of time or the giving of notice, or both, would constitute defaults thereunder. Except as otherwise disclosed in writing to Mortgagee, all presently existing Leases are subordinate to the Mortgage.

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(e) The Mortgaged Property and the Lease are in compliance with all statutes, ordinances, regulations and other governmental or quasi-governmental requirements and private covenants now or hereafter relating to the ownership, construction, use or operation of the Mortgaged Property.

(f) There has not been and shall never be committed by Mortgagor or any other person in occupancy of or involved with the operation or use of the Mortgaged Property any act or omission affording the federal

government or any state or local government the right of forfeiture as against the Mortgaged Property or any part thereof or any monies paid in performance of Mortgagor's obligations under any of the Loan Documents. Mortgagor hereby covenants and agrees not to commit, permit or suffer to exist any act or omission affording such right of forfeiture.

(g) Mortgagor operates the Mortgaged Property and has not entered into any agreement (oral, written or otherwise) with any third party relating to the operation and management of the Mortgaged Property, and no third party is entitled to any management fee or has any interest in or right to receive any portion of the income derived from owning, operating or managing the Mortgaged Property. In the event Mortgagor desires to have a third party operate the Mortgaged Property it shall enter into a management agreement (the "MANAGEMENT AGREEMENT") with such party, provided that Mortgagee approves such party (the "MANAGER"), and Manager and Mortgagor shall execute an assignment and subordination of such Management Agreement in form satisfactory to Mortgagee, in its sole discretion, assigning and subordinating the Manager's interest in the Mortgaged Property and all fees and other right of the Manager pursuant to such Management Agreement to the rights of the Mortgagee. Such Management Agreement, if any, shall remain in full force and effect and there shall be no default, breach or violation existing thereunder by any party thereto and no event shall occur (other than payments due but not yet delinquent) that, with the passage of time or the giving of notice, or both, would constitute a default, breach or violation by any party thereunder. Mortgagor shall not terminate, cancel, modify, renew or extend the Management Agreement, or enter into any agreement relating to the management or operation of the Mortgaged Property with Manager or any other party without the express written consent of Mortgagee, which consent shall not be unreasonably withheld. If at any time Mortgagee consents to the appointment of a new manager, such new manager and Mortgagor shall, as a condition of Mortgagee's consent, execute a Manager's Consent and Subordination of Management Agreement in the form then used by Mortgagee.

19. SINGLE PURPOSE ENTITY/SEPARATENESS. Mortgagor represents, warrants and covenants as follows:

(a) The purpose for which the Mortgagor is organized shall be limited solely to (A) owning, holding, selling, leasing, transferring, exchanging, operating and managing the Mortgaged Property, (B) entering into the Loan with the Mortgagee, (C) refinancing the Mortgaged Property in connection with a permitted repayment of the Loan, and (D)

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transacting any and all lawful business for which a corporation may be organized under Delaware law that is incident, necessary and appropriate to accomplish the foregoing.

(b) Mortgagor does not own and will not own any asset or property other than (i) the Mortgaged Property, and (ii) incidental personal property necessary for and used in connection with the ownership, operation or managing of the Mortgaged Property.

(c) Mortgagor will not engage in any business other than the ownership, management and operation of the Mortgaged Property.

(d) Except as otherwise disclosed on Exhibit C to the Borrower's Certificate delivered by Mortgagor to Mortgagee in connection herewith, Mortgagor will not enter into any contract or agreement with any affiliate of Mortgagor, any constituent party of Mortgagor, any owner of the Mortgagor, the Guarantors or any affiliate of any constituent party or Guarantor, except upon terms and conditions that are intrinsically fair, commercially reasonable and substantially similar to those that would be available on an arms-length basis with third parties not affiliated with the Mortgagor or its owner(s) or constituent part(ies).

(e) Mortgagor has not incurred and will not incur any indebtedness, other than (i) the Loan, (ii) trade and operational debt incurred in the ordinary course of business with trade creditors and in amounts as are normal and reasonable under the circumstances provided such debt is not evidenced by a note and is paid when due, and (iii) indebtedness incurred in the financing of equipment and other personal property used on the Mortgaged Property. No indebtedness other than the Loan may be secured (subordinate or PARI PASSU) by the Mortgaged Property.

(f) Mortgagor has not made and will not make any loans or advances to any entity or person (including any affiliate or constituent party or owner of Mortgagor, any Guarantor or any affiliate of any constituent party or Guarantor), and shall not acquire obligations or securities of its affiliates or any constituent party .

(g) Mortgagor is and will remain solvent and Mortgagor will pay its debts and liabilities (including, as applicable, shared personnel and overhead expenses) from its assets as the same shall become due.

(h) Mortgagor has done or caused to be done and will do all things necessary to observe organizational formalities and preserve its existence, and Mortgagor will not, nor will Mortgagor permit any constituent party or owner of Mortgagor or any Guarantor to amend, modify or otherwise change the partnership certificate, partnership agreement, articles of incorporation and bylaws, operating agreement, trust or other organizational documents of Mortgagor or such constituent party or Guarantor without the written consent of Mortgagee (other than DM Management Company in the event its stock is traded on a public stock exchange or NASDAQ).

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(i) Mortgagor will maintain all of its books, records, financial statements and bank accounts separate from those of its affiliates and any constituent party. Mortgagor's assets will not be listed as assets on the financial statement of any other entity. Mortgagor shall have its own separate financial statement, provided, however, that Mortgagor's assets may be included in a consolidated financial statement of its parent if such inclusion on the financial statements of its parent complies with the requirements of generally accepted accounting principles ("GAAP"), provided that such consolidated financial statement shall contain a footnote to the effect that Mortgagor's assets are owned by Mortgagor, and further provided that such assets shall be listed on Mortgagor's own separate balance sheet. Mortgagor will file separate tax returns, or if part of a consolidated, unitary or combined group, then it will be shown as a separate member of such group. Mortgagor shall maintain its books, records, resolutions and agreements as official records.

(j) Mortgagor will be, and at all times will hold itself out to the public

as, a legal entity separate and distinct from any other entity (including any affiliate of Mortgagor, any constituent party of Mortgagor, any Guarantor or any affiliate of any constituent party or Guarantor), shall correct any known misunderstanding regarding its status as a separate entity, shall conduct business in its own name, shall not identify itself or any of its affiliates as a division or part of the other and shall maintain and utilize separate telephone numbers, stationery, invoices and checks.

(k) Mortgagor will maintain adequate capital for the normal obligations reasonably foreseeable in a business of its size and character and in light of its contemplated business operations.

(l) Neither Mortgagor nor any constituent party will seek the dissolution, winding up, liquidation, consolidation or merger in whole or in part, or the sale of material assets of Mortgagor.

(m) Mortgagor will not commingle the funds and other assets of Mortgagor with those of any affiliate, any constituent party or owner of Mortgagor, any Guarantor, or any affiliate of any constituent party or Guarantor, or any other person, and will not participate in a cash management system with any such party.

(n) Mortgagor will not commingle its assets with those of any other person or entity and will hold all of its assets in its own name.

(o) Mortgagor will not guarantee or become obligated for the debts of any other entity or person and does not and will not hold itself out as being responsible for the debts or obligations of any other person.

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(p) If Mortgagor is a limited partnership or a limited liability company, at least one general partner or member (an "SPC PARTY") shall be a corporation whose sole asset is its interest in Mortgagor, and each such SPC Party will at all times comply, and shall cause Mortgagor to comply, with each of the representations, warranties and covenants contained in this PARAGRAPH 19 as if such representation, warranty or covenant was made directly by such SPC Party.

(q) Mortgagor shall allocate fairly and reasonably any overhead expenses that are shared with an affiliate, including paying for office space and services performed by any employee of an affiliate.

(r) The stationery, invoices and checks utilized by Mortgagor or utilized to collect its funds or pay its expenses shall bear its own name and shall not bear the name of any other entity unless such entity is clearly designated as being Mortgagor's agent.

(s) Mortgagor shall not pledge its assets for the benefit of any other person or entity, and other than with respect to the Loan.

(t) Mortgagor shall correct any known misunderstanding regarding its separate identity.

(u) Mortgagor shall not identify itself as a division of any other person or entity.

(v) Mortgagor shall at all times cause there to be at least one duly appointed member of the board of directors (an "INDEPENDENT DIRECTOR") of

Mortgagor, in the case of a corporation, and each SPC Party in Mortgagor in the case of a limited partnership or limited liability company, in each case reasonably satisfactory to Mortgagee who is not at the time of initial appointment, and has not been at any time during the preceding five (5) years: (a) stockholder, director, officer, employee, partner, attorney or counsel of the SPC Party, the Mortgagor or any affiliate of either of them; (b) a customer, supplier or other person who derives more than 10% of its purchases or revenues from its activities with the SPC Party, the Mortgagor or any affiliate of either of them; (c) a person or other entity controlling or under common control with any such stockholder, partner, customer, supplier or other person; or (d) a member of the immediate family of any such stockholder, director, officer, employee, partner, customer, supplier or other person. As used herein, the term "control" means the possession, directly or indirectly, of the power to direct or cause the direction of management, policies or activities of a person or entity, whether through ownership of voting securities, by contract or otherwise.

(w) Mortgagor shall not cause or permit the board of directors of each SPC Party in Mortgagor to take any action which, under the terms of any certificate of incorporation, by-laws or any voting trust agreement with respect to any common stock, requires the vote of each

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SPC Party in Mortgagor unless at the time of such action there shall be at least one member who is an Independent Director.

Subject to the other terms and conditions of this Mortgage and the other Loan Documents, Mortgagor shall have the right to pay dividends and make payments in return of capital to Mortgagor's shareholders.

20. EVENTS OF DEFAULT; REMEDIES. Each of the following events shall constitute an "EVENT OF DEFAULT" hereunder:

(a) if (i) any installment of interest or principal is not paid within five (5) days after the same is due, (ii) the entire Indebtedness is not paid on or before the Maturity Date (or if the Maturity Date has been accelerated, upon such acceleration), or (iii) any other payment or charge due under the Note, this Mortgage or any other Loan Documents is not paid when due;

(b) if any Taxes payable directly to the billing authority by Mortgagor are not paid before interest becomes payable on the amount due or a penalty is assessed (provided that the foregoing provisions of this clause (b) shall be subject to the right to contest Taxes granted to Mortgagor in PARAGRAPH 4(b) of this Mortgage, but only for so long as the conditions in PARAGRAPH 4(b) of this Mortgage remain satisfied);

(c) if the Policies are not kept in full force and effect and are not delivered to Mortgagee when required hereunder, or if the Policies are not delivered to Mortgagee within ten (10) days after request by Mortgagee;

(d) if any of the provisions of PARAGRAPHS 7, 8(b), 9, 19 or 39 herein are violated or not complied with;

(e) if any of the events described in PARAGRAPH 41 shall occur;

(f) if at any time any representation or warranty of Mortgagor or any Guarantor made herein or in any guaranty, agreement, certificate, report, affidavit, owner's affidavit, financial statement or other instrument furnished to Mortgagee shall be false or misleading in any material respect;

(g) if any mortgagee under a mortgage on the Mortgaged Property, whether superior or subordinate to this Mortgage (i) demands payment in full or otherwise accelerates any indebtedness of Mortgagor or (ii) otherwise commences the exercise of any remedy available to such party under any Loan Document;

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(h) if Mortgagor fails to cure promptly any violation of any law or ordinance affecting the Mortgaged Property (provided that the foregoing provisions of this clause (h) shall be subject to any right to contest such violation specifically granted to Mortgagor in PARAGRAPH 8 of this Mortgage);

(i) if any Guaranty (as hereinafter defined) is terminated or any event or condition occurs which, in the reasonable judgment of Mortgagee, may materially impair the ability of any Guarantor to perform its obligations under any Guaranty or any Guarantor attempts to withdraw, cancel or disclaim any Guaranty;

(j) if a default by Mortgagor under any of the other terms, covenants or conditions of the Note, this Mortgage or any other Loan Document shall occur and such default shall not have been cured within thirty (30) days after notice from Mortgagee, provided that if such default is not susceptible of being cured within such thirty (30) day period and Mortgagor shall have commenced the cure of such default within such thirty (30) day period and thereafter diligently pursues such cure to completion, then such thirty (30) day period shall be extended for a period of ninety (90) days from the occurrence of the default, provided, further, that the notice and grace period set forth in this subparagraph (j) shall not apply to any other Event of Default expressly set forth in this PARAGRAPH 20 or to any other Event of Default defined as such in any other Loan Document or to any other covenant or condition with respect to which a grace period is expressly provided elsewhere; or

(k) if any of the provisions of PARAGRAPHS 42(d) and/or PARAGRAPH 42(f) are violated or not complied with, and/or if any representation or warranty in PARAGRAPH 42(b) and/or 42(c) shall prove false or misleading in any material respect and/or if any of the events described in PARAGRAPH 42(e) shall occur.

Upon the occurrence of any Event of Default, the Indebtedness shall immediately become due at the option of Mortgagee.

Upon the occurrence of any Event of Default, Mortgagor shall pay interest on the entire unpaid principal balance of the Note, as defined in and provided for in the Note.

Upon the occurrence of any Event of Default, Mortgagee may, to the extent

permitted under applicable law, elect to treat the fixtures included in the Mortgaged Property either as real property or as personal property, or both, and proceed to exercise such rights as apply thereto. With respect to any sale of real property included in the Mortgaged Property made under the powers of sale herein granted and conferred, Mortgagee may, to the extent permitted by applicable law, include in such sale any fixtures included in the Mortgaged Property and relating to such real property.

21. ADDITIONAL REMEDIES.

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(a) Upon the occurrence of any Event of Default, Mortgagee may take such action, without notice or demand, as it shall deem advisable to protect and enforce its rights against Mortgagor and in and to the Mortgaged Property or any part thereof or interest therein, including, but not limited to, the following actions, each of which may be pursued concurrently or otherwise, at such time and in such order as Mortgagee may determine, in its sole discretion, without impairing or otherwise affecting the other rights and remedies of Mortgagee (i) enter into or upon the Real Property, either personally or by its agents, nominees or attorneys and dispossess Mortgagor and its agents and servants therefrom, and thereupon Mortgagee may (A) use, operate, manage, control, insure, maintain, repair, restore and otherwise deal with all and every part of the Mortgaged Property and conduct the business thereat, (B) complete any construction on the Mortgaged Property in such manner and form as Mortgagee deems advisable, (C) make alterations, additions, renewals, replacements and improvements to or on the Mortgaged Property, (D) exercise all rights and powers of Mortgagor with respect to the Mortgaged Property, whether in the name of Mortgagor or otherwise, including, without limitation, the right to make, cancel, enforce or modify leases, obtain and evict tenants and demand, sue for, collect and receive all earnings, revenues, rents, issues, profits and other income of the Mortgaged Property and every part thereof and (E) apply the receipts from the Mortgaged Property to the payment of the Indebtedness, after deducting therefrom all expenses (including reasonable attorneys' fees and expenses) incurred in connection with the aforesaid operations and all amounts necessary to pay the taxes, assessments, insurance and other charges in connection with the Mortgaged Property, as well as just and reasonable compensation for the services of Mortgagee and its counsel, agents and employees, or (ii) institute proceedings for the complete foreclosure of this Mortgage in which case the Mortgaged Property may be sold for cash or upon credit in one or more parcels, or (iii) with or without entry, to the extent permitted and pursuant to the procedures provided by applicable law, institute proceedings for the partial foreclosure of this Mortgage for the portion of the Indebtedness then due and payable, subject to the continuing lien of this Mortgage for the balance of the Indebtedness not then due, or (iv) sell for cash or upon credit the Mortgaged Property or any part thereof and all or any part of any estate, claim, demand, right, title and interest of Mortgagor therein and rights of redemption thereof, pursuant to power of sale or otherwise, at one or more sales, as an entity or in parcels, at such time and place, upon such terms and after such notice thereof as may be required or permitted by law, and in the event of a sale, by foreclosure or otherwise, of less than all of the Mortgaged Property, this Mortgage shall continue as a lien on the remaining portion of or estate in the Mortgaged Property, or (v) institute an action, suit or proceeding in equity for the specific performance of any covenant, condition or agreement contained herein or in the Note or any other Loan Document, or (vi) recover

judgment on the Note or any Guaranty either before, during or after any proceedings for the enforcement of this Mortgage or (vii) pursue such other remedies as Mortgagee may have under applicable law.

(b) The purchase money proceeds or avails of any sale made under or by virtue of this PARAGRAPH 21, together with any other sums which then may be held by Mortgagee under

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this Mortgage, whether under the provisions of this PARAGRAPH 21 or otherwise, shall be applied as follows:

FIRST: To the payment of the costs and expenses of any such sale, including reasonable compensation to Mortgagee, its agents and counsel, and of any judicial proceedings wherein the same may be made, and of all expenses, liabilities and advances made or incurred by Mortgagee under this Mortgage, together with interest as provided herein on all advances made by Mortgagee and all taxes or assessments, except any taxes, assessments or other charges subject to which the Mortgaged Property shall have been sold.

SECOND: To the payment of the whole amount then due, owing or unpaid upon the Note for principal, together with any and all applicable interest, fees and late charges.

THIRD: To the payment of any other sums required to be paid by Mortgagor pursuant to any provision of this Mortgage or of the Note or of the Guaranty.

FOURTH: To the payment of the surplus, if any, to whomsoever may be lawfully entitled to receive the same.

Mortgagee and any receiver of the Mortgaged Property, or any part thereof, shall be liable to account for only those rents, issues and profits actually received by it.

(c) Mortgagee may adjourn from time to time any sale by Mortgagee to be made under or by virtue of this Mortgage by announcement at the time and place appointed for such sale or for such adjourned sale or sales; and, except as otherwise provided by any applicable provision of law, Mortgagee, without further notice or publication, may make such sale at the time and place to which the same shall be so adjourned.

(d) Upon the completion of any sale or sales made by Mortgagee under or by virtue of this PARAGRAPH 21, Mortgagee, or an officer of any court empowered to do so, shall execute and deliver to the accepted purchaser or purchasers a good and sufficient instrument, or good and sufficient instruments, conveying, assigning and transferring all estate, right, title and interest in and to the property and rights sold. Mortgagee is hereby irrevocably appointed the true and lawful attorney of Mortgagor, in its name and stead, to make all necessary conveyances, assignments, transfers and deliveries of the Mortgaged Property and rights so sold and for that purpose Mortgagee may execute all necessary instruments of conveyance, assignment and transfer, and may substitute one or more persons with like power, Mortgagor hereby ratifying and confirming all that its said attorney or such substitute or substitutes shall lawfully do by virtue hereof. Any such sale or sales made under or by virtue of this PARAGRAPH 21, whether made under the power of sale herein granted or under or by virtue of

judicial proceedings or of a judgment or decree of foreclosure and sale, shall operate to divest all the estate, right, title, interest, claim and demand whatsoever, whether at law or in equity, of Mortgagor in and to the properties and rights so sold, and shall be a perpetual bar both at law

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and in equity against Mortgagor and against any and all persons claiming or who may claim the same, or any part thereof from, through or under Mortgagor.

(e) In the event of any sale made under or by virtue of this PARAGRAPH 21 (whether made under the power of sale herein granted or under or by virtue of judicial proceedings or of a judgment or decree of foreclosure and sale) the entire Indebtedness, if not previously due and payable, immediately thereupon shall, anything in the Note, this Mortgage, any Guaranty or any other Loan Document to the contrary notwithstanding, become due and payable.

(f) Upon any sale made under or by virtue of this PARAGRAPH 21 (whether made under the power of sale herein granted or under or by virtue of judicial proceedings or of a judgment or decree of foreclosure and sale), Mortgagee may bid for and acquire the Mortgaged Property or any part thereof and in lieu of paying cash therefor may make settlement for the purchase price by crediting upon the Indebtedness the net sales price after deducting therefrom the expenses of the sale and the costs of the action and any other sums which Mortgagee is authorized to deduct under this Mortgage.

(g) No recovery of any judgment by Mortgagee and no levy of an execution under any judgment upon the Mortgaged Property or upon any other property of Mortgagor shall affect in any manner or to any extent, the lien of this Mortgage upon the Mortgaged Property or any part thereof, or any liens, rights, powers or remedies of Mortgagee hereunder, but such liens, rights, powers and remedies of Mortgagee shall continue unimpaired as before.

22. RIGHT TO CURE DEFAULTS. Upon the occurrence of any Event of Default or if Mortgagor fails to make any payment or to do any act as herein provided, Mortgagee may, but without any obligation to do so and without notice to or demand on Mortgagor and without releasing Mortgagor from any obligation hereunder, make or do the same in such manner and to such extent as Mortgagee may deem necessary to protect the security hereof. Without limiting the foregoing, Mortgagee may enter upon the Mortgaged Property for such purposes or appear in, defend, or bring any action or proceeding to protect its interest in the Mortgaged Property, and the cost and expense thereof (including, without limitation, attorneys' fees and disbursements to the extent permitted by law), with interest as provided in this PARAGRAPH 22, shall be immediately due and payable to Mortgagee upon demand by Mortgagee therefor. All such costs and expenses incurred by Mortgagee in remedying such Event of Default or in appearing in, defending, or bringing any such action or proceeding shall bear interest at the Default Rate, for the period from the date that such cost or expense was incurred to the date of payment to Mortgagee. All such costs and expenses, together with interest thereon at the Default Rate, shall be added to the Indebtedness and shall be secured by this Mortgage. If the principal sum of the Note or any other amount required to be paid on the Maturity Date under the Note shall not be paid on the Maturity Date, interest shall thereafter be computed and paid at the Default Rate.

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23. LATE PAYMENT CHARGE. If any monthly principal and interest payment is not paid in accordance with the Note, a late charge (the "LATE CHARGE") shall be due as provided for in the Note.

24. PREPAYMENT. The Indebtedness may be prepaid only in accordance with the terms of the Note.

25. PREPAYMENT AFTER EVENT OF DEFAULT. A tender of the amount necessary to satisfy the entire indebtedness, paid at any time following an Event of Default or acceleration (which acceleration shall be at Mortgagee's sole option), including at a foreclosure sale or during any subsequent redemption period, if any, shall be deemed a voluntary prepayment, which payment shall include a premium equal to the Default Consideration, as determined in accordance with the terms of the Note.

26. APPOINTMENT OF RECEIVER. Mortgagee, upon the occurrence of an Event of Default or in any action to foreclose this Mortgage or upon the actual or threatened waste to any part of the Mortgaged Property, shall be entitled to the appointment of a receiver without notice and without regard to the value or condition of the Mortgaged Property as security for the Indebtedness or the solvency or insolvency of any person liable for the payment of the Indebtedness.

27. SECURITY AGREEMENT.

(a) This Mortgage is both a real property Mortgage and a "security agreement" within the meaning of the Uniform Commercial Code. The Mortgaged Property includes both real and personal property and all other rights and interests, whether tangible or intangible in nature, of Mortgagor in the Mortgaged Property. Mortgagor, by executing and delivering this Mortgage grants to Mortgagee, as security for the Indebtedness, a security interest in the Mortgaged Property to the full extent that the Mortgaged Property may be subject to the Uniform Commercial Code (such portion of the Mortgaged Property so subject to the Uniform Commercial Code being called in this PARAGRAPH 27 the "COLLATERAL"). Mortgagor shall execute and deliver to Mortgagee, in form and substance satisfactory to Mortgagee, such financing statements and further assurances as Mortgagee may, from time to time, reasonably request in order to create, perfect, and preserve the security interest(s) herein granted. This Mortgage shall also constitute a "fixture filing" for the purposes of the Uniform Commercial Code and shall cover all items of the Collateral that are or are to become fixtures. Information concerning the security interest(s) herein granted may be obtained from Mortgagee upon request.

If an Event of Default shall occur, Mortgagee, in addition to any other rights and remedies which it may have, shall have and may exercise immediately and without demand, any and all rights and remedies granted to a secured party upon default under the Uniform Commercial Code, including, without limiting the generality of the foregoing, the right to take possession of the Collateral or any part thereof, and to take such other measures as Mortgagee may deem necessary for the care, protection and preservation of the Collateral. Upon request

or demand of Mortgagee, Mortgagor shall at its expense assemble the Collateral and make it available to Mortgagee at a convenient place acceptable to Mortgagee. Mortgagor shall pay to Mortgagee on demand any and all expenses, including legal expenses and attorneys' fees and disbursements, incurred or paid by Mortgagee in protecting its interest in the Collateral and in enforcing its rights hereunder with respect to the Collateral. Any notice of sale, disposition or other intended action by Mortgagee with respect to the Collateral sent to Mortgagor in accordance with the provisions hereof at least five (5) days prior to such shall constitute reasonable notice to Mortgagor. The proceeds of any disposition of the Collateral, or any part thereof, may be applied by Mortgagee to the payment of the Indebtedness in such priority and proportions as Mortgagee in its discretion shall deem proper.

Mortgagor shall notify Mortgagee of any change in name, identity or structure of Mortgagor and shall promptly execute, file and record, at its sole cost and expense, such Uniform Commercial Code forms as are necessary to maintain the priority of the lien of Mortgagee upon and security interest in the Collateral. In addition, Mortgagor shall promptly execute, file and record such additional Uniform Commercial Code forms or continuation statements as Mortgagee shall deem necessary and shall pay all expenses and fees in connection with the filing and recording thereof, provided that no such additional documents shall increase the obligations of Mortgagor under the Note, this Mortgage or the other Loan Documents. Mortgagor hereby grants to Mortgagee an irrevocable power of attorney, coupled with an interest, to file with the appropriate public office on its behalf any financing or other statements signed only by Mortgagee, as secured party, in connection with the Collateral covered by this Mortgage.

(b) That portion of the Mortgaged Property consisting of personal property and equipment, shall be owned by Mortgagor and shall not be the subject matter of any lease or other transaction whereby the ownership or any beneficial interest in any of such property is held by any person or entity other than Mortgagor nor shall Mortgagor create or suffer to be created any security interest covering any such property as it may from time to time be replaced, other than the security interest created herein.

28. AUTHORITY.

(a) Mortgagor has full power, authority and legal right to execute this Mortgage, and to mortgage, give, grant, bargain, sell, alien, enfeoff, convey, confirm, pledge, hypothecate and assign and grant a security interest in the Mortgaged Property pursuant to the terms hereof and to keep and observe all of the terms of this Mortgage on Mortgagor's part to be performed.

(b) Mortgagor represents and warrants to Mortgagee that Mortgagor is not a "foreign person" and covenants with Mortgagee that Mortgagor will not, throughout the term of the Note, become a "foreign person" within the meaning of Section 1445 and Section 7701 of the Internal Revenue Code of 1986, (26 USC Sections 1445, 7701) and the related Treasury Department regulations, including, without limitation, temporary regulations (hereinafter collectively the

"CODE"); that is, such Mortgagor is not a non-resident alien, foreign corporation, foreign partnership, foreign trust or foreign estate as those terms are defined in the Code.

29. ACTIONS AND PROCEEDINGS. Mortgagee shall have the right to appear in and defend any action or proceeding brought with respect to the Mortgaged Property and to bring any action or proceeding, in the name and on behalf of Mortgagor, which Mortgagee, in its discretion, shall decide should be brought to protect its interest(s) in the Mortgaged Property.

30. FURTHER ACTS, ETC. Mortgagor will, at the sole cost of Mortgagor, and without expense to Mortgagee, do, execute, acknowledge and deliver all and every such further acts, deeds, conveyances, Mortgages, assignments, notices of assignments, transfers and assurances as Mortgagee shall, from time to time, reasonably require, for the better assuring, conveying, assigning, transferring and confirming unto Mortgagee the property and rights hereby mortgaged, given, granted, bargained, sold, aliened, enfeoffed, conveyed, confirmed, pledged, assigned and hypothecated or intended now or hereafter so to be, or which Mortgagor may be or may hereafter become bound to convey or assign to Mortgagee, or for carrying out the intention or facilitating the performance of the terms of this Mortgage or for filing, registering or recording this Mortgage and, on demand, will execute and deliver within five (5) business days after request of Mortgagee, and if Mortgagor fails to so deliver, hereby authorizes Mortgagee thereafter to execute in the name of Mortgagor without the signature of Mortgagor to the extent Mortgagee may lawfully do so, one or more financing statements, chattel Mortgages or comparable security instruments, to evidence more effectively the lien hereof upon the Mortgaged Property. Mortgagor grants to Mortgagee an irrevocable power of attorney coupled with an interest for the purpose of exercising and perfecting any and all rights and remedies available to Mortgagee at law and in equity, including without limitation such rights and remedies available to Mortgagee pursuant to this PARAGRAPH 30.

31. RECORDING OF MORTGAGE, ETC. Mortgagor forthwith upon the execution and delivery of this Mortgage, will cause this Mortgage, and any security instrument creating a lien or security interest or evidencing the lien hereof upon the Mortgaged Property, to be filed, registered or recorded and, thereafter, from time to time, each such other instrument of further assurance to be filed, registered or recorded, all in such manner and in such places as may be required by any present or future law in order to publish notice of and fully to protect the lien or security interest hereof upon, and the interest(s) of Mortgagee in, the Mortgaged Property. Mortgagor will pay all filing, registration or recording fees, and all expenses incident to the preparation, execution and acknowledgment of this Mortgage, any Mortgage supplemental hereto, any security instrument with respect to the Mortgaged Property and any instrument of further assurance, and all federal, state, county and municipal, taxes, duties, imposts, assessments and charges arising out of or in connection with the making, execution, delivery and/or recording of this Mortgage, any Mortgage supplemental hereto, any security instrument with respect to the Mortgaged Property or any instrument of further assurance, except where prohibited by law so to do. Mortgagor shall hold harmless and indemnify Mortgagee, its successors and assigns, against any liability incurred by reason of the imposition of any tax on the making, execution, delivery and/or recording of this Mortgage, any Mortgage supplemental hereto,

any security instrument with respect to the Mortgaged Property or any

instrument of further assurance.

32. USURY LAWS. This Mortgage and the Note are subject to the express condition that at no time shall Mortgagor be obligated or required to pay interest on the principal balance due under the Note at a rate which could subject the holder of the Note to either civil or criminal liability as a result of being in excess of the maximum interest rate which Mortgagor is permitted by law to contract or agree to pay. If by the terms of this Mortgage or the Note, Mortgagor is at any time required or obligated to pay interest on the principal balance due under the Note at a rate in excess of such maximum rate, the rate of interest under the Note shall be deemed to be immediately reduced to such maximum rate and the interest payable shall be computed at such maximum rate and all prior interest payments in excess of such maximum rate shall be applied and shall be deemed to have been payments in reduction of the principal balance of the Note and the principal balance of the Note shall be reduced by such amount in the inverse order of maturity.

33. SOLE DISCRETION OF MORTGAGEE. Wherever pursuant to this Mortgage, Mortgagee exercises any right given to it to approve or disapprove, or any arrangement or term is to be satisfactory to Mortgagee, the decision of Mortgagee to approve or disapprove or to decide that arrangements or terms are satisfactory or not satisfactory shall be in the sole discretion of Mortgagee and shall be final and conclusive, except as may be otherwise specifically provided herein.

34. RECOVERY OF SUMS REQUIRED TO BE PAID. Mortgagee shall have the right from time to time to take action to recover any sum or sums which constitute a part of the Indebtedness as the same become due, without regard to whether or not the balance of the Indebtedness shall be due, and without prejudice to the right of Mortgagee thereafter to bring an action of foreclosure, or any other action, for a default or defaults by Mortgagor existing at the time such earlier action was commenced.

35. MARSHALLING AND OTHER MATTERS. Mortgagor waives, to the extent permitted by law, the benefit of all appraisal, valuation, stay, extension, reinstatement and redemption laws now or hereafter in force and all rights of marshalling in the event of any sale hereunder of the Mortgaged Property or any part thereof or any interest therein. Further, Mortgagor expressly waives any and all rights of redemption from sale under any order or decree of foreclosure of this Mortgage on behalf of Mortgagor, and on behalf of each and every person acquiring any interest in or title to the Mortgaged Property subsequent to the date of this Mortgage and on behalf of all persons to the extent permitted by applicable law.

36. WAIVER OF NOTICE. Mortgagor shall not be entitled to any notices of any nature whatsoever from Mortgagee except with respect to matters for which this Mortgage specifically and expressly provides for the giving of notice by Mortgagee to Mortgagor and except with respect to matters for which Mortgagee is required by applicable law to give notice, and Mortgagor hereby expressly waives the right to receive any notice from Mortgagee with respect to any matter for which this Mortgage does not specifically and expressly provide for the giving of notice by Mortgagee to Mortgagor.

37. REMEDIES OF MORTGAGOR. In the event that a claim or adjudication is made that Mortgagee has acted unreasonably or unreasonably delayed acting in any case where by law or under the Note, this Mortgage or the other Loan Documents,

it has an obligation to act reasonably or promptly, Mortgagee shall not be liable for any monetary damages, and Mortgagor's remedies shall be limited to injunctive relief or declaratory judgment.

38. REPORTING REQUIREMENTS. At the request of Mortgagee, Mortgagor shall supply or cause to be supplied to Mortgagee either (a) a copy of a completed Form 1099-B, Statement for Recipients of Proceeds from Real Estate, Broker and Barter Exchange Proceeds prepared by Mortgagor's attorney or other person responsible for the preparation of such form, together with a certificate from the person who prepared such form to the effect that such form has, to the best of such person's knowledge, been accurately prepared and that such person will timely file such form or (b) a certification from Mortgagor that the Loan is a refinancing of the Mortgaged Property or is otherwise not required to be reported to the Internal Revenue Service pursuant to Section 6045(e) of the Code. Mortgagor hereby indemnifies, defends and holds Mortgagee harmless from and against all loss, cost, damage and expense (including without limitation, attorneys' fees and disbursements and costs incurred in the investigation, defense and settlement of claims) that Mortgagee may incur, directly or indirectly, as a result of or in connection with the assertion against Mortgagee of any claim relating to the failure of Mortgagee to comply with this PARAGRAPH 38.

39. HAZARDOUS MATERIALS.

(a) Mortgagor represents and warrants that (i) the Mortgaged Property is now and at all times during Mortgagor's ownership thereof has been free of contamination from any petroleum product and all hazardous or toxic substances, wastes or substances, any substances which because of their quantitative concentration, chemical, radioactive, flammable, explosive, infectious or other characteristics, constitute or may reasonably be expected to constitute or contribute to a danger or hazard to public health, safety or welfare or to the environment, including, without limitation, any asbestos (whether or not friable) and any asbestos-containing materials, waste oils, solvents and chlorinated oils, polychlorinated biphenyls (PCBs), toxic metals, etchants, pickling and plating wastes, explosives, reactive metals and compounds, pesticides, herbicides, radon gas, urea formaldehyde foam insulation and chemical, biological and radioactive wastes, or any other similar materials or any hazardous or toxic wastes or substances which are included under or regulated by any federal, state or local law, rule or regulation (whether now existing or hereafter enacted or promulgated, as they may be amended from time to time) pertaining to environmental regulations, contamination, clean-up or disclosures, and any judicial or administrative interpretation thereof, including any judicial or administrative orders or judgments ("HAZARDOUS MATERIALS"), including, without limitation, the Comprehensive Environmental Response, Compensation and Liability Act of 1980, 42 U.S.C. section 9601 ET SEQ. ("CERCLA"); The Federal Resource Conservation and Recovery Act, 42 U.S.C. section 6901 ET SEQ. ("RCRA"); Superfund Amendments and Reauthorization Act of 1986, Public Law No. 99-499 ("SARA"); Toxic Substances Control Act, 15 U.S.C. section 2601 ET SEQ. ("TSCA"); the Hazardous Materials Transportation Act, 49 U.S.C. section 1801 ET SEQ.;

and any other state superlien or environmental clean-up or disclosure statutes (all such laws, rules and regulations being referred to collectively as "ENVIRONMENTAL LAWS"), (ii) Mortgagor has not caused or suffered to occur any discharge, spill, uncontrolled loss or seepage of any

Hazardous Materials onto any property adjoining the Mortgaged Property and (iii) neither the Mortgagor nor any tenant or occupant of all or part of the Mortgaged Property is now or has been involved in operations at the Mortgaged Property which could lead to liability for Mortgagor or any other owner of the Mortgaged Property or the imposition of a lien on the Mortgaged Property under any Environmental Law.

(b) At its sole cost and expense, Mortgagor shall comply with and shall cause all tenants and other occupants of the Mortgaged Property to comply with all Environmental Laws now in effect or hereafter enacted with respect to the discharge, generation, removal, transportation, storage and handling of Hazardous Materials. Mortgagor shall promptly notify Mortgagee if Mortgagor shall become aware of any Hazardous Materials (other than "Complying Hazardous Materials," as defined below) on or near the Mortgaged Property and/or if Mortgagor shall become aware that the Mortgaged Property is in direct or indirect violation of any Environmental Laws and/or if Mortgagor shall become aware of any condition on or near the Mortgaged Property which shall pose a threat to the health, safety or welfare of humans. Mortgagor shall promptly remove all contained Hazardous Materials (other than Complying Hazardous Materials) from the Mortgaged Property, and shall remediate all other Hazardous Materials present on the Mortgaged Property, such removal or remediation, as the case may be, to be performed in accordance with all applicable federal, state and local laws, statutes, rules and regulations. Mortgagor shall pay immediately when due the cost of any removal or remediation of any Hazardous Materials and shall keep the Mortgaged Property free of any lien imposed pursuant to any Environmental Laws now in effect or hereinafter enacted. The term "COMPLYING HAZARDOUS MATERIALS" shall mean substances generally available and (a) used in the ordinary course of managing and operating the Mortgaged Property for their intended purpose to clean and maintain the Mortgaged Property, or (b) used by tenants at the Mortgaged Property in their ordinary course of business; provided that, in each case, the use, storage and disposal of all such substances shall be conducted in strict compliance with all applicable laws.

(c) Mortgagor grants Mortgagee and its employees and agents an irrevocable and non-exclusive license, subject to the rights of tenants, to enter the Mortgaged Property to conduct testing and to remove or remediate, as the case may be, any Hazardous Materials, and the costs of such testing and removal or remediation shall immediately become due to Mortgagee and shall be secured by this Mortgage. Promptly upon the request of Mortgagee, which may be made at any time during which an Event of Default is continuing, at any time Mortgagee has a reasonable basis to believe that Hazardous Materials may be present on the Mortgaged Property, or once every three (3) years, Mortgagor, at Mortgagor's expense, shall provide Mortgagee with an environmental site assessment or environmental audit report, or an update of such an assessment or report, all in scope, form and content satisfactory to Mortgagee. In addition, Mortgagee, at Mortgagee's expense, shall have the right of access to

the Mortgaged Property at any time to obtain an environmental site assessment or audit report, including intensive testing. Mortgagor shall maintain the integrity of all storage tanks and drums on or under the Mortgaged Property during the term of the Loan in compliance with all Environmental Laws now in effect or hereinafter enacted. Mortgagor shall follow an operation and maintenance program with respect to all storage

tanks and drums on or under the Mortgaged Property, which program has been approved in writing by Mortgagee.

(d) Mortgagor shall indemnify Mortgagee and hold Mortgagee harmless from and against all liability, loss, cost, damage and expense (including, without limitation, reasonable attorneys' fees and costs incurred in the investigation, defense and settlement of claims) that Mortgagee may incur as a result of or in connection with the assertion against Mortgagee (whether as past or present holder of this Mortgage, as mortgagee in possession or as past or present owner of the Mortgaged Property by virtue of a foreclosure or acceptance of a deed in lieu of foreclosure) of any claim relating to the presence and/or release, threatened release, storage, disposal, generating or removal of any Hazardous Materials or compliance with any Environmental Laws now in effect or hereinafter enacted. The obligations and liabilities of Mortgagor under this PARAGRAPH 39 shall survive full payment of the Loan, entry of a judgment of foreclosure or acceptance of a deed in lieu of foreclosure or any subsequent transfer to a third party. It is understood that the presence and/or release of substances referred to in this section hereof does not pertain to a presence and/or release which first occurs solely after (A) repayment of the Loan in full in accordance with the Loan Documents or (B) acquisition of title to the Property by Mortgagee upon a foreclosure or acceptance of a deed in lieu of foreclosure and surrender of possession and occupancy of the Property by Mortgagor, its agents, affiliates, employees and independent contractors. Mortgagor shall have the burden of proving that the conditions in subsection (d) were satisfied by clear and convincing evidence and shall continue to defend with counsel satisfactory to Mortgagee and shall indemnify and hold Mortgagee harmless for all matters set forth in this Paragraph 39, unless and until a court of competent jurisdiction finds that Mortgagor has met such burden.

(e) Nothing contained herein shall constitute or be construed as a waiver of any statutory or judicial federal, state or local law which may provide rights or remedies to Mortgagee against Mortgagor or others in connection with any claim relating to the Mortgaged Property and pertaining to the presence and/or release, threatened release, storage, disposal, generating or removal of any Hazardous Materials or to the failure to comply with any Environmental Laws now or hereafter enacted.

(f) Mortgagor, at its sole cost and expense, shall maintain a policy of environmental insurance with respect to the Mortgaged Property which shall be in form and substance, and with a carrier, satisfactory to Mortgagee, and which shall name Mortgagee as an additional insured.

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(g) Notwithstanding anything to the contrary provided herein, Mortgagor shall be entitled to allow the storage and use of Complying Hazardous Materials at the Mortgaged Property.

40. ASBESTOS. Mortgagor shall not install or permit to be installed in the Mortgaged Property, friable asbestos or any substance containing asbestos. With respect to any such material currently present in the Mortgaged Property, Mortgagor, at Mortgagor's expense, shall promptly comply with and shall cause all occupants of the Mortgaged Property to comply with all present and future applicable federal, state or local laws, rules, regulations or orders relating to asbestos, friable asbestos and asbestos containing materials. In the event

any asbestos, friable asbestos or asbestos containing material is discovered at the Mortgaged Property, Mortgagor shall obtain a comprehensive asbestos report prepared by a licensed engineer or asbestos consultant acceptable to Mortgagee describing the form, extent, location and condition of such asbestos and recommending methods of removal or abatement. Mortgagor shall promptly comply at its sole cost and expense with the recommendations contained in such report, such compliance to be performed in accordance with all applicable federal, state and local laws, statutes, rules and regulations. Mortgagor shall indemnify Mortgagee and hold Mortgagee harmless from and against all loss, cost, damage and expense (including, without limitation, attorneys' fees and costs incurred in the investigation, defense and settlement of claims) that Mortgagee may incur as a result of or in connection with the assertion against Mortgagee (whether as past or present holder of the Mortgage, as mortgagee in possession, or as past or present owner of the Mortgaged Property by virtue of a foreclosure or acceptance of a deed in lieu of foreclosure) of any claim relating to the presence or removal of any asbestos substance referred to in this PARAGRAPH 40, or compliance with any federal, state or local laws, rules, regulations or orders relating thereto. The obligations and liabilities of Mortgagor under this PARAGRAPH 40 shall survive full payment of the Loan, entry of a judgment of foreclosure or a deed in lieu of foreclosure.

41. BANKRUPTCY OR INSOLVENCY. In the event that Mortgagor or any Guarantor or, if Mortgagor or any Guarantor is a general or limited partnership, any general partner of any such entity (a) admits in writing its inability to pay its debts generally as they become due, or does not pay its debts generally as they become due, (b) commences as debtor any case or proceeding under any bankruptcy, insolvency, reorganization, liquidation, dissolution or similar law, or seeks or consents to the appointment of a receiver, conservator, trustee, custodian, manager, liquidator or similar official for it or the whole or any substantial part of its property, (c) has a receiver, conservator, trustee, custodian, manager, liquidator, or similar official appointed for it or the whole or any substantial part of its property, by any governmental authority with jurisdiction to do so, (d) makes a proposal or any assignment for the benefit of its creditors, or enters into an arrangement or composition or similar plan or scheme with or for the benefit of creditors generally occurring in circumstances in which such entity is unable to meet its obligations as they become due or (e) has filed against it any case or proceeding under any bankruptcy, insolvency, reorganization, liquidation, dissolution or similar law which (i) is consented to or not timely contested by such entity, (ii) results in the entry of an order for relief, appointment of a receiver, conservator, trustee, custodian, manager, liquidator or similar official for such entity or the whole or any substantial part of its property or (iii) is not dismissed within sixty (60) days, an Event of Default shall have occurred and as a result, the entire principal balance of the

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Note and all obligations under any Guaranty shall become immediately due and payable at the option of Mortgagee without notice to Mortgagor or any Guarantor and Mortgagee may exercise any remedies available to it hereunder, under any other Loan Document, at law or in equity.

42. COMPLIANCE WITH ERISA AND STATE STATUTES ON GOVERNMENTAL PLANS.

(a) Mortgagee represents and warrants to Mortgagor that, as of the date of this Mortgage and throughout the term of this Mortgage, the source of funds from which Mortgagee extends this Mortgage is its general account, which is subject to the claims of its general creditors under state law.

(b) Mortgagor represents and warrants that, as of the date of this Mortgage and throughout the term of this Mortgage, (i) Mortgagor is not an "employee benefit plan" as defined in Section 3(3) of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), which is subject to Title I of ERISA and (ii) the assets of such Mortgagor do not constitute "plan assets" of one or more such plans within the meaning of 29 C.F.R. Section 2510.3- 101.

(c) Mortgagor represents and warrants to Mortgagee that, as of the date of this Mortgage and throughout the term of this Mortgage (i) Mortgagor is not a "governmental plan" within the meaning of Section 3(32) of ERISA and (ii) transactions by or with Mortgagor or any Mortgagor are not subject to state statutes regulating investments of and fiduciary obligations with respect to governmental plans.

(d) Mortgagor covenants and agrees to deliver to Mortgagee such certifications or other evidence from time to time throughout the term of this Mortgage, as requested by Mortgagee in its sole discretion, that (i) Mortgagor is not an "employee benefit plan" or a "governmental plan", (ii) Mortgagor is not subject to state statutes regulating investments and fiduciary obligations with respect to governmental plans, and (iii) one or more of the following circumstances is true:

(A) Equity interests in Mortgagor are publicly offered securities, within the meaning of 29 C.F.R. Section 2510.3-101(b) (2);

(B) Less than 25 percent of all equity interests in such Mortgagor are held by "benefit plan investors" within the meaning of 29 C.F.R. Section 2510.3-101(f) (2); or

(C) Mortgagor qualifies as an "operating company" or a "real estate operating company" within the meaning of 29 C.F.R. Section 2510.3-101(c) or (e).

(e) Any of the following shall constitute an Event of Default under this Mortgage, entitling Mortgagee to exercise any and all remedies to which it may be entitled under this Mortgage, and any other Loan Documents (i) the failure of any representation or

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warranty made by any Mortgagor under this PARAGRAPH 42 to be true and correct in all respects, (ii) the failure of any Mortgagor to provide Mortgagee with the written certifications and evidence referred to in this PARAGRAPH 42 or (iii) the consummation by Mortgagor or any one Mortgagor of a transaction which would cause this Mortgage or any exercise of Mortgagee's rights under this Mortgage, or the other Loan Documents to constitute a non-exempt prohibited transaction under ERISA or a violation of a state statute regulating governmental plans, or otherwise subjecting Mortgagee to liability for violation of ERISA or such state statute.

(f) Mortgagor shall indemnify Mortgagee and defend and hold Mortgagee harmless from and against all civil penalties, excise taxes, or other loss, cost, damage and expense (including, without limitation, attorneys' fees and disbursements and costs incurred in the investigation, defense and

settlement of claims and losses incurred in correcting any prohibited transaction or in the sale of a prohibited loan, and in obtaining any individual prohibited transaction exemption under ERISA that may be required, in Mortgagee's sole discretion) that Mortgagee may incur, directly or indirectly, as a result of a default under this PARAGRAPH 42. This indemnity shall survive any termination, satisfaction or foreclosure of this Mortgage.

43. ASSIGNMENTS. Mortgagee shall have the right to assign or transfer its rights under this Mortgage without limitation. Any assignee or transferee shall be entitled to all the benefits afforded Mortgagee under this Mortgage.

44. COOPERATION. Mortgagor acknowledges that Mortgagee and its successors and assigns may (a) sell this Mortgage, the Note and other Loan Documents to one or more investors as a whole loan, (b) participate the Loan to one or more investors, (c) deposit this Mortgage, the Note and other Loan Documents with a trust, which trust may sell certificates to investors evidencing an ownership interest in the trust assets or (d) otherwise sell the Loan or interest therein to investors (the transactions referred to in clauses (a) through (d) are hereinafter referred to as "SECONDARY MARKET TRANSACTIONS"). Mortgagor shall cooperate in good faith with Mortgagee in effecting any such Secondary Market Transaction and shall cooperate in good faith to implement all requirements imposed by the Rating Agency involved in any Secondary Market Transaction including, without limitation, all structural or other changes to the Loan, modifications to any documents evidencing or securing the Loan, delivery of opinions of counsel acceptable to the Rating Agency and addressing such matters as the Rating Agency may require; PROVIDED, HOWEVER, that Mortgagor shall not be required to modify any documents evidencing or securing the Loan which would modify (i) the interest rate payable under the Note, (ii) the stated maturity of the Note, (iii) the amortization of principal of the Note or (iv) any other material economic term of the Loan. Mortgagor shall provide such information and documents relating to Mortgagor, Guarantor, if any, the Mortgaged Property, the Lease and the Lessee as Mortgagee may reasonably request in connection with a Secondary Market Transaction. Mortgagee shall have the right to provide to prospective investors any information in its possession, including, without limitation, financial statements relating to Mortgagor, the Guarantor, if any, the Mortgaged Property and the Lessee. Mortgagor acknowledges that certain information

regarding the Loan and the parties thereto and the Mortgaged Property may be included in a private placement memorandum, prospectus or other disclosure documents.

45. INDEMNIFICATION FOR NON-RECOURSE CARVEOUT OBLIGATIONS. Mortgagor hereby covenants and agrees unconditionally and absolutely to indemnify and save harmless Mortgagee, its officers, directors, shareholders, employees, agents and attorneys against all damages, losses, liabilities, obligation, claims, litigation, demands or defenses, judgments, suits, proceedings, fines, penalties, costs, disbursements and expenses of any kind or nature whatsoever (including without limitation attorneys' fees reasonably incurred), which may at any time be imposed upon, incurred by or asserted or awarded against Mortgagee and arising from the Non-Recourse Carveout Obligations.

This indemnity shall survive any foreclosure of this Mortgage, the taking of a deed in lieu thereof, or any other discharge of the obligations of the Mortgagor hereunder or a transfer of the Mortgaged Property, even if the

indebtedness secured hereby is satisfied in full. Mortgagor agrees that the indemnification granted herein may be enforced by Mortgagee without resorting to or exhausting any other security or collateral or without first having recourse to the Note or the Mortgaged Property covered by this Mortgage through foreclosure proceedings or otherwise; provided, however, that, subject to PARAGRAPH 46 of this Mortgage, nothing herein contained shall prevent Mortgagee from suing on the Note or foreclosing this Mortgage or from exercising any other rights under the Loan Documents.

46. EXCULPATION. Notwithstanding anything to the contrary contained herein, but subject to PARAGRAPH 45 hereof, any claim based on or in respect of any liability of Mortgagor under the Note or under this Mortgage or any other Loan Document shall be enforced only against the Mortgaged Property and any other collateral now or hereafter given to secure the Loan and not against any other assets, properties or funds of Mortgagor; PROVIDED, HOWEVER, that the liability of Mortgagor for loss, costs or damage arising out of the matters described in subparagraphs (i) through (vi) below (collectively, "Non-Recourse Carveout Obligations") shall not be limited solely to the Mortgaged Property and other collateral now or hereafter given to secure the Loan but shall include all of the assets, properties and funds of Mortgagor: (i) fraud, misrepresentation and waste, (ii) any rents, issues or profits collected more than one (1) month in advance of their due dates, (iii) any misapplication of loan proceeds, rents, issues or profits, security deposits and any other payments from tenants or occupants (including, without limitation, lease termination fees) insurance proceeds, condemnation awards, or other sums of a similar nature, (iv) liability under environmental covenants, conditions and indemnities contained in the Mortgage and in any separate environmental indemnity agreements, (v) the unauthorized sale, conveyance or transfer of title to the Mortgaged Property or encumbrance of the Mortgaged Property and (vi) the failure of Mortgagor to maintain its status as a single purpose, bankruptcy-remote entity pursuant to its organizational documents and the Loan Documents. Nothing herein shall be deemed (w) to be a waiver of any right which Mortgagee may have under any bankruptcy law of the United States or the State of New Hampshire, including, but not limited to, Section 506(a), 506(b), 1111(b) or any other provisions of the U.S. Bankruptcy Code, to file a claim for the full amount of the indebtedness secured by this Mortgage or to require that all of the collateral securing the indebtedness secured hereby shall continue to secure all of the indebtedness owing to

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Mortgagee under the Note, this Mortgage and the other Loan Documents; (x) to impair the validity of the indebtedness secured by this Mortgage; (y) to impair the right of Mortgagee as Mortgagee or secured party to commence an action to foreclose any lien or security interest; or (z) to modify, diminish or discharge the liability of any guarantor under any guaranty.

47. NOTICES. Any notice, demand, statement, request or consent made hereunder shall be effective and valid only if in writing, referring to this Mortgage, signed by the party giving such notice, and delivered either personally to such other party, or sent by nationally recognized overnight courier delivery service or by certified mail of the United States Postal Service, postage prepaid, return receipt requested, addressed to the other party as follows (or to such other address or person as either party or person entitled to notice may by notice to the other party specify):

TO MORTGAGEE:

John Hancock Real Estate Finance, Inc.
John Hancock Place, T-53
200 Clarendon Street
Boston, MA 02116
Re: Loan No. 3212525

and with a copy concurrently to:

Hebb & Gitlin
A Professional Corporation
One State Street
Hartford, CT 06103
Attention: John B. D'Agostino, Esq.

TO MORTGAGOR:

Birch Pond Realty Corporation
100 Birch Pond Drive
Tilton, New Hampshire 03289

and with a copy concurrently to:

Foley, Hoag & Eliot, Esq.
One Post Office Square
Boston, Massachusetts 02109
Attention: Deborah Breznay, Esq.

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Unless otherwise specified, notices shall be deemed given as follows: (i) if delivered personally, when delivered, (ii) if delivered by nationally recognized overnight courier delivery service, on the day following the day such material is sent, or (iii) if delivered by certified mail, on the third day after the same is deposited with the United States Postal Service as provided above.

48. NON-WAIVER. The failure of Mortgagee to insist upon strict performance of any term hereof shall not be deemed to be a waiver of any term of this Mortgage. Mortgagor shall not be relieved of Mortgagor's obligations hereunder by reason of (a) failure of Mortgagee to comply with any request of Mortgagor or any Guarantor to take any action to foreclose this Mortgage or otherwise enforce any of the provisions hereof or of the Note, any Guaranty or the other Loan Documents, (b) the release, regardless of consideration, of the whole or any part of the Mortgaged Property, or of any person liable for the Indebtedness or portion thereof or (c) any agreement or stipulation by Mortgagee extending the time of payment or otherwise modifying or supplementing the terms of the Note, any Guaranty, this Mortgage or the other Loan Documents. Mortgagee may resort for the payment of the Indebtedness to any other security held by Mortgagee in such order and manner as Mortgagee, in its discretion, may elect. Mortgagee may take action to recover the Indebtedness, or any portion thereof, or to enforce any covenant hereof without prejudice to the right of Mortgagee thereafter to foreclose this Mortgage. The rights of Mortgagee under this Mortgage shall be separate, distinct and cumulative and none shall be given effect to the exclusion of the others. No act of Mortgagee shall be construed as an election to proceed under any one provision herein to the exclusion of any other provision. Mortgagee shall not be limited exclusively to the rights and remedies herein stated but shall be entitled to every right and remedy now or hereafter afforded by law.

49. JOINT AND SEVERAL LIABILITY. If there is more than one party comprising Mortgagor, then the obligations and liabilities of each party under this Mortgage shall be joint and several.

50. SEVERABILITY. If any term, covenant or condition of the Note, any Guaranty or this Mortgage is held to be invalid, illegal or unenforceable in any respect, the Note, any Guaranty and this Mortgage shall be construed without such provision.

51. DUPLICATE ORIGINALS. This Mortgage may be executed in any number of duplicate originals and each such duplicate original shall be deemed to constitute but one and the same instrument.

52. INDEMNITY AND MORTGAGEE'S COSTS. Mortgagor agrees to pay all costs, including, without limitation, attorneys' fees and expenses, incurred by Mortgagee in enforcing the terms hereof and/or the terms of any of the other Loan Documents or the Note or any Guaranty, whether or not suit is filed and waives to the full extent permitted by law all right to plead any statute of limitations as a defense to any action hereunder. Mortgagor agrees to indemnify and hold Mortgagee harmless from any and all liability, loss, damage or expense (including, without limitation, attorneys' fees and disbursements) that Mortgagee may or might incur hereunder or in connection with the enforcement of any of its rights or remedies hereunder, any action taken by Mortgagee hereunder, or by reason or in defense of any and all claims and demands whatsoever that may be asserted against Mortgagee

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arising out of the Mortgaged Property; and should Mortgagee incur any such liability, loss, damage or expense, the amount thereof with interest thereon at the Default Rate shall be payable by Mortgagor immediately without demand, shall be secured by this Mortgage, and shall be a part of the Indebtedness.

53. CERTAIN DEFINITIONS. Unless the context clearly indicates a contrary intent or unless otherwise specifically provided herein, words used in this Mortgage shall be used interchangeably in singular or plural form. The word "MORTGAGOR" shall mean Mortgagor and/or any subsequent owner or owners of the Mortgaged Property or any part thereof or interest therein. The word "MORTGAGEE" shall mean Mortgagee or any subsequent holder of the Note. The word "GUARANTY" shall mean any Guaranty of Payment, Guaranty of Completion, Guaranty of Collection, Environmental Indemnity or any other Guaranty or Indemnity given at any time to or for the benefit of Mortgagee in connection with the Loan. The word "GUARANTOR" shall mean any person giving or making any Guaranty. The word "NOTE" shall mean the Note or any other evidence of indebtedness secured by this Mortgage. The words "LOAN DOCUMENTS" shall mean the Note, this Mortgage, the loan agreement, if any, between Mortgagor and Mortgagee, the security agreement, if any, between Mortgagor and Mortgagee, the assignment of leases and rents, if any, made by Mortgagor to Mortgagee, any escrow agreements between Mortgagor and Mortgagee, the assignment of contracts, if any, made by Mortgagor to Mortgagee, all Guaranties, if any, made to Mortgagee, any other Mortgage or deed of trust securing the Note and any other agreement, instrument, affidavit or document executed by Mortgagor, any Guarantor or any indemnitor and delivered to Mortgagee in connection with the Loan. The word "PERSON" shall include an individual, corporation, partnership, trust, unincorporated association, government, governmental authority or other entity. The words "MORTGAGED PROPERTY" shall include any portion of the Mortgaged Property or interest therein. Whenever the context may require, any pronouns used herein shall

include the corresponding masculine, feminine or neuter forms, and the singular form of nouns and pronouns shall include the plural and vice versa.

54. NO ORAL CHANGE. This Mortgage, and any provisions hereof, may not be modified, amended, waived, extended, changed, discharged or terminated orally or by any act or failure to act on the part of Mortgagor or any one Mortgagor or Mortgagee, but only by an agreement in writing signed by the party against whom enforcement of any modification, amendment, waiver, extension, change, discharge or termination is sought.

55. NO FOREIGN PERSON. Mortgagor is not a "foreign person" within the meaning of Section 1445(f)(3) of the Internal Revenue Code of 1986, as amended and the related Treasury Department Regulations, including temporary regulations.

56. SEPARATE TAX LOT. Except as set forth in the Borrower's Certificate delivered to Mortgagee by Mortgagor herewith, the Mortgaged Property is assessed for real estate tax purposes as one or more wholly independent tax lot or lots, separate from any adjoining land or improvements not constituting a part of such lot or lots, and no other land or improvements is assessed and taxed together with the Mortgaged Property or any portion thereof. Mortgagor hereby covenants and agrees to use its best efforts to cause the Mortgaged Property to be a separate tax lot. In any event,

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Mortgagor agrees to pay before delinquency any and all taxes assessed against any portion of the Mortgaged Property, including any taxes assessed against other property in the event such assessment includes any portion of the Mortgaged Property.

57. RIGHT TO RELEASE ANY PORTION OF THE MORTGAGED PROPERTY. Mortgagee may release any portion of the Mortgaged Property for such consideration as Mortgagee may require without, as to the remainder of the Mortgaged Property, in any way impairing or affecting the lien or priority of this Mortgage, or improving the position of any subordinate lienholder with respect thereto, except to the extent that the obligations hereunder shall have been reduced by the actual monetary consideration, if any, received by Mortgagee for such release, and may accept by assignment, pledge or otherwise any other property in place thereof as Mortgagee may require without being accountable for so doing to any other lienholder. This Mortgage shall continue as a lien and security interest in the remaining portion of the Mortgaged Property.

58. SUBROGATION. The Mortgagee shall be subrogated for further security to the lien, although released of record, of any and all encumbrances paid out of the proceeds of the Loan secured by this Mortgage.

59. ADMINISTRATIVE FEES. Mortgagee may charge reasonable administrative fees and be reimbursed for all costs and expenses, including reasonable attorneys' fees and disbursements, associated with reviewing and processing post-closing requests of Mortgagor.

60. DISCLOSURE. Mortgagor represents and warrants that it has fully disclosed to Mortgagee all facts material to the Mortgaged Property, the Mortgagor, the Mortgagor's business operations to the extent material to this loan transaction, any guarantor of Non-Recourse Carveout Obligations and any indemnitor of environmental liabilities.

61. HEADINGS, ETC.. The headings and captions of various paragraphs of this Mortgage are for convenience of reference only and are not to be construed as defining or limiting, in any way, the scope or intent of the provisions hereof.

62. ADDRESS OF REAL PROPERTY. The street address of the Real Property is as follows: 100 Birch Pond Drive, Tilton, Belknap County, New Hampshire.

63. WIRE TRANSFER. All payments of principal and interest and other amounts due under this Mortgage shall be paid to Mortgagee by wire transfer of immediately available funds to such bank or place, or in such manner, as Mortgagee may from time to time designate.

64. PUBLICITY. Mortgagor agrees that Mortgagee, at its expense, may publicize the financing of the Mortgaged Property in trade and similar publications.

65. RELATIONSHIP. The relationship of Mortgagee to Mortgagor under this Mortgage is strictly and solely that of lender and borrower and nothing contained in this Mortgage or any other

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Loan Document is intended to create, or shall in any event or under any circumstance be construed to create, a partnership, joint venture, tenancy-in-common, joint tenancy or other relationship of any nature whatsoever between Mortgagee and Mortgagor other than that of lender and borrower.

66. HOMESTEAD. The Mortgaged Property is not homestead property. Mortgagor hereby waives and renounces all homestead and exemption rights provided by the constitution and the laws of the United States and of any state, in and to the Land as against the collection of the Indebtedness, or any part hereof.

67. NO THIRD PARTY BENEFICIARIES. Nothing contained herein is intended or shall be deemed to create or confer any rights upon any third person not a party hereto, whether as a third-party beneficiary or otherwise, except as expressly provided herein.

68. ENTIRE AGREEMENT. This Mortgage, the Note and the other Loan Documents constitute the entire agreement among Mortgagor and Mortgagee with respect to the subject matter hereof and all understandings, oral representations and agreements heretofore or simultaneously had among the parties are merged in, and are contained in, such documents and instruments.

69. SERVICER. Mortgagee may from time to time appoint a servicer (the "SERVICER") to administer the Loan, which Servicer shall have the power and authority to exercise all of the rights and remedies of Mortgagee and to act as agent of Mortgagee hereunder.

70. GOVERNING LAW; CONSENT TO JURISDICTION. THIS MORTGAGE SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAW OF THE STATE IN WHICH THE MORTGAGED PROPERTY IS LOCATED WITHOUT REGARD TO CONFLICT OF LAW PROVISIONS THEREOF. EACH MORTGAGOR, ENDORSER AND GUARANTOR HEREBY SUBMITS TO PERSONAL JURISDICTION IN SAID STATE AND THE FEDERAL COURTS OF THE UNITED STATES OF AMERICA LOCATED IN SAID STATE (AND ANY APPELLATE COURTS TAKING APPEALS THEREFROM) FOR THE ENFORCEMENT OF SUCH MORTGAGOR'S, ENDORSER'S OR GUARANTOR'S OBLIGATIONS HEREUNDER, UNDER THE NOTE, THE GUARANTY AND THE OTHER LOAN DOCUMENTS, AND WAIVES ANY AND ALL PERSONAL RIGHTS UNDER THE LAW OF ANY OTHER STATE TO OBJECT TO

JURISDICTION WITHIN SUCH STATE FOR THE PURPOSES OF SUCH ACTION, SUIT, PROCEEDING OR LITIGATION TO ENFORCE SUCH OBLIGATIONS OF SUCH MORTGAGOR, ENDORSER OR GUARANTOR. EACH MORTGAGOR, ENDORSER AND GUARANTOR HEREBY WAIVES AND AGREES NOT TO ASSERT, AS A DEFENSE IN ANY ACTION, SUIT OR PROCEEDING ARISING OUT OF OR RELATING TO THIS MORTGAGE, THE NOTE, ANY GUARANTY OR ANY OTHER LOAN DOCUMENT, (A) THAT IT IS NOT SUBJECT TO SUCH JURISDICTION OR THAT SUCH ACTION, SUIT OR PROCEEDING MAY NOT BE BROUGHT OR IS NOT MAINTAINABLE IN THOSE COURTS OR THAT THIS MORTGAGE, THE NOTE, THE GUARANTY AND/OR ANY OF THE OTHER LOAN DOCUMENTS MAY NOT BE ENFORCED IN OR BY THOSE COURTS OR THAT IT IS EXEMPT OR IMMUNE FROM EXECUTION, (B) THAT THE ACTION, SUIT OR PROCEEDING IS BROUGHT IN AN INCONVENIENT FORUM OR (C) THAT THE VENUE OF THE ACTION, SUIT

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OR PROCEEDING IS IMPROPER. IN THE EVENT ANY SUCH ACTION, SUIT, PROCEEDING OR LITIGATION IS COMMENCED, MORTGAGOR, ENDORSER AND GUARANTOR AGREE THAT SERVICE OF PROCESS MAY BE MADE, AND PERSONAL JURISDICTION OVER SUCH MORTGAGOR, ENDORSER OR GUARANTOR OBTAINED, BY SERVICE OF A COPY OF THE SUMMONS, COMPLAINT AND OTHER PLEADINGS REQUIRED TO COMMENCE SUCH LITIGATION UPON SUCH MORTGAGOR, ENDORSER OR GUARANTOR AT 100 BIRCH POND DRIVE, TILTON, NEW HAMPSHIRE 03289.

71. YEAR 2000. Mortgagor shall take all action necessary to ensure that all software, hardware, equipment, goods, and systems used by or material to the physical operations, business operations, or financial reporting of Mortgagor or of the equipment, the improvements, and all other components of the Mortgaged Property will not malfunction or cease to function or provide invalid or incorrect results and will continue to operate and perform date-sensitive functions before, during, and after the Year 2000, including with regard to the Year 2000 leap year.

72. PARTIAL RELEASE. Subsequent to the Closing, Mortgagor may request that Mortgagee release from the lien of this Mortgage and the other Loan Documents the land shown as Lots 1 and 3 on a certain plan (the "SUBDIVISION PLAN") entitled "Subdivision, Plan of Land Prepared for DM Management Company, Route 132 (Sanborn Road) Tilton, NH, 2 Sheets" dated January 20, 1999, by Yerkes Surveying Consultants, Laconia NH, together with the improvements thereon (the "Release Parcel"). Mortgagee will release the Release Parcel, provided that:

(a) no default has occurred under this Mortgage or the Loan Documents

(b) the loan to value ratio with respect to the Mortgaged Property remaining after the release ("Remaining Security") is not greater than 75% and the debt service coverage ratio is not less than 1.40x, all as determined by Mortgagee in its sole discretion. ;

(c) all documentation pertaining to the Remaining Security, including without limitation, the existing zoning, are satisfactory to Mortgagee;

(d) the Release Parcel and the Remaining Security shall have been legally and validly subdivided in accordance with, and the Remaining Security shall be in compliance with, all applicable federal, state and local laws and regulations, including, without limitation, all laws and regulations pertaining to environmental, land use, zoning, minimum lot size, parking requirements, setback, frontage, site plan approval and access to a public way, and both parcels function legally and operationally independently in the reasonable judgment of Mortgagee, except as specifically approved by Mortgagee;

(e) the Remaining Security and the Release Parcel shall each constitute separate tax and zoning lots and Mortgagor shall deliver to Mortgagee evidence in form and substance satisfactory to Mortgagee and its special counsel, including without limitation, an opinion of

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Mortgagor's counsel, that the Remaining Security constitutes a lawful parcel and has been separately assessed for real property tax purposes;

(f) Mortgagor delivers to Mortgagee surveys of the Release Parcel and the Remaining Security, together with surveyors' certificates addressed to Mortgagee and the title insurance company insuring title to the Mortgaged Property, which surveys shall comply with all of Mortgagee's survey requirements, including without limitation showing the acreage, the metes and bounds, easements, setback lines, and proper legal description of both the Release Parcel and the Remaining Security, the dimensions and locations of the improvements, and show that the Remaining Security has all necessary utility lines, parking areas, sewer and septic lines and tanks, drain fields, access to a public way, and such other items as Mortgagee and its counsel shall request;

(g) Mortgagor delivers to Mortgagee an endorsement to the title insurance policy covering the Mortgaged Property (1) updating such policy to the date of the recording of such release, (2) reflecting the new legal description of the Remaining Security, (3) certifying and insuring that this Mortgage remains and constitutes an enforceable first lien on the Remaining Security, subject to no other exceptions to title except the title exceptions contained in the title policy issued to Mortgagee at the time this Mortgage was first recorded, and (4) insuring that the Remaining Security continues to be in compliance with all state and local zoning, subdivision and parking laws and regulations;

(h) Mortgagor delivers to Mortgagee a valid, binding and enforceable agreement signed by the Mortgagor with respect to the utility easement over Lot 3 appurtenant to the Remaining Security and the pipe drainage easement over the Remaining Security appurtenant to Lot 3, which are in form and substance satisfactory to Mortgagee, and in the event that the Release Parcel is the subject of an application for a zoning variance or other governmental permit of which Mortgagor receives notice and to which Mortgagor has standing to object, then Mortgagor will promptly notify Mortgagee of any such application and cooperate with Mortgagee in the event Mortgagee desires to oppose the granting of any such variance or other permit;

(i) the release of the Release Parcel will not violate the terms of, or entitle an tenant to reduce the rent payable under, any lease on the Remaining Security;

(j) Mortgagor shall have the Certificate of Occupancy (to the extent available under applicable laws, regulations and codes) for the Remaining Security duly amended to reflect the subdivision of the Release Parcel from the Remaining Security;

(k) Mortgagor delivers notice to, and obtains consent of, any party requiring notice or consent to the release of the Release Parcel (including, without limitation, any tenant under any lease);

(l) Mortgagor provides Mortgagee with (1) evidence satisfactory to Mortgagee and its special counsel that the release will not interfere with vehicular, pedestrian or rail access, utilities to or other items affecting the Remaining Parcel, (2) any easements for access, utilities

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or other items affecting the Release Parcel required by Mortgagee and its special counsel and satisfactory to them in form and substance, and (3) any joint use agreement deemed appropriate by Mortgagee and its special counsel, satisfactory in form and substance to them; it is understood that the agreement by Mortgagee to consent to or to subordinate its lien to any easements or use agreements with respect to the Remaining Security is predicated on receiving this information;

(m) Mortgagee and its special counsel are satisfied with the size, boundaries and location of the Release Parcel, provided that all other conditions hereunder are met;

(n) the Release Parcel has legal access satisfactory to Mortgagee and its special counsel;

(o) no construction shall occur on the Release Parcel prior to the release thereof in accordance with the conditions set forth herein; and

(p) Mortgagor shall pay all legal, administrative, title, recording and any other costs and expenses incurred in connection with the release of the Release Parcel including, without limitation, any such costs and expenses incurred by Mortgagee.

73. SPECIAL STATE PROVISIONS.

(a) INCONSISTENCY. In the event of any inconsistency between this Paragraph 73 and the other Paragraphs of this Mortgage, the terms and conditions of this Paragraph 73 shall control and be binding.

(b) MORTGAGE COVENANTS. In addition, to and in no way abrogating or amending the granting language or any other term contained in this Mortgage, for consideration paid, and to timely secure the payment and performance of the Indebtedness, the Mortgagee hereby grants the Mortgaged Property to Mortgagee with Mortgage Covenants.

(c) POWER OF SALE. In addition to any other rights and remedies of the Mortgagee set forth in this Mortgage, including, but not limited to, those set forth in Paragraph 21, this Mortgage is granted with, contains and is subject to the STATUTORY POWER OF SALE and Mortgagee shall have the ability and option to exercise the STATUTORY POWER OF SALE and, upon compliance with the requirements of the New Hampshire laws respecting a Power of Sale mortgage foreclosure of real estate, may sell the Mortgaged Property, or any part thereof at public auction at some place in the city or town where the Mortgaged Property is situated or at the principal office of the Mortgagee or any other location at Mortgagee's election, in one or more lots, at one or several sales, to the highest bidder, and Mortgagor hereby appoints Mortgagee, as Mortgagor's agent, and attorney-in-fact to sell and convey the Mortgaged Property so sold to the purchaser by indefeasible title, discharged of all rights of redemption by Mortgagor or its successors and assigns, or any other person claiming under them. It is agreed that Mortgagee, its successors and assigns, or any person on their

behalf, may purchase at any sale or sales made as aforesaid.

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(d) STATUTORY CONDITIONS. This Mortgage is given upon and contains the Statutory Conditions and for any breach of said Statutory Conditions, Mortgagee shall have any and all remedies available to it pursuant to this Mortgage, including, but not limited to the STATUTORY POWER OF SALE.

(e) ENTRY NOT A TRESPASS OR BREACH OF PEACE. If the Mortgagee shall enter upon the Mortgaged Premises pursuant to the exercise of any of its rights or remedies pursuant to this Mortgage or the Loan Documents, Mortgagee shall not be deemed to have committed a trespass or a breach of the peace.

(f) ADDITIONAL ENVIRONMENTAL LAWS. The definition of Environmental Laws shall include New Hampshire RSA 125-A, 125-C, 125-I, 146-A, 146-C, 147-A, 147-B, 149-I and 149-M, as they may be amended.

(g) ADDITIONAL WAIVER PROVISIONS. MORTGAGOR AND MORTGAGEE EACH, TO THE EXTENT PERMITTED BY LAW, WAIVE ANY RIGHT TO A JURY TRIAL OR TO HAVE A JURY PARTICIPATE IN RESOLVING ANY DISPUTE, WHETHER SOUNDING IN CONTRACT, TORT, OR OTHERWISE BETWEEN MORTGAGEE AND MORTGAGOR ARISING OUT OF, IN CONNECTION WITH, RELATED TO, OR INCIDENTAL TO THE RELATIONSHIP ESTABLISHED BETWEEN MORTGAGOR AND MORTGAGEE IN CONNECTION WITH THE LOAN, THE NOTE, THE MORTGAGE OR THE LOAN DOCUMENTS OR ANY OTHER AGREEMENT, INSTRUMENT OR DOCUMENT EXECUTED OR DELIVERED IN CONNECTION THEREWITH OR THE TRANSACTIONS RELATED THERETO. THIS WAIVER SHALL NOT IN ANY WAY AFFECT, WAIVE, LIMIT, AMEND OR MODIFY MORTGAGEE'S ABILITY TO PURSUE REMEDIES PURSUANT TO ANY CONFESSION OF JUDGMENT OR COGNOVIT PROVISION CONTAINED IN THIS NOTE, OR ANY OTHER AGREEMENT, INSTRUMENT OR DOCUMENT RELATED THERETO.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK; SIGNATURE PAGE(S) FOLLOW(S)]

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IN WITNESS WHEREOF, Mortgagor has duly executed and delivered this Mortgage as of the day and year first above written.

Witnessed By:

BIRCH POND REALTY CORPORATION
(doing business in the State of New Hampshire
as BPRC)

By: /s/ Olga L. Conley

Name: /s/ Deborah B. Breznay

Name: Olga L. Conley

Its: Treasurer

Name: /s/ Deborah B. Breznay

COMMONWEALTH OF MASSACHUSETTS)
)
COUNTY OF SUFFOLK)

The foregoing instrument was acknowledged before me this day of March, 1999, by , of Birch Pond Realty Corporation, a Delaware corporation (doing business in the State of New Hampshire as BPRC), on behalf of said corporation.

/s/ Katherine Culkin

Notary Public: Katherine Culkin
My Commission Expires: 05/27/05

[SEAL]

EXHIBIT A

That certain lot or tract of land, with the buildings and improvements thereon, located in Tilton, Belknap County, New Hampshire, and being bounded and described as follows:

Beginning at the northeast corner of the described premises at land now or formerly of the State of New Hampshire and at a re-bar on the westerly sideline of Route 132, Sanborn Road:

1. S 19 DEG. 20'44" E 45.87' by said Route 132 to a point; then
2. By a curve to the right having a Delta of 17 DEG. 00'15", a radius of 930.00 feet, an arc distance of 276.00 feet, and a chord bearing of S 10 DEG. 50'37" E and a chord distance of 274.99 feet by said Route to a re-bar; then
3. S 02 DEG. 20'29" E 155.23' by said Route to a re-bar; then
4. S 03 DEG. 47'32" W 86.83' by said Route to a rebar; then
5. S 03 DEG. 05'40" W 523.55' by said Route to a rebar; then
6. By a curve to the left having a Delta of 01 DEG. 40'53" and a radius of 11,489.16 feet, an arc distance of 337.18 feet, and a chord bearing of S 02 DEG. 15'13" W and a chord distance of 337.17 feet by said Route to a re-bar; then

7. By a curve to the left having a Delta of 02 DEG. 59'59" and a radius of 11,492.87 feet, an arc distance of 601.71 feet, and a chord bearing of S 01 DEG. 03'20" W and a chord distance of 601.64 feet by said Route to a re-bar; then
8. By a curve to the left having a Delta of 01 DEG. 52'45" and a radius of 11,501.15 feet, an arc distance of 377.22 feet, and a chord bearing of S 02 DEG. 31'31" W and a chord distance of 377.20 feet by said Route to a re-bar; then
9. S 03 DEG. 27'54" E 248.12' by said Route to a point at now or formerly of Oliver; then
10. S 89 DEG. 39'25" W 287.08' by said land of Oliver to a rebar; then
11. S 08 DEG. 48'25" W 225.00' by said land of Oliver to a rebar; then
12. S 08 DEG. 48'25" W, a distance of 20.00' to a point at land now or formerly of

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the State of New Hampshire; then

13. N70 DEG. 50'37"W 54.78' by land of the State; then
14. N 81 DEG. 42'19"W 58.01' by land of the State; then
15. S 82 DEG. 53'59"W 142.27' by land of the State; then
16. S76 DEG. 57'22"W 157.00' by land of the State; then
17. S 89 DEG. 46'48"W 67.18' by land of the State; then
18. N65 DEG. 59'17"W 79.43' by land of the State; then
19. N47 DEG. 43'27"W 87.84' by land of the State; then
20. N27 DEG. 29'46"W 83.28' by land of the State; then
21. S73 DEG. 59'49"W 53.30' by land of the State; then
22. N45 DEG. 19'18"W 43.24' by land of the State; then
23. N26 DEG. 13'08" W 16.85' by land of the State; then
24. S83 DEG. 49'28"W 29.65' by land of the State; then
25. N60 DEG. 40'11"W 56.97' by land of the State; then
26. N38 DEG. 05'58"W 37.81' by land of the State; then
27. N60 DEG. 17'32"W 38.15' by land of the State; then
28. N31 DEG. 50'23"W 27.09' by land of the State; then
29. N74 DEG. 42'14"W 22.80' by land of the State; then

30. S74 DEG. 47'09" W 91.21' by land of the State; then
31. N87 DEG. 39'11"W 149.12' by land of the State; then
32. S72 DEG. 41'13"W 67.05' by land of the State; then
33. N72 DEG. 57'33" W 454.56' by land of the State; then
34. N29 DEG. 36'39"W 498.10' by land of the State: then

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35. N29 DEG. 36'39"W 56.30' by land of the State; then
36. N16 DEG. 46'49"W 348.61' by land of the State to a concrete bound;
then
37. N14 DEG. 31'44"E 885.88' by land of the State to a concrete bound;
then
38. N58 DEG. 29'32"E 430.73' by land of the State to a re-bar; then
39. N05 DEG. 11'37"W 335.93' by land of the State to a re-bar; then
40. S76 DEG. 46'28"W 55.90' by land of the State to a concrete bound;
then
41. N85 DEG. 46'21"W 3.96' by land of the State to a point at land now
or formerly of DM Management Company ("DM"); then
42. N66 DEG. 32'51"E 1044.50 feet by land of said DM, then
43. N85 DEG. 07'38"E 305.57' by land of said DM to a stone wall; then
44. S25 DEG. 23'01"E 51.24' by land now or formerly of Miller and said
wall to a re-bar at land of the State; then
45. S66 DEG. 06'34"W 50.17' by land of the State and a stone wall to a
drill hole in the wall; then
46. S21 DEG. 06'31"E 95.43' by land of the State; then
47. S18 DEG. 16'00"E 175.19' by land of the State to a re-bar; then
48. N69 DEG. 11'55"E 499.88' by land of the State to the point of
beginning.

Meaning and intending to describe the land shown on a Plan entitled, "ALTA/ACSM LAND TITLE SURVEY, Plan of Land Prepared for DM Management Company, Route 132 (Sanborn Road), Tilton, NH," dated November 19, 1998, by Yerkes Surveying Consultants and recorded in the Belknap County Registry of Deeds on February 16, 1999, in Drawer L-31 #'s 61 and 62.

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EXHIBIT B

PERSONAL PROPERTY OWNED BY TENANT

<TABLE>
<CAPTION>

Qty	Manufacturer, Description Model No./Serial No.	Location
---	-----	-----
<S>	<C>	<C>
		12 Sandborn St
		Tilton, NH 03276
(1)	American Bater Model 6042HAT-930R	
(36)	Coils of 10 gauge Baling Wire	

Above equipment distributed by: Aquest Corporation

- (1) M8010 Sweeper/Scrubber, Rider Model 8010 S/N: 8010-218)
Machine as equipped:
6010 Battery Sweeper Scrubber
36388 Batt/Chg Pkg. Ext.Run. 1PH. 60HZ
87419 Brush, Side Polypropylene
363868 Brush, Main, Polypropylene
363012 Maxpro 1200 Scrub Head
30241 Brush, Non-scuff Poly f/MP1200
30241 Brush, Non-scuff Poly f/MP1200
08682-15 Det654 Heavy Duty, 15 Gal
363019 Es-Extended Scrubbing
48600 Wand. off Aisle Power
363455 Light Pkg. Revolving, OHG
- (1) M5700 Scrubber, Walk Behind Model 5700 S/N:5700-11109
Machine as equipped:
5700 Scrubber, Walk Behind
222342 Scrubhead, 7000, 28" Disk
222803 Squeegee Assy. 700D/700C
222358 Battery, 235AH Wet
374014 Charger, 115V, 20A, 1PH, 60HZ
222320 Brush, Polypropylene 700D
222611 Power Wand, off-Aisle

Above equipment distributed by: Tennant

- (1) CubiScan 100L S/N: QIL971879
- (1) Mobile Cart-A
- (1) Computer Shuttle Arm-S
- (1) PW800 Inverter/TC20 Charger/Cables
- (1) Portable Power System (PW800-TC20)

Above equipment distributed by: Quantronix

- (2) Composee Turbo 2 Keyboard Wedge
- (2) Serial Input Cable
- (2) BM 3287 Terminal Cable Set
- (2) External Power Supply
- (2) SC QuickScan 600 Scanner w/cabling
- (1) Custom QBIT Interface

Above equipment distributed by: Quantronix

</TABLE>

<TABLE>
<CAPTION>

Qty.	Manufacturer, Description, Model No./Serial No.	Location
----	-----	-----
<S>	<C>	<C> 12 Sandborn St. Tilton, NH 03276

- (1) 1020-1021 01-00001 Boom Lift 30-45 ELEC N40 ELC S/N: 0300039334
- (2) 1020-1001 01-00002 Personnel Lifts PERS LFT 25AMDC S/N: 0900012248

Above equipment distributed by Action Equipment

- (6) Crown PTH50-27-48 Hand Pallet Jacks S/N: 7-142882
7-142883
7-142884
7-142885
7-142886
7-142887

Above equipment distributed by Crown Trucks

- (1) T20497 EASI-Orderpicker Model OPC30TT S/N: EASI-98-AT20497
- (1) T20498 EASI-Orderpicker Model OPC30TT S/N: EASI-98-AT20498
- (1) T20499 EASI-Orderpicker Model OPC30TT S/N: EASI-98-AT20499
- (1) T20500 EASI-Orderpicker Model OPC30TT S/N: EASI-98-AT20500
- (1) T20501 EASI-Orderpicker Model OPC30TT S/N: EASI-98-AT20501
- (1) T20502 EASI-Orderpicker Model OPC30TT S/N: EASI-98-AT20502
- (1) T20503 EASI-Orderpicker Model OPC30TT S/N: EASI-98-AT20503
- (1) T20504 EASI-Orderpicker Model OPC30TT S/N: EASI-98-AT20504
- (1) T20505 EASI-Orderpicker Model OPC30TT S/N: EASI-98-AT20505
- (1) T20506 EASI-Orderpicker Model OPC30TT S/N: EASI-98-AT20506
- (1) BN8691 Battery Model 18-E155W-11 S/N: AWG108691
- (1) BN8692 Battery Model 18-E155W-11 S/N: AWG108692
- (1) BN8693 Battery Model 18-E155W-11 S/N: AWG108693
- (1) BN8694 Battery Model 18-E155W-11 S/N: AWG108694
- (1) BN8695 Battery Model 18-E155W-11 S/N: AWG108695
- (1) BN8696 Battery Model 18-E155W-11 S/N: AWG108696
- (1) BN8697 Battery Model 18-E155W-11 S/N: AWG108697
- (1) BN8698 Battery Model 18-E155W-11 S/N: AWG108698
- (1) BN8699 Battery Model 18-E155W-11 S/N: AWG108699

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Qty.	Manufacturer, Description Model No./Serial No.	Location
----	-----	-----
<S>	<C>	<C> 12 Sandborn St. Tilton, NH 03276

- (1) BN8700 Battery Model 18-EI55W-11 S/N: AWG108700

- (1) BN8701 Battery Model 18-EI55W-11 S/N: AWG108701
- (1) BN8702 Battery Model 18-EI55W-11 S/N: AWG108702
- (1) BN8703 Battery Model 18-EI55W-11 S/N: AWG108703
- (1) BN8704 Battery Model 18-EI55W-11 S/N: AWG108704
- (1) BN8705 Battery Model 18-EI55W-11 S/N: AWG108705
- (1) BN8706 Battery Model 18-EI55W-11 S/N: AWG108706
- (1) BN8707 Battery Model 18-EI55W-11 S/N: AWG108707
- (1) BN8708 Battery Model 18-EI55W-11 S/N: AWG108708
- (1) BN8709 Battery Model 18-EI55W-11 S/N: AWG108709
- (1) BN8710 Battery Model 18-EI55W-11 S/N: AWG108710
- (1) CN1941 Charger Model D3E-18-850B S/N: WF91941
- (1) CN2620 Charger Model D3E-18-850B S/N: WF92620
- (1) CN2621 Charger Model D3E-18-850B S/N: WF92621
- (1) CN2622 Charger Model D3E-18-850B S/N: WF92622
- (1) CN2623 Charger Model D3E-18-850B S/N: WF92623
- (1) CN2624 Charger Model D3E-18-850B S/N: WF92624
- (1) CN2625 Charger Model D3E-18-850B S/N: WF92625
- (1) CN2629 Charger Model D3E-18-850B S/N: WF92629
- (1) CN2633 Charger Model D3E-18-850B S/N: WF92633
- (1) CN2682 Charger Model D3E-18-850B S/N: WF92682
- (1) BN8687 Battery Model 18-EI40-17 S/N: AWG108687
- (1) BN8688 Battery Model 18-EI40-17 S/N: AWG108688
- (1) BN8689 Battery Model 18-EI40-17 S/N: AWG108689
- (1) BN8690 Battery Model 18-EI40-17 S/N: AWG108690
- (1) CN2771 Charger Model D3E-18-1200B S/N: WF92771
- (1) CN2772 Charger Model D3E-18-1200B S/N: WF92772
- (1) Stnlss Steel Drip Pa
- (1) UPC Charge, Batt Sys
- (1) HP Watering System
- (1) Wire Guide System
- (1) T10530 EASI Reach Forktruck Model EASIR45TT S/N: EZ-B-98-10530
- (1) T10536 EASI Reach Forktruck Model EASIR45TT S/N: EZ-B-98-10536

</TABLE>

ABOVE EQUIPMENT DISTRIBUTED BY ROBERT ABEL & CO., INC.

<TABLE>

<CAPTION>

Qty.	Manufacturer Description Model No./Serial No.	Location
----	-----	-----
<S>	<C>	<C> 12 Sandborn St. Tilton, NH 03276

</TABLE>

- (1) 000063 Wildeck Mezzanine System
Phase I
- (1) 000068 Wildeck Mezzanine System
Phase II
- (1) 000070 Wildeck Mezzanine System
Phase III
- (1) 000294 Vertical Reciprocating Convoy

ABOVE EQUIPMENT DISTRIBUTED BY WILDECK, INC.

PALLET/CASE/RAI/RACK

PHASE I

Layout: 41 Bays 96"w x 48"d x 84"h with 4 beam levels
 Steel King Tulukar
 55 RTFAP048084 Uprights - 3" x 1 5/8" x 48"d x 84"h
 Capacity: 16,720# on 48" vertical centers
 328 SBRXL300096 Step Beams - 3"h x 96"l x 1,448#capacity
 328 WIRE DECKS 46"w x 48"d x 2" x 4" x 4Ga. x 300#

PHASE II

SELECTIVE PALLET RACK

Layout: 75 Bays 144"w x 42"d x 345"/407"h with 6 levels (floor +5 beam levels)
 8 RTFBW042407 End Uprights - 3" x 3" x 42"d x 407"h
 BASEPLATES 5' x 7' x 3/8" FOR Zone ZA
 Capacity: 30,560# per new 1998 RMI
 71 RTFBW042345 inL Uprights - 3" x 3' x 42"d, x 345"h
 BASEPLATES 5" x 7" x 3/8" for Zone 2A
 Capacity: 30,560# per new 1997 RMI
 750 SBRXP600144 Stop Beams - 6" x 144'l x 6,780# Capacity
 375 BTWSG042 42" Beam Ties (required on all beams 120"+)
 316 ANCHORS 1/2" x 3 1/4"
 6 AISLE MARKERS 12" x 12" at all row ends
 48 RSR3G018 Row Spacers - 18"
 2 STEEL GUARD 102"lx18"h
 2#GR09 2 1/2" deep x 14"h x 11 Ga. x 102"L#C52
 4FPS3K024 Free Standing Column Protector at S. Rows

RESERVE CARTON RACK

Layout: 225 Bays - 144 w x 60"d x 364"h with 11 beam levels
 30 RTFAP060417 End Uprights - 3" x 1 5/8" x 60"d x 417"h
 BASEPLATES 5" x 7" x 3/8" for Zone 2A
 Capacity: 16,730# per new 1998 RMI
 210RTFAP060384 Int. Uprights - 3" x 1 5/8" x 60"d x 384"h
 BASEPLATES x3/8 for Zone 2A
 Capacity: 16,730#per new 1996 RMI

<TABLE>

<CAPTION>

Qty.	Manufacturer, Description, Model No./Serial No.	Location
----	-----	-----
<S>	<C>	<C> 12 Sandborn St. Tilton, NH 03276

</TABLE>

4950 SBRXP400144 Step Beams-4" x 144"l x 1,870# capacity
 960 ANCHORS 1/2" x 3 3/4"
 4,950 WIRE DECKS 70"w x 60"d x 2" x 4" & GA x 1,200# ea.
 30 AISLE MARKERS 12" x 12" at all row ends
 30 STEEL GUARO 60"Lx18"H
 60#SCL 4" x 4" x 3/4" Tube with 10" sq. x 5/8 Base
 30# GRO5 2 1/2" Deep x 14"h x 11 Ga. x 60"L

ACTIVE CARTON RACK (Convertible G.O.H. Rack)

Layout 1079 Bays -- 96" W x 48"d x 84"h with 4 beam levels
 1,225 RTFAP048084 Uprights -- 3" x 1 5/8" x 48"d x 84"h
 Capacity: 16,730# on 48" vertical centers
 8,632 SBRXL300096 Step Beams -- 3"h x 96l x 1,448# capacity
 2,450 ANCHORS 1/2" x 3 3/4"
 160 AISLE MARKERS 12" x 12" at all row ends

4,904 WIRE DECKS 46"W X 48"d x 2" x 4" x 4Ga x 300#

ACTIVE CARTON FLOW RACK

LAYOUT: 56 Bays -- 96" w x 120"d x 96"h with 4 shelf levels (6 runways/12 tracks + 5 guides per shelf)

- 64 Frames verticle Frames -- 96"d x 96"h
- 128 ANCHORS 1/2" x 3 3/4"
- 168 SWAY BRACES 96"
- 224 shelf frames 96" Wx120"d x 1,200# capacity
- 1,344 RUNWAYS 2 pcs x 120" long
- 1,120 GUIDES 120"L
- 16 AISLE MARKERS 12" x 12" at all row ends

GARMENT ON HANGER RACKS (Convertible to Active Carton Rack)

Layout: 232 Runs -- 56"L x 4"D with 50% two high & 50% one high
 1,856 RTFAP048084 Uprights -- 3" x 1 5/8" x 48"d x 84"h
 Capacity: 16,730# on 48" vertical centers
 3,248 SRRXL300096 Step Beam 3"hx96"l x 1,448# capacity
 3,712 ANCHORS 1/2" x 3 3/4"
 60 PIPE HOLDERS Adjustable Brackets -- 48"d
 40,194 LN.FT.Rails 1,315 x 14 ga. Zinc plated round tubing
 Note 50% of runs include 2 levels high

<TABLE>
<CAPTION>

Qty.	Manufacturer, Description Model No./Serial No.	Location
<S>	<C>	<C> 12 Sandborn St. Tilton, NH 03276

- 24,000 TEK SCREWS 1"
- 3,016 INSERTS 20" splices
- 1,392 CAPS Rubber End Caps
- 5,600 CLIPS For attachments of rail to rack
- 0 WIRE DECKS 3584 Supplied from Laconia Location
- 464 AISLE MARKERS 12" x 12" at all row ends

</TABLE>

ABOVE EQUIPMENT DISTRIBUTED BY THE STEEL KING INDUSTRIES, INC.

(2 9491 SRIENPACKER TYPE S3960 S/N: _____)

ABOVE EQUIPMENT DISTRIBUTED BY SET POINT

<TABLE>
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QTY MANUFACTURER, DESCRIPTION MODEL NO./SERIAL NO.

LOCATION

12 Sandborn St.
Tilton, NH 03276

QTY	Seq. #	Series	Panel	Conveyor Number	Type of Conveyor
<S>	<C>	<C>	<C>	<C>	<C>
1	1	100	100-1	BPE100A	PBE-Powered Belt Extendable
1	2	100	100-1	BPE100B	PBE-Powered Belt Extendable
1	3	100	n/a	T100	Track for Powered Belt Extendables
1	4	100	n/a	GRC102A	RGC160-Roller Gravity Curve
1	5	100	n/a	GRC102B	RGC160-Roller Gravity Curve
1	6	100	n/a	GRC102C	RGC160-Roller Gravity Curve
1	7	100	n/a	GRC102D	RGC160-Roller Gravity Curve
1	8	100	n/a	GRC102E	RGC160-Roller Gravity Curve
1	9	100	n/a	GRC102F	RGC160-Roller Gravity Curve
1	10	100	n/a	GRC104A	RGC160-Roller Gravity Curve
1	11	100	n/a	GRC104B	RGC160-Roller Gravity Curve
1	12	100	n/a	GRC104C	RGC160-Roller Gravity Curve
1	13	100	n/a	GRC104D	RGC160-Roller Gravity Curve
1	14	100	n/a	GRC104E	RGC160-Roller Gravity Curve
1	15	100	n/a	GRC104F	RGC160-Roller Gravity Curve
1	16	100	n/a	GR106A	RG1916-Roller Gravity
1	17	100	n/a	GR106B	RG1916-Roller Gravity
1	18	100	n/a	GR106C	RG1916-Roller Gravity
1	19	100	n/a	GR106D	RG1916-Roller Gravity
1	20	100	n/a	GR106E	RG1916-Roller Gravity
1	21	100	n/a	GR106F	RG1916-Roller Gravity
1	22	100	n/a	GR106G	RG1916-Roller Gravity

</TABLE>

<TABLE>
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QTY	MANUFACTURER, DESCRIPTION MODEL NO./SERIAL NO.					LOCATION
	Seq. #	Series	Panel	Conveyor Number	Type of Conveyor	
<S>	<C>	<C>	<C>	<C>	<C>	
1	23	100	100	LR124A	LRTC-Live Roller Transportation	12 Sandborn St. Tilton, NH 03276
1	24	100	100	LR124B	LRTC-Live Roller Transportation	
1	25	100	100	LR124C	LRTC-Live Roller Transportation	
1	26	100	100	LR124D	LRTC-Live Roller Transportation	
1	27	100	100	LR124E	LRTC-Live Roller Transportation	
1	28	100	100	IB126A	BSE-Indexing Belt	
1	29	100	100	IB126B	BSE-Indexing Belt	
1	30	100	100	IB126C	BSE-Indexing Belt	
1	31	100	100	IB126D	BSE-Indexing Belt	
1	32	100	100	IB126E	BSE-Indexing Belt	
1	33	100	100	LRM128A	LRSC-Live Roller Spur Curve	
1	34	100	100	LRM128B	LRSC-Live Roller Spur Curve	
1	35	100	100	LRM128C	LRSC-Live Roller Spur Curve	
1	36	100	100	LRM128D	LRSC-Live Roller Spur Curve	
1	37	100	100	LRM128E	LRSC-Live Roller Spur Curve	
1	38	100	100	PB132	BRC-Powered Belt	
1	39	100	100	LRC134	LRC-Live Roller Curve	
1	40	100	100	PB1136	BIC-15 Degree Bell Incline	
1	41	100	100	LRC138	LRC-Live Roller Curve	
1	42	100	100	LRA140	LRZC-Zero Pressure Accumulation	
1	43	100	100	LRC142	LRC-Live Roller Curve	
1	44	100	100	LRA144	LRZC-Zero Pressure Accumulation	
1	45	100	n/a	LRM146	LRZC-Live Roller Merge	
1	46	100	100	LRA148	LRZC-Zero Pressure Accumulation	

1	47	100	n/a	LRC150	LRC-Live Roller Curve
1	48	100	100	LRC152	LRZC-Zero Pressure Accumulation
1	49	100	n/a	LRC154	LRC-Live Roller Curve
1	50	100	100	LRA156	LRZC-Zero Pressure Accumulation

</TABLE>

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QTY	MANUFACTURER, DESCRIPTION MODEL NO./SERIAL NO.					LOCATION
	Seq. #	Series	Panel	Conveyor Number	Type of Conveyor	12 Sandborn St. Tilton, NH 03276
<S>	<C>	<C>	<C>	<C>	<C>	
1	51	100	100	LR160	LRTC-Live Roller Transportation	
1	52	100	100	PB1162	BIC-15 Degree Belt Incline	
1	53	100	n/a	LRC164	LRC-Live Roller Curve	
1	54	100	100	LRA166	LRZC-Zero Pressure Accumulation	
48	55	100	n/a	GA100	1.5" Angle Guard Rail (bulk)	
43	56	100	n/a	GCL100	5.75" Lapped Channel Guard Rail (bulk)	
1	57	200	200	BSB200A	BMSE-Brake/Meter Belt	
1	58	200	200	BSB200B	BMSE-Brake/Meter Belt	
1	59	200	200	BSB200C	BMSE-Brake/Meter Belt	
1	60	200	200	BSB200D	BMSE-Brake/Meter Belt	
1	61	200	200	LRS201A	LRS-Live Roller Spur	
1	62	200	200	LRS201B	LRS-Live Roller Spur	
1	63	200	200	LRS201C	LRS-Live Roller Spur	
1	64	200	200	LRS201D	LRS-Live Roller Spur	
1	65	200	200	LR202	LRTC-Live Roller Transportation	
1	66	200	n/a	LRC204	LRC-Live Roller Curve	

1	67	200	200	LR206	SP-Skewed Roller Section
1	68	200	200	LRA208	LRS-Live Roller Spur
1	69	200	200	BSB210	BMSE-Brake/Meter Belt
1	70	200	200	SOR212	BRE-Sort Belt
1	71	200	200	SOR214	BRE-Sort Belt
1	72	200	n/a	DIV220	LFS-Line Flow Spur
1	73	200	n/a	DIV230	LFS-Line Flow Spur
1	74	200	200	DIV260	LRSC-Live Roller Spur Curve
1	75	200	200	PBD262	BDC-15 Degree Belt Decline
1	76	200	n/a	GR264	RG1916-Roller Gravity
1	77	200	n/a	DIV280	LFS-Line Flow Spur
18	78	200	n/a	GCL200	5.75"-Lapped Channel Guard Rail (bulk)
1	79	300	n/a	DIV310	LFS-Line Flow Spur

</TABLE>

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QTY	MANUFACTURER, DESCRIPTION MODEL NO./SERIAL NO.					LOCATION
	Seq. #	Series	Panel	Conveyor Number	Type of Conveyor	12 Sandborn St. Tilton, NH 03276
<S>	<C>	<C>	<C>	<C>	<C>	
1	95	300	300-1	LRC332	LRC-Live Roller Curve	
1	96	300	300-1	PBD333	BDC-15 Degree Belt Decline	
1	97	300	n/a	LRC334A	LRC-Live Roller Curve	
1	98	300	300-1	LR334B	LRTE-Live Roller Transportation	
1	99	300	n/a	LRC334C	LRC-Live Roller Curve	
1	100	300	300-1	LRA336	LRZC-Zero Pressure Accumulation	
1	101	300	300-1	BSB338	BMSE-Brake/Motor Belt	
1	102	300	300-1	SOR340	BRE-Sort Belt	
1	103	300	300-1	LRA342	LRZC-Zero Pressure Accumulation	

1	104	300	300-1	BSB344	BMSE-Brake/Motor Belt
1	105	300	300-1	BC346	PBC-Powered Belt Curve
1	106	300	300-2	SOR347	BRC-Sort Belt
1	107	300	300-2	SOR348	BRC-Sort Belt
1	108	300	300-2	LRA349	LRZC-Zero Pressure Accumulation
1	109	300	n/a	DIV350A	LFS-Line Flow Spur
1	110	300	n/a	DIV350B	LFS-Line Flow Spur
1	111	300	n/a	DIV350C	LFS-Line Flow Spur
1	112	300	n/a	GRC351A	RGC160-Roller Gravity Curve
1	113	300	n/a	GRC351B	RGC160-Roller Gravity Curve
1	114	300	n/a	GRC351C	RGC160-Roller Gravity Curve
1	115	300	n/a	CH352A	CHT-Chute
1	116	300	n/a	CH352B	CHT-Chute
1	117	300	n/a	CH352C	CHT-Chute
1	118	300	n/a	CH352D	CHT-Chute
1	119	300	n/a	GR353A	RG1916-Roller Gravity
1	120	300	n/a	GR353B	RG1916-Roller Gravity
1	121	300	n/a	GR353C	RG1916-Roller Gravity
1	122	300	n/a	GR353D	RG1916-Roller Gravity

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QTY	MANUFACTURER, DESCRIPTION MODEL NO./SERIAL NO.					LOCATION
Seq. #	Series	Panel	Conveyor Number	Type of Conveyor		
<S>	<C>	<C>	<C>	<C>	<C>	12 Sandborn St. Tilton, NH 03276
1	123	300	n/a	DIV355A	LFS-Line Flow Spur	
1	124	300	n/a	DIV355B	LFS-Line Flow Spur	
1	125	300	n/a	DIV355C	LFS-Line Flow Spur	
1	126	300	n/a	GRC356A	RGC160-Roller Gravity Curve	

1	127	300	n/a	GRC356B	RG160-Roller Gravity Curve
1	128	300	n/a	GRC356C	RG160-Roller Gravity Curve
1	129	300	n/a	CH357A	CHT-Chute
1	130	300	n/a	CH357B	CHT-Chute
1	131	300	n/a	CH357C	CHT-Chute
1	132	300	n/a	CH357D	CHT-Chute
1	133	300	n/a	GR358A	RG1916-Roller Gravity
1	134	300	n/a	GR358B	RG1916-Roller Gravity
1	135	300	n/a	GR358C	RG1916-Roller Gravity
1	136	300	n/a	GR358D	RG1916-Roller Gravity
1	137	300	n/a	DIV360A	LFS-Lina Flow Spur
1	138	300	n/a	DIV360B	LFS-Lina Flow Spur
1	139	300	n/a	DIV360C	LFS-Lina Flow Spur
1	140	300	n/a	GRC361A	RG160-Roller Gravity Curve
1	141	300	n/a	GRC361B	RG160-Roller Gravity Curve
1	142	300	n/a	GRC361C	RG160-Roller Gravity Curve
1	143	300	n/a	CH362A	CHT-Chute
1	144	300	n/a	CH362B	CHT-Chute
1	145	300	n/a	CH362C	CHT-Chute
1	146	300	n/a	CH362D	CHT-Chute
1	147	300	n/a	GR363A	RG1916-Roller Gravity
1	148	300	n/a	GR363B	RG1916-Roller Gravity
1	149	300	n/a	GB363C	RG1916-Roller Gravity

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QTY	MANUFACTURER, DESCRIPTION MODEL NO./SERIAL NO.	LOCATION
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<S>	Seq. # <C>	Series <C>	Panel <C>	Conveyor Number <C>	Type of Conveyor <C>
1	150	300	n/a	GR363D	RG1916-Roller Gravity
1	151	300	n/a	DIV365A	LFS-Line Flow Spur
1	152	300	n/a	DIV365B	LFS-Line Flow Spur
1	153	300	n/a	DIV365C	LFS-Line Flow Spur
1	154	300	n/a	GRC366A	RGC160-Roller Gravity Curve
1	155	300	n/a	GRC366B	RGC160-Roller Gravity Curve
1	156	300	n/a	GRC366C	RGC160-Roller Gravity Curve
1	157	300	n/a	CH367A	CHT-Chule
1	158	300	n/a	CH367B	CHT-Chule
1	159	300	n/a	CH367C	CHT-Chule
1	160	300	n/a	CH367D	CHT-Chule
1	161	300	n/a	GR368A	RG1916-Roller Gravity
1	162	300	n/a	GR368B	RG1916-Roller Gravity
1	163	300	n/a	GR368C	RG1916-Roller Gravity
1	164	300	n/a	GR368D	RC1916-Roller Gravity
1	165	300	300-1	BC370	PBC-Powered Belt Curve
1	166	300	300-1	SOR377	BRC-Sort Belt
1	167	300	300-1	SOR378	BRC-Sort Belt
1	168	300	300-1	LRA379	LRZC-Zero Pressure Accumulation
1	169	300	300-1	LRC382	LRC-Live Roller Curve
1	170	300	300-1	LR383	LRC-Live Roller Transportation
1	171	300	n/a	LRC384	LRC-Live Roller Curve
1	172	300	300-1	LRA386	LRZC-Zero Pressure Accumulation
1	173	300	300-1	BSB388	BMSE-Brake/Meter Belt
1	174	300	300-1	SOR390	BRE-Sort Belt
1	175	300	300-1	LRA392	LRZC-Zero Pressure Accumulation
1	176	300	300-1	BSB394	BMSE-Brake/Meter Belt
1	177	300	300-1	BC396	PBC-Powered Belt Curve
1	178	300	300-2	SOR397	BRC-Sort Belt

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QTY	MANUFACTURER, DESCRIPTION MODEL NO./SERIAL NO.					LOCATION
	Seq. #	Series	Panel	Conveyor Number	Type of Conveyor	12 Sandborn St. Tilton, NH 03276
<S>	<C>	<C>	<C>	<C>	<C>	
1	180	300	300-2	LRA399	LRZC-Zero Pressure Accumulation	
90	181	300	n/a	GCL300	5.75" Lapped Channel Guard Rail (bulk)	
1	182	400	n/a	GR400	RG1916-Roller Gravity	
1	183	400	400	PB1401	BRE-12 Degree Booster Belt	
1	184	400	400	LRA402	LRZC-Zero Pressure Accumulation	
1	185	400	n/a	GR403	RG1916-Roller Gravity	
1	186	400	400	PB1401	BRE-12 Degree Booster Belt	
1	187	400	n/a	LRM405	LREWS-Live Roller Merge	
1	188	400	400	LRA406	LRZC-Zero Pressure Accumulation	
1	189	400	n/a	GR407	RG1916-Roller Gravity	
1	190	400	400	PB1408	BRE-12 Degree Booster Belt	
1	191	400	n/a	LRM409	LREWS-Live Roller Merge	
1	192	400	n/a	GR410	RG1916-Roller Gravity	
1	193	400	400	PB1411	BRE-12 Degree Booster Belt	
1	194	400	n/a	LRM412	LREWS-Live Roller Merge	
1	195	400	400	LRA413	LRZC-Zero Pressure Accumulation	
1	196	400	n/a	GR414	RG1916-Roller Gravity	
1	197	400	400	PB1415	BRE-12 Degree Booster Belt	
1	198	400	n/a	LRM416	LREWS-Live Roller Merge	
1	199	400	n/a	GR417	RG1916-Roller Gravity	

1	200	400	400	PB1418	BRE-12 Degree Booster Belt
1	201	400	n/a	LRM419	LREWS-Live Roller Merge
1	202	400	400	PB1420	BRE-12 Degree Booster Belt
1	203	400	400	LRC421	LRC-Live Roller Curve
1	204	400	400	PB1422	BRE-12 Degree Booster Belt
1	205	400	400	LRA423	LRZC-Zero Pressure Accumulation
1	206	400	n/a	LRC424	LRC-Live Roller Curve
1	207	400	400	LRA425	LRZC-Zero Pressure Accumulation
1	208	400	n/a	GR450	RG1916-Roller Gravity
1	209	400	400	PB1451	BRE-12 Degree Booster Belt

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QTY	MANUFACTURER, DESCRIPTION MODEL NO./SERIAL NO.					LOCATION
<S>	Seq. #	Series	Panel	Conveyor Number	Type of Conveyor	12 Sandborn St. Tilton, NH 03276
<C>	<C>	<C>	<C>	<C>	<C>	
1	210	400	400	LRA452	LRZC-Zero Pressure Accumulation	
1	211	400	n/a	GR453	RG-1916-Roller Gravity	
1	212	400	400	PB1454	BRE-12 Degree Booster Belt	
1	213	400	n/a	LRM455	LREWS-Live Roller Merge	
1	214	400	400	LRA456	LRZC-Zero Pressure Accumulation	
1	215	400	n/a	GR457	RG1916-Roller Gravity	
1	216	400	400	PB1458	BRE-12 Degree Booster Belt	
1	217	400	n/a	LRM459	LREWS-Live Roller Merge	
1	218	400	n/a	GR460	RG1916-Roller Gravity	
1	219	400	400	PB1461	BRE-12 Degree Booster Belt	
1	220	400	n/a	LRM462	LREWS-Live Roller Merge	
1	221	400	400	LRM463	LRZC-Zero Pressure Accumulation	

1	222	400	n/a	GR464	RG1916-Roller Gravity
1	223	400	400	PB1465	BRE-12 Degree Booster Belt
1	224	400	n/a	LRM466	LREWS-Live Roller Merge
1	225	400	n/a	GR467	RG1916-Roller Gravity
1	226	400	400	PB1468	BRE-12 Degree Booster Belt
1	227	400	n/a	LRM469	LREWS-Live Roller Merge
1	228	400	400	LRC471	LRC-Live Roller Curve
1	229	400	400	LRA473	LRZC-Zero Pressure Accumulation
1	230	400	n/a	LRC474	LRC-Live Roller Curve
1	231	400	400	LRA475	LRZC-Zero Pressure Accumulation
1	232	400	n/a	GCL400	5.75"Lapped Channel Guard Rail (bulk)
1	233	500	200	DIV500	LRSC-Live Roller Spur Curve
1	234	500	200	PB1502	BIC-15 Degree Belt Incline
1	235	500	n/a	LRC504	LRC-Live Roller Curve
1	236	500	200	LRA506	LRZC-Zero Pressure Accumulation
1	237	500	200	LRA508	LRZC-Zero Pressure Accumulation
1	238	500	n/a	LRC510	LRC-Live Roller Curve
1	239	500	500	PBD512	BDC-15 Degree Belt Decline

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QTY	MANUFACTURER, DESCRIPTION MODEL NO./SERIAL NO.					LOCATION
---	Seq. #	Series	Panel	Conveyor Number	Type of Conveyor	-----
						12 Sandborn St. Tilton, NH 03276
<S>	<C>	<C>	<C>	<C>	<C>	
1	240	500	500	LRA514	LRZE-Zero Pressure Accumulation	
1	241	500	n/a	LRM516	LREWS-Live Roller Merge	
1	242	500	n/a	LRC518	LRC-Live Roller Curve	
1	243	500	500	LRC520	LRC-Live Roller Curve	

1	244	500	500	LRA522	LRZE-Zero Pressure Accumulation
1	245	500	500	BSB524	BMSE-Brake/Meter Belt
1	246	500	500	SOR526	BRC-Sort Belt
1	247	500	500	SOR528	BRC-Sort Belt
1	248	500	500	SOR530	BRC-Sort Belt
1	249	500	500	BC532	PBC-Powered Belt Curve
1	250	500	500	SOR534	BRC-Sort Belt
1	251	500	500	SOR536	BRC-Sort Belt
1	252	500	500	SOR538	BRC-Sort Belt
1	253	500	500	LRA540	LRZC-Zero Pressure Accumulation
1	254	500	500	DIV545	LRSC-Live Roller Spur Curve
1	255	500	500	GRC546	RGC160-Roller Gravity Curve
1	256	500	n/a	GR547	RG1916-Roller Gravity
1	257	500	n/a	DIV550A	LFS-Line Flow Spur
1	258	500	n/a	DIV550B	LFS-Line Flow Spur
1	259	500	n/a	DIV550C	LFS-Line Flow Spur
1	260	500	n/a	DIV550D	LFS-Line Flow Spur
1	261	500	n/a	DIV550E	LFS-Line Flow Spur
1	262	500	n/a	DIV550F	LFS-Line Flow Spur
1	263	500	n/a	DIV550G	LFS-Line Flow Spur
1	264	500	n/a	DIV550H	LFS-Line Flow Spur
1	265	500	n/a	DIV550J	LFS-Line Flow Spur
1	266	500	n/a	DIV550K	LFS-Line Flow Spur
1	267	500	n/a	DIV550L	LFS-Line Flow Spur
1	268	500	n/a	DIV550M	LFS-Line Flow Spur
1	269	500	n/a	DIV550N	LFS-Line Flow Spur
1	270	500	n/a	DIV550P	LFS-Line Flow Spur
1	271	500	n/a	DIV550Q	LFS-Line Flow Spur

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QTY	MANUFACTURER, DESCRIPTION MODEL NO./SERIAL NO.					LOCATION
	Seq. #	Series	Panel	Conveyor Number	Type of Conveyor	12 Sandborn St. Tilton, NH 03276
<S>	<C>	<C>	<C>	<C>	<C>	
1	301	500	n/a	GR552N	RG1916-Roller Gravity	
1	302	500	n/a	GR552P	RG1916-Roller Gravity	
1	303	500	n/a	GR552Q	RG1916-Roller Gravity	
1	304	500	n/a	GR552R	RG1916-Roller Gravity	
36	305	500	n/a	GCL500	5.75" Lapped Channel Guard Rail	
1	306	600	600	LR600A	LRTE-Live Roller Transportation	
1	307	600	600	LR600B	LRTE-Live Roller Transportation	
1	308	600	600	LR600C	LRTE-Live Roller Transportation	
1	309	600	600	LR600D	LRTE-Live Roller Transportation	
1	310	600	600	LR600E	LRTE-Live Roller Transportation	
1	311	600	600	LR600F	LRTE-Live Roller Transportation	
1	312	600	600	LR600G	LRTE-Live Roller Transportation	
1	313	600	600	LR600H	LRTE-Live Roller Transportation	
1	314	600	600	LR600J	LRTE-Live Roller Transportation	
1	315	600	600	LR600K	LRTE-Live Roller Transportation	
1	316	600	600	LR600L	LRTE-Live Roller Transportation	
1	317	600	600	LR600M	LRTE-Live Roller Transportation	
1	318	600	600	LR600N	LRTE-Live Roller Transportation	
1	319	600	600	LR600P	LRTE-Live Roller Transportation	
1	320	600	600	LR600Q	LRTE-Live Roller Transportation	
1	321	600	600	LR600R	LRTE-Live Roller Transportation	
1	322	600	600	LR600S	LRTE-Live Roller Transportation	
1	323	600	600	IB602A	BSE-Indexing Belt	

1	324	600	600	IB602B	BSE-Indexing Belt
1	325	600	600	IB602C	BSE-Indexing Belt
1	326	600	600	IB602D	BSE-Indexing Belt
1	327	600	600	IB602E	BSE-Indexing Belt
1	328	600	600	IB602F	BSE-Indexing Belt
1	329	600	600	IB602G	BSE-Indexing Belt
1	330	600	600	IB602H	BSE-Indexing Belt

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QTY	MANUFACTURER, DESCRIPTION MODEL NO./SERIAL NO.					LOCATION
---	Seq. #	Series	Panel	Conveyor Number	Type of Conveyor	----- 12 Sandborn St. Tilton, NH 03276
---	-----	-----	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>	<C>	
1	272	500	n/a	DIV550R	LFS-Line Flow Spur	
1	273	500	n/a	GRC551A	RGC160-Roller Gravity Curve	
1	274	500	n/a	GRC551B	RGC160-Roller Gravity Curve	
1	275	500	n/a	GRC551C	RGC160-Roller Gravity Curve	
1	276	500	n/a	GRC551D	RGC160-Roller Gravity Curve	
1	277	500	n/a	GRC551E	RGC160-Roller Gravity Curve	
1	278	500	n/a	GRC551F	RGC160-Roller Gravity Curve	
1	279	500	n/a	GRC551G	RGC160-Roller Gravity Curve	
1	280	500	n/a	GRC551H	RGC160-Roller Gravity Curve	
1	281	500	n/a	GRC551J	RGC160-Roller Gravity Curve	
1	282	500	n/a	GRC551K	RGC160-Roller Gravity Curve	
1	283	500	n/a	GRC551L	RGC160-Roller Gravity Curve	
1	284	500	n/a	GRC551M	RGC160-Roller Gravity Curve	
1	285	500	n/a	GRC551N	RGC160-Roller Gravity Curve	
1	286	500	n/a	GRC551P	RGC160-Roller Gravity Curve	

1	287	500	n/a	GRC551Q	RGC160-Roller Gravity Curve
1	288	500	n/a	GRC551R	RGC160-Roller Gravity Curve
1	289	500	n/a	GR552A	RGC160-Roller Gravity Curve
1	290	500	n/a	GR552B	RG1916-Roller Gravity
1	291	500	n/a	GR552C	RG1916-Roller Gravity
1	292	500	n/a	GR552D	RG1916-Roller Gravity
1	293	500	n/a	GR552E	RG1916-Roller Gravity
1	294	500	n/a	GR552F	RG1916-Roller Gravity
1	295	500	n/a	GR552G	RG1916-Roller Gravity
1	296	500	n/a	GR552H	RG1916-Roller Gravity
1	297	500	n/a	GR552J	RG1916-Roller Gravity
1	298	500	n/a	GR552K	RG1916-Roller Gravity
1	299	500	n/a	GR552L	RG1916-Roller Gravity
1	300	500	n/a	GR552M	RG1916-Roller Gravity

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QTY	MANUFACTURER, DESCRIPTION MODEL NO./SERIAL NO.					LOCATION
---	Seq. #	Series	Panel	Conveyor Number	Type of Conveyor	-----
<S>	<C>	<C>	<C>	<C>	<C>	
1	331	600	600	IB602J	BSE-Indexing Belt	12 Sandborn St. Tilton, NH 03276
1	332	600	600	IB802K	BSE-Indexing Belt	
1	333	600	600	IB602L	BSE-Indexing Belt	
1	334	600	600	IB602M	BSE-Indexing Belt	
1	335	600	600	IB602N	BSE-Indexing Belt	
1	336	600	600	IB602P	BSE-Indexing Belt	
1	337	600	600	IB602Q	BSE-Indexing Belt	
1	338	600	600	IB602R	BSE-Indexing Belt	

1	339	600	600	IB602S	BSE-Indexing Belt
1	340	600	600	LRM604A	LRSC-Live Roller Spur Curve
1	341	600	600	LRM604B	LRSC-Live Roller Spur Curve
1	342	600	600	LRM604C	LRSC-Live Roller Spur Curve
1	343	600	600	LRM604D	LRSC-Live Roller Spur Curve
1	344	600	600	LRM604E	LRSC-Live Roller Spur Curve
1	345	600	600	LRM604F	LRSC-Live Roller Spur Curve
1	346	600	600	LRM604G	LRSC-Live Roller Spur Curve
1	347	600	600	LRM604H	LRSC-Live Roller Spur Curve
1	348	600	600	LRM604J	LRSC-Live Roller Spur Curve
1	349	600	600	LRM604K	LRSC-Live Roller Spur Curve
1	350	600	600	LRM604L	LRSC-Live Roller Spur Curve
1	351	600	600	LRM604M	LRSC-Live Roller Spur Curve
1	352	600	600	LRM604N	LRSC-Live Roller Spur Curve
1	353	600	600	LRM604P	LRSC-Live Roller Spur Curve
1	354	600	600	LRM604Q	LRSC-Live Roller Spur Curve
1	355	600	600	LRM604R	LRSC-Live Roller Spur Curve
1	356	600	600	LRC606	LRSC-Live Roller Curve
1	357	600	600	PB610	BRC-Powered Belt
1	358	600	600	PB612	BRC-Powered Belt

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QTY	MANUFACTURER, DESCRIPTION MODEL NO./SERIAL NO.					LOCATION
---	Seq. #	Series	Panel	Conveyor Number	Type of Conveyor	-----
<S>	<C>	<C>	<C>	<C>	<C>	12 Sandborn St. Tilton, NH 03276
1	359	500	600	LRC614	LRC-Live Roller Curve	

1	360	500	600	LRC616	LRC-Live Roller Curve
1	361	500	600	PB1618	BIC-15 Degree Incline Belt
1	362	500	600	LRA620	LRZC-Zero Pressure Accumulation
1	363	500	600	BSB622	BMSE-Brake/Motor Belt
1	364	600	600	PB630	BRC-Powered Belt
1	365	600	600	PB632	BRC-Powered Belt
1	366	600	600	LRC634	LRC-Live Roller Curve
1	367	600	600	LRC636	LRC-Live Roller Curve
1	368	600	600	PB1638	BIC-15 Degree Belt Incline
1	369	600	600	LRA640	LRZE-Zero Pressure Accumulation
1	370	600	600	BSB642	BMSE-Brake/Meter Belt
1	371	600	600	BM650	PBM-Powered Belt Merge
1	372	600	600	SOR652	BRC-Sort Belt
1	373	600	600	LRA854	LRZE-Zero Pressure Accumulation
1	374	600	600	DIV680	LRSC-Live Roller Spur Curve
1	375	600	600	PB1662	BIC-15 Degree Belt Incline
1	376	600	600	LRA664	LRZE-Zero Pressure Accumulation
1	377	600	n/a	DIV670	LFS-Line Flow Spur
1	378	600	n/a	LRC674	LRC-Live Roller Curve
1	379	600	600	LRA676	LRZE-Zero Pressure Accumulation
1	380	600	n/a	CH678	CHT-Chute
1	381	600	n/a	GR680	RG1916-Roller Gravity
105	382	600	n/a	GA500	1.5" Angle Guard Rail (bulk)
43	383	600	n/a	GCL600	5.75" Lapped Channel Guard Rail
1	384	700	n/a	LRC724	LRC-Live Roller Curve
1	385	700	700	LRA726	LRZE-Zero Pressure Accumulation
1	386	700	700	BSB728	BMSE-Brake/Motor Belt
1	387	700	700	BM730	PAM-Powered Belt Merge

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Qty	Manufacturer, Description Model No./Serial No.					Location
	Seq. #	Series	Panel	Conveyor Number	Type of Conveyor	12 Sandborn St. Tilton, NH 03276
<S>	<C>	<C>	<C>	<C>	<C>	
1	388	700	700	BC732	PBC-Powered Belt Curve	
1	389	700	700	SB734	SB-Scale Belt	
1	390	700	700	SOR736	BRC-Sort Belt	
1	391	700	700	SOR738	BRC-Sort Belt	
1	392	700	700	LRC740	LRC-Live Roller Curve	
1	393	700	n/a	LRC742	LRC-Live Roller Curve	
1	394	700	n/a	LRM744	LREWS-Live Roller Merge	
1	395	700	n/a	LRA746	LRZC-Zero Pressure Accumulation	
1	396	700	n/a	BSB748	BMSE-Brake/Meter Belt	
1	397	700	n/a	DIV750A	LFS-Line Flow Spur	
1	398	700	n/a	DIV750B	LFS-Line Flow Spur	
1	399	700	n/a	DIV750C	LFS-Line Flow Spur	
1	400	700	n/a	DIV750D	LFS-Line Flow Spur	
1	401	700	n/a	DIV750E	LFS-Line Flow Spur	
1	402	700	n/a	GRC751A	RGC150-Roller Gravity Curve	
1	403	700	n/a	GRC751B	RGC150-Roller Gravity Curve	
1	404	700	n/a	GRC751C	RGC150-Roller Gravity Curve	
1	405	700	n/a	GRC751D	RGC150-Roller Gravity Curve	
1	406	700	n/a	GRC751E	RGC150-Roller Gravity Curve	
1	407	700	n/a	CH752A	CHT-Chute	
1	408	700	n/a	CH752B	CHT-Chute	
1	409	700	n/a	CH752C	CHT-Chute	
1	410	700	n/a	CH752D	CHT-Chute	
1	411	700	n/a	CH752E	CHT-Chute	
1	412	700	n/a	GR753A	RG1916-Roller Gravity	

1	413	700	n/a	GR753B	RG1916-Roller Gravity
1	414	700	n/a	GR753C	RG1916-Roller Gravity
1	415	700	n/a	GR753D	RG1916-Roller Gravity
1	416	700	n/a	GR753E	RG1916-Roller Gravity
1	417	700	n/a	DIV760	LFS-Line Flow Spur

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QTY	MANUFACTURER, DESCRIPTION MODEL NO./SERIAL NO.					LOCATION
---	Seq. #	Series	Panel	Conveyor Number	Type of Conveyor	12 Sandborn St. Tilton, NH 03276
---	---	-----	-----	-----	-----	
<S>	<C>	<C>	<C>	<C>	<C>	
1	418	700	n/a	GRC761	RGCl60-Roller Gravity Curve	
1	419	700	700	PB1762	BIC-15 Degree Belt Incline	
1	420	700	n/a	GRC764	RGCl60-Roller Gravity Curve	
1	421	700	n/a	GR766	RG1916-Roller Gravity	
1	422	700	n/a	GRC768	RGCl60-Roller Gravity Curve	
1	423	700	n/a	CH770	CHT-Chule	
1	424	700	n/a	GR772	RG1916-Roller Gravity	
59	425	700	n/a	GCL700	5.75" Lapped Channel Guard Rail (bulk)	
1	426	800	100	PB800A	BIC-12.5 Degree Incline Trash Belt	
1	427	800	100	PB800B	BIC-12.5 Degree Incline Trash Belt	
1	428	800	100	PB800C	BIC-12.5 Degree Incline Trash Belt	
1	429	800	100	PB800D	BIC-12.5 Degree Incline Trash Belt	
1	430	800	100	PB810	BIC-15 Degree Incline Trash Belt	
1	431	800	300-2	PB820	BIC-12.5 Degree Incline Trash Belt	
1	432	800	n/a	CH821	CT-Chule	
1	433	800	300-2	PB822	BSC-Trash Belt	

1	434	800	300-2	PB824	BIC-15 Degree Incline Trash Belt
1	435	800	300-2	PB830	BIC-12.5 Degree Incline Trash Belt
1	436	800	n/a	CH832	CHT-Chule
1	437	800	300-2	PB833	BSC-Trash Belt
1	438	800	300-2	PB834	BIC-15 Degree Incline Trash Belt
1	439	800	400	PB840	BSC-Trash Belt
1	440	800	400	PB842	BSC-Trash Belt
1	441	800	800	PB844	BIC-15 Degree Incline Trash Belt
1	442	800	800	PB850	BSC-Trash Belt
1	443	800	800	PB855	BSC-Trash Belt
1	444	800	800	CH857	CHT-Chule
1	445	800	800	PB860A	BSSE-Pitched Trash Belt
1	446	800	800	PB860B	BSE-Pitched Trash Belt
1	447	800	800	PB860C	BSE-Pitched Trash Belt

</TABLE>

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<CAPTION>

QTY	MANUFACTURER, DESCRIPTION MODEL NO./SERIAL NO.					LOCATION
---	Seq. #	Series	Panel	Conveyor Number	Type of Conveyor	-----
						12 Sandborn St. Tilton, NH 03276
<S>	<C>	<C>	<C>	<C>	<C>	
1	448	800	800	PB860D	BSE-Pitched Trash Belt	
1	449	800	800	PB860E	BSE-Pitched Trash Belt	
1	450	800	800	PB860F	BSE-Pitched Trash Belt	
1	451	800	800	PB860G	BSE-Pitched Trash Belt	
1	452	800	800	PB860H	BSE-Pitched Trash Belt	
1	453	800	800	PB860J	BSE-Pitched Trash Belt	
1	454	800	800	PB860K	BSE-Pitched Trash Belt	

1	455	800	800	PB860L	BSE-Pitched Trash Belt
1	456	800	800	PB860M	BSE-Pitched Trash Belt
1	457	800	800	PB860N	BSE-Pitched Trash Belt
1	458	800	800	PB860P	BSE-Pitched Trash Belt
1	459	800	800	PB860Q	BSE-Pitched Trash Belt
1	460	800	800	PB860R	BSE-Pitched Trash Belt
1	461	800	800	PB862	BSC-Trash Belt
1	462	800	800	PB864	BSC-Trash Belt
1	463	800	800	PB866	BIC-15 Degree Incline Trash Belt
1	464	800	n/a	CH870A	CHT-Drop Chute
1	465	800	n/a	CH870B	CHT-Drop Chute
1	466	800	n/a	CH870C	CHT-Drop Chute
1	467	800	n/a	CH870D	CHT-Drop Chute
1	468	800	n/a	CH880A	CHT-Drop Chute
1	469	800	n/a	CH880B	CHT-Drop Chute
1	470	800	n/a	CH880C	CHT-Drop Chute

</TABLE>

<TABLE>
<CAPTION>

QTY	MANUFACTURER, DESCRIPTION MODEL NO./SERIAL NO.					LOCATION
	Seq. #	Series	Panel	Conveyor Number	Type of Conveyor	12 Sandborn St. Tilton, NH 03276
<S>	<C>	<C>	<C>	<C>	<C>	
1	471	800	n/a	CH880D	CHT-Drop Chule	
81	472	800	n/a	GA800	1.5" Angle Guard Rail (bulk)	
118	473	800	n/a	GCL800	5.75" Lapped Channel Guard Rail (bulk)	
52	474	800	n/a	GCL18-800	18" Channel Guard Rail (bulk)	
	475	900	500		Auto Bag Sorter	
1	476	PL	n/a	PL01	Platform (Crossovers Only)	

1	477	PL	n/a	PL02	Platform
1	478	PL	n/a	PL03	Platform
1	479	PL	n/a	PL04	Platform
1	480	PL	n/a	PL05	Platform

</TABLE>

Above equipment distributed by: Designed Conveyor Systems, Inc.

ASSIGNMENT OF
AGREEMENTS, PERMITS AND CONTRACTS

THIS ASSIGNMENT, given as of March 1st, 1999, by BIRCH POND REALTY CORPORATION (doing business in the State of New Hampshire as BPRC) ("BORROWER"), to JOHN HANCOCK REAL ESTATE FINANCE, INC., a Delaware corporation, having its principal place of business at John Hancock Place, T-53, 200 Clarendon Street, Boston, Massachusetts 02116 ("LENDER").

W I T N E S S E T H :

WHEREAS, Borrower is the owner of the fee estate in the premises described in EXHIBIT A attached hereto (hereinafter referred to as the "PREMISES");

WHEREAS, the Lender has made a loan in the principal sum of \$12,000,000.00 to Borrower (the "LOAN");

WHEREAS the Loan is evidenced by a certain note in the principal sum of \$12,000,000.00 given by Borrower to lender (the "NOTE") and is secured by that certain Mortgage, Assignment of Leases and Rents and Security Agreement, dated of even date herewith, in the principal sum of \$12,000,000.00, covering the Premises (the "MORTGAGE") (said Note and Mortgage together with all other documents evidencing or securing the Loan being hereinafter collectively referred to as the "LOAN DOCUMENTS");

WHEREAS, the Lender was unwilling to make the Loan to the Borrower unless the Borrower in the manner hereinafter set forth assigned to Lender as additional security for the payment of the Loan and the observance and performance by the Borrower of the terms, covenants and conditions of the Loan Documents on the part of the Borrower to be observed and performed, all of the Borrower's right, title and interest in and to all permits, license agreements, operating contracts, licenses (including liquor licenses, to the extent assignable by Borrower), franchise agreements and all management, service, supply and maintenance contracts and agreements, and any other agreements, permits or contracts of any nature whatsoever now or hereafter obtained or entered into by the Borrower with respect to the operation of the Premises, including without limitations those documents and agreements described in EXHIBIT B attached hereto and made a part hereof (collectively, the "AGREEMENTS");

NOW, THEREFORE, in consideration of the sum of Ten Dollars (\$10) and other good and valuable consideration the receipt and sufficiency of which are

hereby acknowledged, the Borrower hereby assigns to Lender as additional security for the payment of the Loan and the observance and performance by the Borrower of the terms, covenants and conditions of the Loan Documents on the part of the Borrower to be observed or performed, all of the Borrower's right, title and interest in and to the Agreements.

The Borrower covenants and agrees that the Borrower will (a) fulfill and perform each and every term, covenant and provision of the Agreements to be fulfilled or performed by the Borrower thereunder, if any, (b) give prompt notice to the Lender of any notice received by the Borrower under any of the Agreements, together with a complete copy of any such notice, (c) enforce, short of termination thereof,

1

Loan No. 3212525

the performance and observance of each and every term, covenant and provision of the Agreements to be performed or observed, if any and (d) not terminate any of the Agreements without the prior written consent of the Lender.

The Borrower hereby represents and warrants that as of the date hereof, there are no operating agreements, service agreements or other agreements to which Borrower is a party, and that there are no permits, licenses, or certificates required for the operation of the Mortgaged Property (as defined in the Mortgage), other than as set forth on EXHIBIT B attached hereto and all such agreements are in full force and effect with no defaults thereunder and all such agreements have been assigned to or are in the name of the Borrower. Borrower hereby agrees that it shall constitute an Event of Default under the Mortgage if the representation or warranty set forth in the preceding sentence is false or inaccurate.

This Assignment is given as collateral security for the obligations of the Borrower to the Lender pursuant to the Loan Documents.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK; SIGNATURE PAGE(S) FOLLOW(S)]

2

IN WITNESS WHEREOF, the Borrower has duly executed this instrument as of the day and year first above written.

Beginning at the northeast corner of the described premises at land now or formerly of the State of New Hampshire and at a re-bar on the westerly sideline of Route 132, Sanborn Road:

1. S 19 DEG. 20'44" E 45.87' by said Route 132 to a point; then
2. By a curve to the right having a Delta of 17 DEG. 00'15", a radius of 930.00 feet, an arc distance of 276.00 feet, and a chord bearing of S 10 DEG. 50'37" E and a chord distance of 274.99 feet by said Route to a re-bar; then
3. S 02 DEG. 20'29" E 155.23' by said Route to a re-bar; then
4. S 03 DEG. 47'32" W 86.83' by said Route to a rebar; then
5. S 03 DEG. 05'40" W 523.55' by said Route to a rebar; then
6. By a curve to the left having a Delta of 01 DEG. 40'53" and a radius of 11,489.16 feet, an arc distance of 337.18 feet, and a chord bearing of S 02 DEG. 15'13" W and a chord distance of 337.17 feet by said Route to a re-bar; then
7. By a curve to the left having a Delta of 02 DEG. 59'59" and a radius of 11,492.87 feet, an arc distance of 601.71 feet, and a chord bearing of S 01 DEG. 03'20" W and a chord distance of 601.64 feet by said Route to a re-bar; then
8. By a curve to the left having a Delta of 01 DEG. 52'45" and a radius of 11,501.15 feet, an arc distance of 377.22 feet, and a chord bearing of S 02 DEG. 31'31" W and a chord distance of 377.20 feet by said Route to a re-bar; then
9. S 03 DEG. 27'54" E 248.12' by said Route to a point at now or formerly of Oliver; then
10. S 89 DEG. 39'25" W 287.08' by said land of Oliver to a rebar; then
11. S 08 DEG. 48'25" W 225.00' by said land of Oliver to a rebar; then
12. S 08 DEG. 48'25" W, a distance of 20.00' to a point at land now or formerly of

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the State of New Hampshire; then

13. N70 DEG. 50'37"W 54.78' by land of the State; then

14. N 81 DEG. 42'19"W 58.01' by land of the State; then
15. S 82 DEG. 53'59"W 142.27' by land of the State; then
16. S76 DEG. 57'22"W 157.00' by land of the State; then
17. S 89 DEG. 46'48"W 67.18' by land of the State; then
18. N65 DEG. 59'17"W 79.43' by land of the State; then
19. N47 DEG. 43'27"W 87.84' by land of the State; then
20. N27 DEG. 29'46"W 83.28' by land of the State; then
21. S73 DEG. 59'49"W 53.30' by land of the State; then
22. N45 DEG. 19'18"W 43.24' by land of the State; then
23. N26 DEG. 13'08" W 16.85' by land of the State; then
24. S83 DEG. 49'28"W 29.65' by land of the State; then
25. N60 DEG. 40'11"W 56.97' by land of the State; then
26. N38 DEG. 05'58"W 37.81' by land of the State; then
27. N60 DEG. 17'32"W 38.15' by land of the State; then
28. N31 DEG. 50'23"W 27.09' by land of the State; then
29. N74 DEG. 42'14"W 22.80' by land of the State; then
30. S74 DEG. 47'09" W 91.21' by land of the State; then
31. N87 DEG. 39'11"W 149.12' by land of the State; then
32. S72 DEG. 41'13"W 67.05' by land of the State; then
33. N72 DEG. 57'33" W 454.56' by land of the State; then
34. N29 DEG. 36'39"W 498.10' by land of the State: then

35. N29 DEG. 36'39"W 56.30' by land of the State; then
36. N16 DEG. 46'49"W 348.61' by land of the State to a concrete bound;
then
37. N14 DEG. 31'44"E 885.88' by land of the State to a concrete bound;
then
38. N58 DEG. 29'32"E 430.73' by land of the State to a re-bar; then
39. N05 DEG. 11'37"W 335.93' by land of the State to a re-bar; then
40. S76 DEG. 46'28"W 55.90' by land of the State to a concrete bound;
then
41. N85 DEG. 46'21"W 3.96' by land of the State to a point at land now
or formerly of DM Management Company ("DM"); then
42. N66 DEG. 32'51"E 1044.50 feet by land of said DM, then
43. N85 DEG. 07'38"E 305.57' by land of said DM to a stone wall; then
44. S25 DEG. 23'01"E 51.24' by land now or formerly of Miller and said
wall to a re-bar at land of the State; then
45. S66 DEG. 06'34"W 50.17' by land of the State and a stone wall to a
drill hole in the wall; then
46. S21 DEG. 06'31"E 95.43' by land of the State; then
47. S18 DEG. 16'00"E 175.19' by land of the State to a re-bar; then
48. N69 DEG. 11'55"E 499.88' by land of the State to the point of
beginning.

Meaning and intending to describe the land shown on a Plan entitled, "ALTA/ACSM LAND TITLE SURVEY, Plan of Land Prepared for DM Management Company, Route 132 (Sanborn Road), Tilton, NH," dated November 19, 1998, by Yerkes Surveying Consultants and recorded in the Belknap County Registry of Deeds on February 16, 1999, in Drawer L-31 #'s 61 and 62.

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EXHIBIT B

DESCRIPTION OF CERTAIN AGREEMENTS, PERMITS AND CONTRACTS

1. Contract for Snow Removal and Related Services with Outside Unlimited Landscape Contractors dated September 12, 1998.

2. Elevator Inspection Certificate expiring 12/1999.

Exhibit B-1

INDEMNIFICATION AGREEMENT

THIS INDEMNIFICATION AGREEMENT made as of March 1, 1999, by BIRCH POND REALTY CORPORATION, a Delaware corporation (doing business in the State of New Hampshire as BPRC), with a principal place of business at 100 Birch Pond Drive, Tilton, New Hampshire 03289 and DM MANAGEMENT COMPANY, a Delaware corporation with a mailing address at 25 Recreation Park Drive, Hingham, Massachusetts 02043, (hereinafter, together, "INDEMNITOR"), to and for the benefit of JOHN HANCOCK REAL ESTATE FINANCE, INC., a Delaware corporation, having its principal place of business at John Hancock Place, T-53, 200 Clarendon Street, Boston, Massachusetts 02116 ("MORTGAGEE"),

W I T N E S S E T H:

WHEREAS, Birch Pond Realty Corporation has applied to Mortgagee for a real estate mortgage loan in the amount of TWELVE MILLION AND 0/100 DOLLARS (\$12,000,000.00) (the "LOAN"), to be evidenced by its note (the "NOTE") in that amount of even date herewith, secured by a real estate mortgage (the "MORTGAGE") on property now known as Dm Management Office and Distribution Facility and located at 100 Birch Pond Drive, Tilton, Belknap County, New Hampshire (the "MORTGAGED PROPERTY"), bearing the same date as the Note; and

WHEREAS, Mortgagee is unwilling to make said Loan unless Indemnitor agrees to indemnify and hold Mortgagee harmless from and against certain matters;

WHEREAS, Indemnitor desires to give such indemnification to Mortgagee in order to induce Mortgagee to make the Loan; and

WHEREAS, Indemnitor has full authority and power to execute and deliver this Indemnification Agreement and to assume liability hereunder;

NOW, THEREFORE, for the purpose of inducing Mortgagee to make the Loan to Indemnitor, which Indemnitor acknowledges is good, valuable, and sufficient consideration:

1. INDEMNITIES.

(a) Notwithstanding any provisions in the Note or Mortgage or

any other instrument evidencing, securing, guaranteeing or executed in connection with the Loan (collectively the "LOAN DOCUMENTS") limiting or negating Indemnitor's personal liability, Indemnitor agrees to unconditionally and absolutely indemnify and hold Mortgagee (as defined in Section 12 hereof), its officers, directors, policyholders, employees, agents and attorneys harmless from and against any loss, cost, liability, damage, claim or expense, including reasonable attorneys' fees, suffered or incurred by Mortgagee in connection with the Mortgaged Property at any time, whether before, during or after enforcement of Mortgagee's rights and remedies upon default under the Loan Documents, under or on account of, or as a result of (i) any Environmental Laws, as that term is defined in Section 13 hereof, (ii) any presence (other than "Complying Hazardous Materials,

Loan No. 3212525

as defined below), release, or threat of release of Hazardous Materials, as defined in Section 13 hereof, at, upon, under or within the Mortgaged Property, (iii) the presence of asbestos or asbestos-containing materials, PCB's, radon gas, urea formaldehyde foam insulation or lead (whether in paint, water, soil, or plaster) at the Mortgaged Property, (iv) any breach of the covenants and warranties made in Section 2 hereof or in Paragraph 39 of the Mortgage or in that certain Environmental Certificate, as amended (the "ENVIRONMENTAL CERTIFICATE") executed in connection with Indemnitor's application for the Loan, (v) the falsity of any of the representations made in Section 2 hereof or in Paragraph 39 of the Mortgage or in the Environmental Certificate, whether or not caused by Indemnitor or (vi) the failure of Indemnitor to duly perform the obligations or actions set forth in Section 2 hereof and in Paragraph 39 of the Mortgage, including, without limitation, for all parts of this subsection 1(a), with respect to: (A) the imposition by any governmental authority of any lien upon the Mortgaged Property, (B) clean-up costs, (C) liability for personal injury or property damage or damage to the environment, (D) any diminution in the value of the Mortgaged Property and (E) fines, penalties and punitive damages. The term "COMPLYING HAZARDOUS MATERIALS" shall mean substances generally available and (a) used in the ordinary course of managing and operating the Mortgaged Property for their intended purpose to clean and maintain the Mortgaged Property, or (b) used by tenants at the Mortgaged Property in their ordinary course of business; provided that, in each case, the use, storage and disposal of all such substances shall be conducted in strict compliance with all applicable laws.

(b) Indemnitor further agrees that Mortgagee shall not assume

any liability or obligation for loss, damage, fines, penalties, claims or duty to clean up or dispose of wastes or materials on or relating to the Mortgaged Property as a result of any conveyance of title to the Mortgaged Property to the Mortgagee or otherwise or as a result of any inspections or any other actions made or taken by Mortgagee on the Mortgaged Property. Indemnitor agrees to remain fully liable and shall indemnify and hold harmless Mortgagee from any costs, expenses, clean-up costs, waste disposal costs, litigation costs, fines and penalties, including without limitation any costs, expenses, penalties and fines within the meaning of any Environmental Laws.

(c) Indemnitor shall assume the burden and expense of defending Mortgagee, with counsel satisfactory to Mortgagee, against all legal and administrative proceedings arising out of the occurrences set forth in this Indemnification Agreement. Mortgagee shall have the right, but not the obligation, to participate in the defense of any such proceedings. Indemnitor may compromise or settle any such proceedings without the consent of Mortgagee only if the claimant agrees as part of the compromise or settlement that Mortgagee shall have no responsibility or liability for the payment or discharge of any amount agreed upon or obligation to take any other action.

(d) Indemnitor shall pay when due any judgments against Mortgagee which have been indemnified under this Indemnification Agreement and which are rendered by a final order or decree of a court of competent jurisdiction from which no further appeal may be taken or has been taken within the applicable appeal period. In the event that such payment is not made, Mortgagee, in its sole discretion, may pay any such judgments, in whole or in part, and look to Indemnitor for

reimbursement pursuant to this Indemnification Agreement, or may proceed to file suit against Indemnitor to compel such payment.

(e) It is understood that the presence and/or release of substances referred to in section 1(a) hereof does not pertain to a presence and/or release which first occurs solely after (A) repayment of the Loan in full accordance with the Loan Documents or (B) acquisition of title to the Mortgaged Property by Mortgagee upon a foreclosure or acceptance of a deed in lieu of foreclosure and surrender of possession and occupancy of the Mortgaged Property by Indemnitor, its agents, affiliates, employees and independent

contractors. Indemnitor shall have the burden of proving that the conditions in this subsection (e) were satisfied by clear and convincing evidence and shall continue to defend with counsel satisfactory to Mortgagee and shall indemnify and hold Mortgagee harmless for all matters set forth in Section 1(a) hereof, unless and until a court of competent jurisdiction finds that Indemnitor has met such burden.

2. INDEMNITOR'S REPRESENTATIONS AND WARRANTIES. Indemnitor hereby represents and warrants to Mortgagee as follows:

(a) Indemnitor is solvent and the execution of this Indemnification Agreement does not render Indemnitor insolvent. Any and all financial statements, balance sheets, net worth statements and other financial data which have heretofore been furnished to Mortgagee with respect to Indemnitor fairly and accurately present the financial condition of Indemnitor as of the date they were furnished to Mortgagee and, since that date, there has been no material adverse change in the financial condition of Indemnitor.

(b) There are no legal proceedings or material claims or demands pending against or, to the best of Indemnitor's knowledge, threatened against Indemnitor or any of its assets, except if set forth in any EXHIBIT A attached hereto.

(c) The execution and delivery of this Indemnification Agreement and the assumption of liability hereunder have been in all respects authorized and approved by Indemnitor and, if applicable, each constituent party or owner of Indemnitor; Indemnitor has full authority and power to execute this Indemnification Agreement and to perform its obligations hereunder; and this Indemnification Agreement constitutes a legal, valid and binding obligation of Indemnitor and is enforceable in accordance with its terms, except as may be limited by (i) bankruptcy, insolvency, or other similar laws affecting the rights of creditors generally, and (ii) general principles of equity.

(d) Neither the execution nor the delivery of this Indemnification Agreement nor the fulfillment and compliance with the provisions hereof will conflict with or result in a breach of or constitute a default under or result in the creation of any lien, charge or encumbrance upon any property or assets of Indemnitor under any agreement or instrument to which Indemnitor is now a party or by which it may be bound.

(e) (i) Indemnitor has performed reasonable investigations, studies and tests as to any possible environmental contamination, liabilities or problems with respect to the Mortgaged Property and such investigations, studies and tests have disclosed no Hazardous Materials or possible violations of any Environmental Laws.

(ii) To the best of Indemnitor's knowledge, there have been no releases of Hazardous Materials either at, upon, under or within the Mortgaged Property and no Hazardous Materials have migrated to the Mortgaged Property. No Hazardous Materials are located, stored or used on (other than Complying Hazardous Materials) or have been processed or disposed of on or released or discharged from (including ground water contamination) the Mortgaged Property, and no above or underground storage tanks exist on the Property.

(iii) Indemnitor shall not allow any Hazardous Materials to exist or be stored, located, discharged, released, possessed, managed, processed or otherwise handled on the Mortgaged Property (except materials which (a) are ordinarily and customarily used in the regular operation of the Mortgaged Property as an office, warehouse, distribution and industrial building by the Mortgagor or any current tenant or any future tenant, which tenant and its lease have been approved by the Mortgagee, and (b) are used, stored, disposed of and handled in compliance with and in quantities permitted by all applicable Environmental Laws), and shall strictly comply with all Environmental Laws affecting the Mortgaged Property, including those laws regarding the generation, storage, disposal, release and discharge of Hazardous Materials. Without limiting the generality of the foregoing, Indemnitor has not been, is not and will not become involved in operations at the Mortgaged Property which could lead to imposition on Indemnitor of liability under any Environmental Law. Indemnitor expressly warrants, represents and covenants that Indemnitor shall strictly comply with all requirements of applicable Environmental Laws and shall immediately notify Mortgagee of any releases of Hazardous Materials at, upon, under or within the Mortgaged Property.

(iv) Neither Indemnitor, the Mortgaged Property or any affiliate of Indemnitor (A) has received notice of or is subject to any private or governmental lien or judicial or administrative notice, order or action relating to Hazardous Materials or environmental problems, impairments or liabilities with respect to the Mortgaged Property or such other property or (B) is in or, with any applicable notice or

lapse of time or failure to take certain curative or remedial actions, will be in either direct or indirect violation of any Environmental Laws.

(v) Indemnitor shall strictly comply with the requirements of all Environmental Laws affecting the Mortgaged Property.

(vi) Indemnitor hereby warrants and represents that, except as set forth on Exhibit B attached hereto and made a part hereof, all of the answers on the Environmental

Certificate are true and complete as of the date hereof. Indemnitor shall immediately notify Mortgagee in writing should Indemnitor become aware that any of the answers on the Environmental Certificate either (A) was not true at the time the Environmental Certificate was executed or (B) becomes untrue during the term of the Loan.

3. WAIVERS. Indemnitor hereby waives the following: (a) notice of Mortgagee's acceptance of this Indemnification Agreement; (b) notice of Indemnitor's grant to Mortgagee of a security interest lien or encumbrance in any of Indemnitor's assets; (c) Mortgagee's release, waiver, modification or amendment of any Loan Document or any security interest, lien or encumbrance in any other party's assets given to Mortgagee to secure any Loan Document; (d) presentment, demand, notice of default, non-payment, partial payment and protest and all other notices or formalities to which Indemnitor may be entitled; (e) extensions of time of payment of the Note granted to Indemnitor or any other forbearances in Mortgagee's enforcement of the Loan Documents; (f) acceptance from Indemnitor (or any other party) of any partial payment or payments of the Note or any collateral securing the payment thereof or the settlement, subordination, discharge or release of the Note; (g) notice of any of the matters set forth in parts (c) through (f) of this Section 3; (h) all suretyship defenses of every kind and nature; and (i) the defense of the statute of limitations in any action brought to enforce this Indemnification Agreement. Indemnitor agrees that Mortgagee may have done, or at any time may do, any or all of the foregoing actions in such manner, upon such terms and at such times as Mortgagee, in its sole discretion, deems advisable, without in any way impairing, affecting, reducing or releasing Indemnitor from Indemnitor's obligations under this Indemnification Agreement and Indemnitor hereby consents to each of the foregoing actions.

4. ENFORCEMENT.

(a) Indemnitor agrees that this Indemnification Agreement may be enforced by Mortgagee without first resorting to or exhausting any other security or collateral or without first having recourse to the Note or any of the property covered by the Mortgage through foreclosure proceedings or otherwise; provided, however, that nothing herein contained shall prevent Mortgagee from suing on the Note or foreclosing the Mortgage or from exercising any other rights thereunder.

(b) Indemnitor agrees that the indemnifications set forth herein are separate, independent of and in addition to Birch Pond Realty Corporation's undertakings under the Note. Indemnitor agrees that a separate action may be brought to enforce the provisions of this Indemnification Agreement which shall in no way be deemed to be an action on the Note, whether or not Mortgagee would be entitled to a deficiency judgment following a judicial foreclosure or sale under the Mortgage.

(c) This Indemnification Agreement shall be enforced and construed in accordance with the laws of the state in which the Mortgaged Property is located. Indemnitor hereby submits to personal jurisdiction in said state for the enforcement of this Indemnification Agreement and hereby waives any claim or right under the laws of any other state or of the United States to object to such jurisdiction. If such litigation is commenced, Indemnitor agrees that service of process may

be made by serving a copy of the summons and complaint upon Indemnitor, through any lawful means, including upon its registered agent within said state, whom Indemnitor hereby appoints as its agent for these purposes. Nothing contained herein shall prevent Mortgagee's bringing any action or exercising any rights against Indemnitor personally or against any property of Indemnitor within any other county, state, or country. The means of obtaining personal jurisdiction and perfecting service of process set forth above are not intended to be exclusive but are in addition to all other means of obtaining personal jurisdiction and perfecting service of process now or hereafter provided by applicable law.

5. DURATION. Indemnitor agrees that this Indemnification Agreement shall survive a foreclosure or the taking of a deed in lieu of foreclosure, the

discharge of Indemnitor's obligations under any of the Loan Documents, or any transfer of the Mortgaged Property.

6. NOTICE BY INDEMNITOR. Indemnitor shall promptly after obtaining knowledge thereof advise Mortgagee in writing of (a) any governmental or regulatory actions instituted or threatened in writing under any Environmental Law affecting the Mortgaged Property or the matters indemnified hereunder, including without limitation any notice of inspection, abatement or non-compliance; (b) all claims made or threatened in writing by any third party against Indemnitor or the Mortgaged Property relating to damage, contribution, cost recovery, compensation, loss or injury resulting from the presence, release, threat of release or discharge on or from the Mortgaged Property of any Hazardous Materials; and (c) Indemnitor's discovery of the presence of Hazardous Materials on the Mortgaged Property or on any real property adjoining or in the vicinity of the Mortgaged Property, or of any occurrence or condition on any such property which could subject Indemnitor or the Mortgaged Property to a claim under any Environmental Law or to any restrictions on ownership, occupancy, transferability or use of the Mortgaged Property under any Environmental Law. Indemnitor shall deliver to Mortgagee any documentation or records as Mortgagee may request and which are susceptible of being obtained by Indemnitor without undue cost or expense and without the necessity for initiating legal proceedings to obtain the same in connection with all such actions, claims, discoveries, notices, inquiries and communications and shall advise Mortgagee of any subsequent developments regarding the same.

7. PAYMENT OF MORTGAGEE'S EXPENSES. If Mortgagee retains counsel for advice or other representation to enforce Indemnitor's obligations hereunder, the attorneys' fees arising from such services and all related expenses and court costs shall be paid by Indemnitor upon demand of Mortgagee. If Mortgagee retains counsel for advice or other representation for any other matter arising hereunder, including, without limitation, any litigation, contest, dispute, suit, or proceeding (whether instituted by Mortgagee, Indemnitor, or any other party) relating to any of the occurrences for which indemnification is given in this Indemnification Agreement or otherwise relating in any way to this Indemnification Agreement and the indemnities described herein, the reasonable attorney's fees arising from such services and all related reasonable expenses and court costs shall be paid by Indemnitor upon demand of Mortgagee.

8. NO WAIVER.

(a) Indemnitor's obligations hereunder shall in no way be impaired, reduced or released by reason of (i) Mortgagee's omission or delay to exercise any right described herein or (ii) any act or

omission of Mortgagee in connection with any notice, demand, warning or claim regarding violations of codes, laws or ordinances governing the Mortgaged Property.

(b) Nothing contained herein shall constitute or be construed as a waiver of any statutory or judicial federal, state or local law which may provide rights or remedies to Mortgagee against Indemnitor or others in connection with any claim relating to the Mortgaged Property and pertaining to the presence and/or release, threatened release, storage, disposal, generating or removal of any Hazardous Materials or to the failure to comply with any Environmental Laws now or hereafter enacted.

9. NOTICE. All notices hereunder shall be given at the following address. If to Indemnitor, to Birch Pond Realty Corporation, 100 Birch Pond Drive, Tilton, New Hampshire 03289 and to DM Management Company, 25 Recreation Park Drive, Hingham, Massachusetts 02043, Attention: Olga Conley; if to Mortgagee, John Hancock Real Estate Finance, Inc., 200 Clarendon Street, T-53, Boston, Massachusetts 02116, Re: Loan No. 3212525. Either party may change their address for notice purposes upon giving fifteen (15) days prior notice thereof in accordance with this section. All notices given hereunder shall be in writing and shall be considered properly given if delivered either personally to such other party, or sent by nationally recognized overnight courier delivery service or by certified mail of the United States Postal Service, postage prepaid return receipt requested, addressed to the other party as set forth above (or to such other address or person as either party entitled to notice may by notice to the other party specify). Unless otherwise specified, notices shall be deemed given as follows: (i) if delivered personally, when delivered, (ii) if delivered by nationally recognized overnight courier delivery service, on the day following the day such material is sent or (iii) if delivered by certified mail, on the third day after the same is deposited in the United States Postal Service as provided above.

10. AMENDMENT AND WAIVER. This Indemnification Agreement may be amended and observance of any term of this Indemnification Agreement may be waived only with the written consent of Mortgagee.

11. SEVERABILITY. All provisions contained in this Indemnification Agreement are severable, and the invalidity or unenforceability of any provision shall not affect or impair the validity or enforceability of the remaining provisions of this Indemnification Agreement.

12. SUCCESSORS AND ASSIGNS. This Indemnification Agreement shall inure to the benefit of and may be enforced by, and the term "Mortgagee" as used in this Agreement shall include, John Hancock Real Estate Finance, Inc. and its successors and assigns, including (a) any subsequent holder of the Note and Mortgage, and (b) any person or entity that acquires the Mortgaged Property at a foreclosure sale or by deed in lieu of foreclosure and the immediate grantee of such person or entity. This Agreement shall be

binding upon and enforceable against Indemnitor and its legal representatives or successors. This Agreement may not be assigned or transferred by Indemnitor, in whole or in part.

13. DEFINITIONS. "HAZARDOUS MATERIALS" shall mean and include, but shall not be limited to, any petroleum product and all hazardous or toxic substances, wastes or substances, any substances which because of their quantitative concentration, chemical, radioactive, flammable, explosive, infectious or other characteristics, constitute or may reasonably be expected to constitute or contribute to a danger or hazard to public health, safety or welfare or to the environment, including, without limitation, any asbestos (whether or not friable) and any asbestos-containing materials, waste oils, solvents and chlorinated oils, polychlorinated biphenyls (PCBs), toxic metals, etchants, pickling and plating wastes, explosives, reactive metals and compounds, pesticides, herbicides, radon gas, urea formaldehyde foam insulation and chemical, biological and radioactive wastes, or any other similar materials or any hazardous or toxic wastes or substances which are included under or regulated by any federal, state or local law, rule or regulation (whether now existing or hereafter enacted or promulgated, as they may be amended from time to time) pertaining to environmental regulations, contamination, clean-up or disclosures and any judicial or administrative interpretation thereof, including any judicial or administrative orders or judgments, including, without limitation, the Comprehensive Environmental Response, Compensation and Liability Act of 1980, 42 U.S.C. section 9601 ET SEQ. ("CERCLA"); The Federal Resource Conservation and Recovery Act, 42 U.S.C. section 6901 ET SEQ. ("RCRA"); Superfund Amendments and Reauthorization Act of 1986, Public Law No. 99-499 ("SARA"); Toxic Substances Control Act, 15 U.S.C. section 2601 ET SEQ. ("TSCA"); the Hazardous Materials Transportation Act, 49 U.S.C. section 1801 ET SEQ.; and any other state superlien or environmental clean-up or disclosure statutes (all such laws, rules and regulations being referred to collectively as "ENVIRONMENTAL LAWS").

14. JOINT AND SEVERAL LIABILITY. If more than one person is included in the definition of Indemnitor, the liability of all such persons hereunder shall be joint and several.

15. SPECIAL STATE PROVISIONS.

(a) In the event of any inconsistencies between the other paragraphs of this Indemnification Agreement and this Paragraph 15, the terms and conditions of this Paragraph 15 shall control and be binding.

(b) ENVIRONMENTAL LAWS. The term "Environmental Laws" shall be

deemed to include, without limitation, the following statutes: New Hampshire RSA 125-A, 125-C, 125-I, 146-A, 146-C, 147-A, 147-B, 149-I and 149-M, as they may be amended.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK; SIGNATURE PAGE(S) FOLLOW(S)]

8

IN WITNESS WHEREOF, Indemnitor has executed this instrument under seal the day and year first above written.

BIRCH POND REALTY CORPORATION
(doing business in the State of New Hampshire
as BPRC)

By: /s/ Olga L. Conley

Name: OLGA L. CONLEY
Its: TREASURER

DM MANAGEMENT COMPANY

By: /s/ Olga L. Conley

Name: OLGA L. CONLEY
Its: CHIEF FINANCIAL OFFICER

9

EXHIBIT A

LEGAL CLAIMS

From time to time DM Management Company (the "Company") receives claims asserting infringement by the Company of trademark and other intellectual property rights. These claims are normally resolved without formal legal proceedings and without payment by the Company of significant amounts of money.

The following is a summary of a recently received claim:

The Company received a letter from Williams-Sonoma, Inc. dated December 2, 1998 alleging certain infringement by the Company of Williams-Sonoma's intellectual property rights in its Pottery Barn catalogs and certain unethical use by the Company of Williams-Sonoma's mailing lists. The Company believes that these claims are without merit, and the Company's attorneys have responded on the Company's behalf through a letter to Williams-Sonoma's attorneys dated December 22, 1998. To date the Company and its attorneys have not heard anything further from Williams-Sonoma or its attorneys.

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EXHIBIT B

WARRANTIES AND REPRESENTATIONS

The Environmental Questionnaire and Certificate originally submitted to Mortgagee by DM Management Company failed to state that Complying Hazardous Materials are located on the Mortgaged Property.

11

GUARANTY AGREEMENT

THIS GUARANTY AGREEMENT ("GUARANTY"), is entered into effective as of March 1, 1999, by DM MANAGEMENT COMPANY, a Delaware corporation with a mailing address at 25 Recreation Park Drive, Hingham, Massachusetts 02043, ("GUARANTOR"), in favor of JOHN HANCOCK REAL ESTATE FINANCE, INC., a Delaware corporation ("LENDER"), and the subsequent owners and holders of the herein below defined Note.

RECITALS:

A. Birch Pond Realty Corporation, a Delaware corporation ("BORROWER") has requested a loan (the "LOAN") from Lender in the amount of \$12,000,000.00 to be evidenced by the Mortgage Note of even date herewith executed by Borrower, payable to Lender in the original principal sum of \$12,000,000.00 (the "NOTE"), and secured by, INTER ALIA, the Mortgage, Assignment of Leases and Rents and Security Agreement of even date herewith executed by Borrower in favor of Lender covering certain property in Tilton, Belknap County, New Hampshire (the "MORTGAGE");

B. Section 19 of the Note sets forth certain amounts, obligations and other liabilities for which Borrower is fully liable to Lender (the "NON-RECOURSE CARVEOUT OBLIGATIONS"), notwithstanding limitations on Borrower's liability pursuant to said Section 19 of the Note;

C. Guarantor is the owner of a direct or indirect interest in Borrower, and Guarantor will directly benefit from Lender's making the Loan to Borrower; and

D. As a condition to making the Loan, Lender has required that Guarantor guarantee the payment of the Non-Recourse Carveout Obligations and performance of the obligations set forth in Section 1 below (the "GUARANTEED OBLIGATIONS").

AGREEMENT:

NOW, THEREFORE, as a material inducement to Lender to agree to make the Loan to Borrower, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Guarantor hereby does irrevocably and unconditionally warrant and represent unto and covenant with Lender as follows:

1. GUARANTY. Guarantor hereby (a) guarantees unto Lender the full and timely payment of the amounts due, or to become due, to Lender under the Non-Recourse Carveout Obligations and (b) agrees with Lender to pay to Lender (i) the amounts due under the Non- Recourse Carveout Obligations within five (5) business days from the date Lender notifies Guarantor of Borrower's failure to pay the same, if and when the same becomes due, and at the place specified in the Note for payment and (ii) Lender's reasonable attorneys' fees and all court costs incurred by Lender in enforcing or protecting any of Lender's rights, remedies or recourses hereunder. Guarantor is not hereby guaranteeing payment of any portion of the indebtedness or performance of any portion of the obligations under the documents evidencing, securing, guaranteeing or executed in connection with the Loan (the "LOAN DOCUMENTS"), other than the Non-Recourse Carveout Obligations.

Loan No. 3212525

2. GUARANTOR'S REPRESENTATIONS AND WARRANTIES. Guarantor hereby warrants and represents unto Lender as follows:

(a) that this Guaranty constitutes the legal, valid and binding obligation of Guarantor and is fully enforceable against Guarantor in accordance with its terms, except as may be limited by (i) bankruptcy, insolvency or other similar laws affecting the rights of creditors generally, and (ii) general principles of equity;

(b) that there are no legal proceedings or material claims or demands pending against or, to the best of Guarantor's knowledge threatened against, Guarantor or any of its assets, except as set forth on Exhibit A attached hereto and made a part hereof;

(c) that the execution and delivery of this Guaranty and the assumption of liability hereunder have been in all respects authorized and approved by Guarantor and, if applicable, each constituent party or owner of Guarantor; Guarantor has full authority and power to execute this Guaranty and to perform its obligations hereunder; and

(d) that neither the execution nor the delivery of this Guaranty nor the fulfillment and compliance with the provisions hereof will conflict with, result in a breach of, constitute a default under or result in the creation of any lien, charge, or encumbrance upon any property or assets of Guarantor under any agreement or instrument to which Guarantor is now a party or by which it may be bound.

3. WAIVER. Guarantor hereby waives (a) all notices of acceptance hereof, protest, demand and dishonor, presentment, notice of nonpayment, notice of intention to accelerate maturity, notice of acceleration of maturity and all

notices and demands of any kind now or hereafter provided for by any statute or rule of law other than the five (5) day notice referred to in PARAGRAPH 1 above, (b) any and all requirements that Lender institute any action or proceeding, or exhaust or attempt to enforce any or all of Lender's right, remedies or recourses against Borrower or anyone else or in respect of any mortgaged property or collateral covered by any Loan Documents, or join Borrower or any other persons liable on the Non-Recourse Carveout Obligations in any action to enforce this Guaranty as a condition precedent to bringing an action against Guarantor upon this Guaranty, it being expressly agreed that the liability of Guarantor hereunder shall be primary and not secondary, (c) any defense arising by reason of any disability, insolvency, lack of authority or power, death, insanity, minority, dissolution or any other defense of Borrower, or any other surety, co-maker, endorser or guarantor of the Non-Recourse Carveout Obligations (even though rendering same void, unenforceable or otherwise uncollectible), it being agreed that Guarantor shall remain liable hereon regardless of whether Borrower or any other such person be found not liable thereon for any reason, (d) all suretyship defenses of every kind and nature and (e) any claim Guarantor might otherwise have against Lender by virtue of Lender's invocation of any right, remedy or recourse permitted it hereunder or under the Loan Documents. This is a guaranty of payment and not a guaranty of collection.

4. SUBSEQUENT ACTS. Guarantor hereby agrees with Lender that (a) the payments called for and provisions contained in the Loan Documents, including specifically (but without limitation) the Note, may be renewed, extended, rearranged, modified, released or canceled, (b) all or any part of any mortgaged

property and collateral for the indebtedness may be released from, and any new or additional security may be added to, the lien and security interest of the Loan Documents, (c) any additional parties who may become personally liable for repayment of the Note may hereafter be released from their liability hereunder and thereon and (d) Lender may take, or delay in taking or refuse to take, any and all action with reference to the Note and the other Loan Documents (regardless of whether same might vary the risk or alter the rights, remedies or recourses of Guarantor), including specifically (but without limitation) the settlement or compromise of any amount allegedly due thereunder, all without notice or consideration to or the consent of Guarantor, and no such acts shall in any way release, diminish or affect the absolute nature of Guarantor's obligations and liabilities hereunder. It is the intent of Guarantor and Lender that such obligations and liabilities hereunder are primary, absolute and unconditional under any and all circumstances and that, until the Non-Recourse Carveout Obligations are fully and finally satisfied, such obligations and liabilities shall not be discharged or released, in whole or in part, by any act

or occurrence which, but for this PARAGRAPH 4, might be deemed a legal or equitable discharge or release of Guarantor.

5. REMEDIES CUMULATIVE. Guarantor hereby agrees with Lender that all rights, remedies and recourses afforded to Lender by reason of this Guaranty or otherwise are (a) separate and cumulative and may be pursued separately, successively or concurrently, as occasion therefor shall arise, and (b) non-exclusive and shall in no way limit or prejudice any other legal or equitable right, remedy or recourse which Lender may have.

6. SUBORDINATION AND NO SUBROGATION. If, for any reason whatsoever, Borrower now is or hereafter becomes indebted to Guarantor, such indebtedness and all interest thereon, shall, at all times, be subordinate in all respects to the Loan Documents, and Guarantor shall not be entitled to enforce or receive payment thereof until the Non-Recourse Carveout Obligations have been fully satisfied. Notwithstanding anything to the contrary contained in this Guaranty or any payments made by Guarantor hereunder, Guarantor shall not have any right of subrogation in or under the Loan Documents or to participate in any way therein or in any right, title or interest in and to any mortgaged property or any collateral for the Loan, all such rights of subrogation and participation, together with any other contractual, statutory or common law right which Guarantor may have to be reimbursed for any payments Guarantor may make to Lender pursuant to this Guaranty, being hereby expressly waived and released.

7. LAW GOVERNING AND SEVERABILITY. This Guaranty shall be governed by and construed in accordance with the laws of the State of New Hampshire and is intended to be performed in accordance with, and only to the extent permitted by, such laws. If any provision of this Guaranty or the application thereof to any person or circumstance, for any reason and to any extent, shall be invalid or unenforceable, neither the remainder of this Guaranty nor the application of such provision to any other persons or circumstances shall be affected thereby, but rather the same shall be enforced to the greatest extent permitted by law.

8. SUCCESSORS AND ASSIGNS. This Guaranty and all the terms, provisions and conditions hereof shall be binding upon Guarantor and the Guarantor's heirs, legal representatives, successors and assigns and shall inure to the benefit of Lender, its successors and assigns and all subsequent holders of the Note.

9. PARAGRAPH HEADINGS. The paragraph headings inserted in this Guaranty have been included for convenience only and are not intended, and shall not be construed, to limit or define in any way the substance of any paragraph contained herein.

10. EFFECT OF BANKRUPTCY. This Guaranty shall continue to be effective or reinstated, as the case may be, if at any time payment to Lender of all or any part of the Non-Recourse Carveout Obligations is rescinded or must otherwise be restored or refunded by Lender pursuant to any insolvency, bankruptcy, reorganization, receivership or other debtor relief proceeding involving Borrower. In the event that Lender must rescind or restore any payment received by Lender in satisfaction of the Non-Recourse Carveout Obligations, as set forth herein, any prior release or discharge of the terms of this Guaranty given to Guarantor by Lender shall be without effect and this Guaranty shall remain in full force and effect.

11. NOTICES. All notices hereunder shall be given at the following address:

If to Guarantor: DM Management Company
25 Recreation Park Drive
Hingham, Massachusetts 02043
Attention: Olga Conley

If to Lender: John Hancock Real Estate Finance, Inc.
John Hancock Place, T-53
200 Clarendon Street
Boston, Massachusetts 02116
Re: Loan No. 3212525.

All notices given hereunder shall be in writing and shall be considered properly given if delivered either personally to such other party, or sent by nationally recognized overnight courier delivery service or by certified mail of the United States Postal Service, postage prepaid return receipt requested, addressed to the other party as set forth above (or to such other address or person as either party entitled to notice may by notice to the other party specify). Unless otherwise specified, notices shall be deemed given as follows: (i) if delivered personally, when delivered, (ii) if delivered by nationally recognized overnight courier delivery service, on the day following the day such material is sent or (iii) if delivered by certified mail, on the third day after the same is deposited in the United States Postal Service as provided above.

12. BENEFIT. Guarantor warrants and represents that Guarantor has received, or will receive, direct or indirect benefit from the execution and delivery of this Guaranty.

13. NO REPRESENTATIONS BY LENDER. Neither Lender nor anyone acting on behalf of Lender has made any representation, warranty or statement to Guarantor to induce Guarantor to execute and deliver this Guaranty.

14. APPLICATION OF FORECLOSURE PROCEEDS. In the event of any foreclosure sales of the mortgaged property and collateral covered by the Loan Documents, the proceeds of such sales shall be applied first to the discharge of that portion of the indebtedness then remaining unpaid as to which

Loan No. 3212525

Guarantor is not fully personally liable pursuant to this Guaranty, it being the express intention of the parties that the application of the proceeds of such foreclosure sales shall be in such a manner as not to extinguish or reduce Guarantor's personal liability hereunder until all of the indebtedness as to which Guarantor is not personally liable hereunder has been paid in full. Nothing contained in this PARAGRAPH 14 shall be construed to require that Lender foreclose the liens and security interests created in the Loan Documents as a condition precedent to bringing an action against Guarantor upon this Guaranty, or as an agreement that Guarantor's liability is limited to any deficiency remaining after such a foreclosure.

15. JOINT AND SEVERAL LIABILITY. If more than one person is included in the definition of Guarantor, the liability of all such persons hereunder shall be joint and several.

EXECUTED effective as of the date first above written.

Witnessed by:

DM MANAGEMENT COMPANY

/s/ Katherine Culkin

By: /s/ Olga L. Conley

Name: OLGA L. CONLEY

Its: CHIEF FINANCIAL OFFICER

COMMONWEALTH OF MASSACHUSETTS)
)
COUNTY OF SUFFOLK)

The foregoing instrument was acknowledged before me this 1st day of March, 1999 by OLGA L. CONLEY, CHIEF FINANCIAL OFFICER of DM Management Company a Delaware corporation, on behalf of said corporation.

/s/ Katherine Culkin

[SEAL]

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Loan No. 3212525

EXHIBIT A

LEGAL CLAIMS

From time to time DM Management Company (the "Company") receives claims asserting infringement by the Company of trademark and other intellectual property rights. These claims are normally resolved without formal legal proceedings and without payment by the Company of significant amounts of money. The following is a summary of a recently received claim:

The Company received a letter from Williams-Sonoma, Inc. dated December 2, 1998 alleging certain infringement by the Company of Williams-Sonoma's intellectual property rights in its Pottery Barn catalogs and certain unethical use by the Company of Williams-Sonoma's mailing lists. The Company believes that these claims are without merit, and the Company's attorneys have responded on the Company's behalf through a letter to Williams-Sonoma's attorneys dated December 22, 1998. To date the Company and its attorneys have not heard anything further from Williams-Sonoma or its attorneys.

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REPLACEMENT RESERVE AGREEMENT

THIS REPLACEMENT RESERVE AGREEMENT (the "AGREEMENT") is made as of the 1st day of March, 1999 by and between BIRCH POND REALTY CORPORATION, a Delaware corporation (doing business in the State of New Hampshire as BPRC) ("BORROWER") and JOHN HANCOCK REAL ESTATE FINANCE, INC., a Delaware corporation ("LENDER").

W I T N E S S E T H

WHEREAS, Borrower is the owner of a certain property (the "MORTGAGED PROPERTY") located in Tilton, Belknap County, New Hampshire, more particularly described in the Loan Documents (as hereinafter defined), and in connection therewith, Lender has loaned Borrower the principal sum of TWELVE MILLION AND 00/100 DOLLARS (\$12,000,000.00) (the "LOAN"); and

WHEREAS, the Loan is evidenced by a Note executed by Borrower as of even date herewith in the principal amount of \$12,000,000.00 payable to the order of Lender (the "NOTE"); and

WHEREAS, the Note is secured by a Mortgage dated as of even date herewith, which encumbers the Mortgaged Property, and by the other "LOAN DOCUMENTS" (as such term is defined in the Note); and

WHEREAS, Borrower is required to complete certain capital replacements to the Mortgaged Property, which are listed in SCHEDULE 1 attached hereto (the "REPLACEMENTS"); and

WHEREAS, Lender requires, as a condition precedent to Lender's acceptance of the Note, that Borrower make certain deposits with Lender of certain funds, to be held, released and used as provided in this Agreement to reimburse Borrower for the cost of completing the Replacements as hereinafter described.

NOW, THEREFORE, in consideration of the foregoing, the covenants and conditions contained in this Agreement and other good and valuable consideration, the receipt and legal sufficiency of which are hereby acknowledged, Borrower and Lender hereby agree as follows:

1. DEFINITIONS. Any capitalized term utilized herein shall have

the meaning as specified in the Mortgage, unless such term is otherwise specifically defined herein.

2. THE DEPOSIT(S).

(A) INITIAL DEPOSIT. Concurrently with its execution of this Agreement, Borrower has deposited with Lender the cash sum of \$0.00 ("INITIAL DEPOSIT").

(B) MONTHLY DEPOSITS. In addition, on each date that a regularly scheduled payment of principal and/or interest is due under the Note, Borrower shall deposit with

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JHREF Loan No.3212525

Lender the applicable monthly deposit ("Monthly Deposit") required as set forth in SCHEDULE 2, attached hereto. The Initial Deposit, if any, and the Monthly Deposits, if any, and all other funds deposited by Borrower pursuant to this Agreement shall hereinafter be collectively referred to as the "Replacement Reserve".

(c) LIMITATION ON MONTHLY DEPOSITS. Provided that (i) Birch Pond Realty Corporation is the owner of the Mortgaged Property, (ii) there is no default by Borrower under the Loan Documents or this Agreement, and (iii) the Mortgaged Property is being properly maintained by Borrower, then Monthly Deposits may be suspended so long as the balance of the Replacement Reserve is at least \$80,952.00 (it being understood that if any disbursements hereunder from such Replacement Reserve shall cause the balance to be less than \$80,952, or if such balance shall for any other reason be less than \$80,952, Monthly Deposits shall resume until the Replacement Reserve balance is again at least \$80,952).

The Replacement Reserve shall be held and released by Lender, and used by Borrower, in accordance with the terms and conditions of this Agreement. Lender (or a designated representative of Lender) shall have the sole right to make withdrawal of the Replacement Reserve in accordance with the terms and conditions of this Agreement.

3. USE OF THE REPLACEMENT RESERVE. Except as otherwise expressly set forth herein, and provided there then exists no Event of Default under the Loan Documents, the Replacement Reserve shall be used to reimburse Borrower as provided herein for the reasonable costs and expenses incurred by Borrower in completing the Replacements. This Agreement does not constitute a guaranty of payment or performance by

Lender. Lender shall have no obligation to pay any amounts to Borrower to the extent that any request exceeds the amount in the Replacement Reserve. Lender shall have no obligation to authorize any disbursement or withdrawals from the Replacement Reserve after an Event of Default.

4. PERFORMANCE OF REPLACEMENTS.

(a) Borrower shall make each Replacement when required in order to keep the Mortgaged Property in good order and repair and in a good, marketable condition and to keep the Mortgaged Property or any portion thereof from deteriorating. Borrower shall complete all such Replacements as soon as practicable following commencement of each such Replacement.

(b) Borrower shall pay for and obtain or cause to be paid for and obtained all permits, licenses and approvals required by all applicable laws with regard to the Replacements, whether necessary for commencement, completion, use or otherwise.

(c) Borrower shall perform or cause to be performed all work in connection with the Replacements in a good and workmanlike manner, in compliance with all applicable laws, ordinances, rules and regulations (including, without limitation, any and all environmental laws and laws for the handicapped and/or disabled), and with all applicable insurance

requirements, which performance by Borrower shall be without regard to the sufficiency of the Replacement Reserve to cover the cost of any Replacement or the Replacements as a whole.

(d) If requested by Lender, in addition to any insurance required under the Loan Documents, Borrower shall provide or cause to be provided workers' compensation, builder's risk (if required by Lender), and public liability insurance and other insurance required under applicable laws in connection with any of the Replacements. All such policies shall be in form and amount satisfactory to Lender. All such policies which can be endorsed with standard mortgage clauses making losses payable to Lender or its assigns shall be so endorsed.

(e) Borrower covenants and agrees that the Replacements shall be constructed, installed or completed, as applicable, free and clear of any and all liens (including mechanic's, materialman's or other liens), claims and encumbrances whatsoever, subject to Borrower's right

to contest as specified in the Mortgage (as defined in the Note).

(f) If at any time during the term of the Loan, Lender reasonably determines that Replacements not listed on SCHEDULE 1 are needed to keep the Mortgaged Property in good order and repair and in a good, marketable condition or to prevent deterioration of the Mortgaged Property ("Additional Replacements"), Lender may send Borrower written notice of the need for making such Additional Replacements. Borrower shall promptly, but in no event later than thirty (30) days after the date of such notice, commence making such Additional Replacements in accordance with the requirements of this Agreement. Additional Replacements shall be deemed Replacements for all purposes of this Agreement.

5. RELEASE OF REPLACEMENT RESERVE. The following condition shall apply to any release of the Replacement Reserve to Borrower:

(a) If Borrower shall not then be in breach of any provision of this Agreement nor shall an Event of Default then exist under any of the Loan Documents (and no act, event or condition shall then exist that, with the giving of notice or the passage of time, or both, would constitute a breach hereunder or an Event of Default under any of the Loan Documents), then Lender, within ten (10) business days of receipt of a disbursement request ("Disbursement Request") specifying the amount requested and the Replacement for which reimbursement is requested in the form attached hereto as EXHIBIT "A" shall, subject to the terms and conditions set forth below, release to Borrower the reimbursement requested in the Disbursement Request. It is understood and agreed that releases of the Replacement Reserve will be permitted on a quarterly basis, in minimum amounts of Ten Thousand Dollars (\$10,000.00);

(b) Borrower shall provide evidence satisfactory to Lender (including, without limitation, access to the Mortgaged Property to Lender, Lender's representatives, an architect and/or engineer specified by Lender for the purpose of an inspection of work done, at

Borrower's expense, if requested by Lender) that the Replacement for which the reimbursement is being requested has been completed in accordance with this Agreement.

(c) Borrower shall submit to Lender copies of paid invoices for the Replacements for which the reimbursement has been requested and

unconditional final lien waivers and releases conforming to the requirements of local law from all parties furnishing materials and/or services in connection with the Disbursement Request;

(d) Borrower shall reimburse Lender all out-of-pocket inspection fees and/or reasonable attorney's fees and expenses incurred by Lender in connection with the Disbursement Request;

(e) Borrower shall provide Lender with such additional documents, certificates and affidavits as Lender may reasonably request, including but not limited to a "date-down" endorsement to the mortgagee's title insurance policy showing that no mechanic's or materialman's liens or other liens (that have not been bonded off to Lender's satisfaction) have been placed against the Mortgaged Property since the date of recordation of the Mortgage and that the title to the Mortgaged Property is free and clear of all liens (other than the lien of the Mortgage and any other liens previously approved in writing by the Lender, if any), provided, however, Lender shall not request such "date down" endorsements more often than two (2) times per any twelve month period, unless Lender reasonably believes that additional liens may have been placed on the Mortgaged Property; and if required by Lender, Borrower shall execute and deliver to Lender a certificate (in form and substance satisfactory to Lender) that the Replacements covered by the applicable Disbursement Request comply with, and Borrower has fully satisfied, the terms and provisions of SECTION 4 above, that the Replacements for which a Disbursement Request has been submitted have been fully paid for, and that no claim or claims exist against the Borrower or against the Mortgaged Property out of which a lien based on furnishing labor or material exists or might ripen;

(f) Except as set forth in SECTION 5(G) below, Lender shall not be obligated to release any portion of the Replacement Reserve (i) for the payment of the cost of an improvement or other item other than a Replacement as set forth on SCHEDULE 1 hereto or for an Additional Replacement, or (ii) for costs of a Replacement in excess of the costs approved by Lender;

(g) The Replacement Reserve shall remain with Lender in accordance with the terms of this Agreement for as long as any sums remain due and payable to Lender under the Loan Documents. Upon the full and final payment to Lender of all such sums, Lender shall return to Borrower the portion of the Reserve then being held by Lender.

(h) In addition to the conditions set forth above, Lender shall not be obligated to honor any Disbursement Request (i) in the event of Borrower's breach of any provision of this Agreement or upon the occurrence of an Event of Default under any of the other Loan Documents which breach or occurrence shall be continuing, nor (ii) upon the occurrence and

during the continuation of any act, event or condition then existing that, with the giving of notice or the passage of time, or both, would constitute a breach hereunder or an Event of Default under any of the Loan Documents.

6. INSPECTIONS. Borrower shall permit Lender or Lender's representatives (including an independent person such as an engineer, architect, or inspector) to enter onto the Mortgaged Property during normal business hours (subject to the rights of tenants under their leases), and inspect the progress of any Replacements and all materials being used in connection with the Replacements. Borrower agrees to cause all contractors and subcontractors to cooperate with Lender, Lender's representatives and such other persons described above in connection with such inspections.

7. REMEDIES.

(a) In order to secure Borrower's repayment of the Note and performance of all other covenants and conditions required on the part of Borrower to be observed or performed hereunder and under the Loan Documents, Borrower, to the extent Borrower possesses any interest in the Replacement Reserve, hereby pledges, assigns and grants to Lender a continuing first lien security interest in the Replacement Reserve, and Lender is hereby given a lien upon, security title to, and a security interest in the Replacement Reserve and all documents evidencing the Replacement Reserve. Borrower hereby acknowledges that Lender has complete dominion and control over the Replacement Reserve, and Borrower shall not, without the express written consent of Lender, have any access to or right to draw against any of the Replacement Reserve.

(b) Upon the occurrence of an Event of Default or in the event and during the continuation of Borrower's breach of any provision of this Agreement, Lender may terminate this Agreement and shall have all remedies available under Article 9 of the Uniform Commercial Code, under common law, and under any other applicable laws and, in addition, may retain the Replacement Reserve then being held pursuant to this Agreement and apply such Replacement Reserve in such order and in such amounts as Lender shall elect, in its sole and absolute discretion: (i) to repayment of the indebtedness evidenced by the Note and the Loan Documents; (ii) toward reimbursement of Lender for any losses or expenses (including, without limitation, legal fees) suffered or incurred by Lender as a result of such default; and/or (iii) in order to proceed under existing contracts or enter into contracts with third

parties to make or complete the Replacements.

In the Event of Default, Lender shall have the right, but not the obligation, to enter onto the Mortgaged Property and perform any and all work and labor necessary to make or complete the Replacements and/or employ watchmen to protect the Mortgaged Property from damage. All sums so expended by Lender shall be construed to have been paid to Borrower and shall be secured by the Mortgage. Borrower hereby constitutes and appoints Lender its true and lawful attorney-in-fact with full power of substitution to complete or undertake the Replacements in the name of the Borrower, enter into contracts for the completion of the Replacements, incur such obligations, enforce any contracts or agreements made by or on

behalf of Borrower (including the prosecution and defense of all actions or proceedings in connection with the Replacements and the payment, settlement, or compromise of all claims for materials and work performed in connection with the Replacements) and do any and all things necessary or proper to complete the Replacements. This power of attorney shall be construed to be a power coupled with an interest which cannot be revoked. Borrower hereby assigns to Lender all rights, claims and causes of action Borrower may have against any person or entities supplying labor or materials in connection with the Replacements; provided, however, that Lender may not pursue any such right, claim or cause of action unless an Event of Default shall have occurred under the Loan Documents or Borrower shall have otherwise breached any provision in this Agreement.

8. INDEMNIFICATION. Borrower shall hold harmless, indemnify and defend Lender from and against any and all liabilities, obligations, claims, demands, damages, penalties, causes of action, losses, fines, costs and expenses (including without limitation reasonable attorneys' fees and expenses) imposed upon or incurred by Lender arising from, or in connection with, directly or indirectly, this Agreement, except to the extent arising solely out of the willful misconduct or gross negligence of Lender. This indemnity is in addition to any other indemnity agreements made by Borrower to Lender in the Mortgage, the Note or in any of the other Loan Documents. Borrower covenants and agrees that, in performing any of its duties under this Agreement, neither Lender nor any of its successors or assigns shall be liable for any losses, costs or damages which may be incurred by any of them as a result thereof,

except for any losses, costs or damages arising out of the willful misconduct or gross negligence of such party.

9. MISCELLANEOUS.

(a) Except as otherwise expressly provided herein, in any instance where the consent or approval of Lender is required or may be given or where any determination, judgment or decision is to be rendered by Lender under this Agreement, such approval and consent shall be given or withheld in Lender's sole and absolute discretion.

(b) All notices hereunder shall be given in accordance with the provisions of the Mortgage, except all notices hereunder to Lender shall be given to the following address: John Hancock Real Estate Finance, Inc., John Hancock Place, 200 Clarendon Street, Boston, Massachusetts 02116, Attn: Mary Lou Staples, Loan Number 3212525.

(c) This Agreement shall be binding upon Borrower and its heirs, devisees, representatives, successors and assigns, including successors in interest of Borrower in and to all or any part of the Mortgaged Property, and shall inure to the benefit of and may be enforced by Lender and its heirs, successors, legal representatives, substitutes and assigns. Borrower shall not assign any of its rights or obligations under this Agreement.

(d) This Agreement is intended solely for the benefit of Borrower and Lender, and no third party shall have any right or interest in this Agreement, nor any right to enforce this Agreement against any party hereto.

(e) This Agreement contains the complete and entire understanding of the parties with respect to the matters covered and may not be modified, amended, waived, extended, changed, discharged or terminated orally or by any act or failure to act on the part of Borrower and Lender, but only by an agreement in writing signed by the party against whom the enforcement of any modification, amendment, waiver, extension, change, discharge or termination is sought.

(f) No provision of this Agreement or action taken by Lender pursuant hereto shall be construed as acceptance or approval by Lender of any Replacement or an acknowledgment that any Replacement has been completed in accordance with applicable building, zoning or other

codes, ordinances, statutes, laws, regulations or requirements of any governmental authority. Each and every provision for the consent, approval, inspection, review or verification by Lender hereunder is for Lender's own purpose and benefit only, and no other party may require that the same be given or be entitled to assume that Lender shall refuse to make or give the same. In addition, in no event shall any term hereof, or any action taken by Lender contemplated hereby, be deemed to be or construed as a warranty or representation by Lender as to the adequacy of any Replacement, nor that the same complies with applicable laws (including, without limitation, any and all environmental laws and laws for the handicapped and/or disabled).

(g) Borrower hereby covenants that Borrower shall not further pledge, assign or grant a security interest or any other interest in or to, the Replacement Reserve, or any proceeds, replacement or substitutes thereto.

(h) No right or remedy conferred upon or reserved to Lender under this Agreement is intended to be exclusive of any other right or remedy, and each and every such right and remedy shall be cumulative and concurrent and may be enforced separately, successively or together, and may be exercised from time to time as often as may be deemed necessary by Lender.

(i) Nothing herein or in the Loan Documents is intended to create, nor creates, nor shall be deemed to create, a joint venture, partnership, tenancy-in-common, or joint tenancy relationship between Borrower and Lender, nor to grant Lender any interest in the Mortgaged Property other than that of creditor or mortgagee.

(j) If any provisions of this Agreement shall conflict with any provisions of the other Loan Documents regarding the Replacement Reserve, the provisions contained in this Agreement shall control.

(k) If any term, covenant or condition of this Agreement is held to be invalid, illegal or unenforceable in any respect, this Agreement shall be construed without such provision.

(l) This Agreement shall be governed by and construed in accordance with the laws of the State of New Hampshire and the applicable laws of the United States of America.

(m) This Agreement may be executed in multiple counterparts, each of which when taken together shall constitute one and the same original.

IN WITNESS WHEREOF, Borrower and Lender have executed this Agreement as of the date first above written.

BORROWER:

BIRCH POND REALTY CORPORATION, A
DELAWARE CORPORATION
(doing business in the State of New Hampshire
as BPRC)

By: /s/ Olga L. Conley

Name: OLGA L. CONLEY
Title: TREASURER

LENDER:

JOHN HANCOCK REAL ESTATE FINANCE,
INC., A DELAWARE CORPORATION

By: /s/ Timothy A. Roseen

Name: TIMOTHY A. ROSEEN
Title: VICE PRESIDENT

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JHREF Loan No.3212525

LIST OF SCHEDULES AND EXHIBITS

Schedule 1 - Replacements
Schedule 2 - Monthly Deposits
Schedule 3 - Modified Monthly Deposits
Exhibit "A" - Disbursement Request (with Annex 1)

SCHEDULE 1
REPLACEMENTS
UNSPECIFIED

Schedule 1-1

SCHEDULE 2

MONTHLY DEPOSITS

The amount of each monthly deposit is Three Thousand Three Hundred Seventy-Three Dollars (\$3,373.00).

Schedule 2-1

JHREF Loan No.3212525

SCHEDULE 3

MODIFIED MONTHLY DEPOSITS

NONE

Schedule 3-1

JHREF Loan No.3212525

EXHIBIT "A"

DISBURSEMENT REQUEST (NO.)

JHREF LOAN NO. 3212525

TO: JOHN HANCOCK REAL ESTATE FINANCE, INC. ("LENDER")

FROM: BIRCH POND REALTY CORPORATION ("BORROWER")

This Disbursement Request is submitted by Borrower in accordance with the Replacement Reserve Agreement dated as of _____, 199__, between Borrower and Lender (the "AGREEMENT"). Terms used with initial capital letters and not defined in this Disbursement Request have the meanings given them in the Agreement.

1. Borrower hereby requests disbursement for the payment of the Replacements (or a portion thereof) in the amounts specified below:

<TABLE>

<CAPTION>

COST OF REPLACEMENTS (include quantity, materials and labor)

AMOUNT/PRICE

<S>

<C>

TOTAL DISBURSEMENT REQUESTED

\$ _____

</TABLE>

2. Borrower certifies, represents and warrants to Lender that all statements, invoices, bills, costs, expenses and any other sums of money owing with respect to the Replacements incurred on or before this date have been paid in full in the amounts, if any, described on a line item basis on ANNEX 1 hereto. The estimated costs of completing the uncompleted Replacements as of this date are as described on a line item basis on ANNEX 1.

3. Borrower certifies, represents and warrants to Lender that (a) Borrower is entitled to a disbursement of the Replacement Reserve for the items and amounts requested in Section 1 above pursuant to the Agreement; (b) Borrower's representations and warranties made in the Loan Documents and the Agreement are true and correct on and as of this date; (c) no Event of Default nor any event which with the giving of notice or the lapse of time, or both, would become an Event of Default, has occurred and (d) the Replacements listed in Section 1 above have been fully paid for,

Exhibit A-1

JHREF Loan No.3212525

and no claim or claims exist against the Borrower or against the Mortgaged Property out of which a lien based on furnishing labor or material exists or might ripen.

Date: _____, 199__.

BORROWER:

By:
Name:
Title:

SWORN TO AND SUBSCRIBED BEFORE ME by _____, this _____ day of _____, 199__.

Notary Public (Seal)
Name (Print):

My Commission Expires:

Initial Approval -- Name: _____
Disbursement Approval -- Name: _____

Date: _____
Date: _____

Exhibit A-2

JHREF Loan No.3212525

ANNEX 1

<TABLE>
<CAPTION>

REPLACEMENTS

<S>

AMOUNTS PAID

<C>

</TABLE>

Annex 1-1

TENANT IMPROVEMENT AND LEASING
COMMISSIONS AGREEMENT

THIS TENANT IMPROVEMENT AND LEASING COMMISSIONS AGREEMENT (the "AGREEMENT") is made as of the 1st day of March, 1999 by and between BIRCH POND REALTY CORPORATION, a Delaware corporation (doing business in the State of New Hampshire as BPRC) ("BORROWER") and JOHN HANCOCK REAL ESTATE FINANCE, INC., a Delaware corporation ("LENDER").

W I T N E S S E T H:

WHEREAS, Borrower is the owner of a certain property (the "MORTGAGED PROPERTY") located in Tilton, Belknap County, New Hampshire, more particularly described in the Loan Documents (as hereinafter defined), and in connection therewith, Lender has loaned Borrower the principal sum of TWELVE MILLION AND 00/100 DOLLARS (\$12,000,000.00) (the "LOAN"); and

WHEREAS, the Loan is evidenced by a Note executed by Borrower as of even date herewith in the principal amount of \$12,000,000.00 payable to the order of Lender (the "NOTE"); and

WHEREAS, the Note is secured by a Mortgage dated as of even date herewith, which encumbers the Mortgaged Property, and by the other "LOAN DOCUMENTS" (as such term is defined in the Note); and

WHEREAS, Lender requires, as a condition of the Loan, that Borrower deposit with Lender certain funds, to be held, released and used as provided in this Agreement to reimburse the cost of completing the Tenant Improvements and paying for Leasing Commissions as hereinafter described.

NOW, THEREFORE, in consideration of the foregoing, the covenants and conditions contained in this Agreement and other good and valuable consideration, the receipt and legal sufficiency of which are hereby acknowledged, Borrower and Lender hereby agree as follows:

1. DEFINITIONS. Any capitalized term utilized herein shall have the meaning as specified in the Mortgage, unless such term is otherwise specifically defined herein. For purposes of this Agreement, the following capitalized terms shall have the meanings indicated:

(a) TENANT IMPROVEMENTS shall mean construction or modification of

improvements on or installation of fixtures or equipment in the Mortgaged Property as required to be performed by Borrower pursuant to the terms of a Lease (as hereinafter defined) necessary for the space, or a portion thereof ("TENANT PREMISES") subject to such Lease to be deemed ready for occupancy and/or use by a tenant.

(b) LEASING AGENT shall mean a licensed real estate broker in the state where the Mortgaged Property is located who is not affiliated with the Borrower or its principals.

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JHREF Loan No. 3212525

(c) LEASING COMMISSIONS shall mean reasonable and customary commissions paid to a Leasing Agent pursuant to a written agreement with such Leasing Agent under which such Leasing Agent has procured a tenant for a Tenant Premises in connection with an Lease.

(d) LEASE shall mean a lease for space in the Mortgaged Property (approved by the Lender if such right of approval is required by the Loan Documents). For the purposes of this Agreement, the Lease shall be as set forth on EXHIBIT A attached hereto.

2. THE DEPOSIT(S).

(a) INITIAL DEPOSIT. Concurrently with its execution of this Agreement, Borrower has deposited with Lender the cash sum of Zero Dollars (\$0.00) ("INITIAL DEPOSIT").

(b) MONTHLY DEPOSITS. In addition, on each date that a regularly scheduled payment of principal and/or interest is due under the Note, Borrower shall deposit with Lender the applicable monthly deposit ("MONTHLY DEPOSIT") required as set forth in SCHEDULE 1, attached hereto. The Initial Deposit, if any, and the Monthly Deposits, if any, and all other funds deposited by Borrower pursuant to this Agreement shall hereinafter be collectively referred to as the "Reserve".

The Reserve shall be held and released by Lender, in accordance with the terms and conditions of this Agreement. Lender (or a designated representative of Lender) shall have the sole right to make withdrawal of the Reserve, in accordance with the terms and conditions of this Agreement.

3. THE RESERVE.

(a) Lender shall hold the Reserve in one or more interest bearing

accounts ("ACCOUNTS" or "ACCOUNT") invested at such financial institutions as Lender shall select in its sole discretion, more particularly described in 3(b) below.

(b) Any interest earned on the Account shall be for the benefit of Borrower and shall be added to the principal balance of the Account and disbursed in accordance with this Agreement. Lender shall not be responsible for any losses resulting from investment of monies in the Reserve or for obtaining any specific level or percentage of earnings on such investment.

The Reserve deposited pursuant to Section 3(b) shall be invested by the Lender in Accounts maintained in the name of the Lender as secured party with respect to the Borrower in commercial or savings banks provided that such Accounts shall at all times be with an institution insured by the Federal Deposit Insurance Corporation to the fullest possible extent consistent with applicable laws (currently \$100,000), and further provided that the Accounts shall be demand accounts, withdrawable at the time for payment for Tenant Improvements or Leasing Commissions, and the funds so obtained shall be disbursed pursuant to the terms of this Agreement.

The Account options are:

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- X Cash Investment Account at Wachovia Bank of North Carolina,
----- Charlotte, North Carolina

- Business Premier Money Market Account at Wachovia Bank of
----- North Carolina, Charlotte, North Carolina (minimum balance of
 \$10,000)

Account selection at the execution of this Agreement is for the life of the Loan.

The above selected bank and any assign or successor to such bank shall hereinafter be referred to as "BANK." Borrower acknowledges that the Bank is hereby selected by Lender with Borrower's consent, and Borrower agrees that any loss of funds while in the hands of Bank is at the risk of the Borrower. Borrower further acknowledges and agrees to be fully responsible for any and all fees charged by the Bank for the Account that is maintained therein. Lender reserves the right in its sole discretion to move the Account to another bank in the event the Bank fails to satisfy Lender or rating agency criteria, at which time, Borrower may be required to choose from alternative account options.

4. USE OF THE RESERVE. The Reserve shall be held as additional security to

secure Borrower's repayment of the Note and performance of all other covenants and conditions required on the part of Borrower to be observed or performed hereunder and under the Loan Documents.

5. TERM; TERMINATION. The Reserve shall remain on deposit with Lender in accordance with the terms of this Agreement for so long as any sums remain due and payable to Lender under the Loan Documents. Upon the full and final payment to Lender of all such sums, Lender shall return to Borrower the portion of the Reserve then being held by Lender (including any accrued interest thereon).

6. REMEDIES.

(a) In order to secure Borrower's repayment of the Note and performance of all other covenants and conditions required on the part of Borrower to be observed or performed hereunder and under the Loan Documents, Borrower, to the extent Borrower possesses any interest in the Reserve and the Account, hereby pledges, assigns and grants to Lender a continuing first lien security interest in the Reserve and the Account, and Lender is hereby given a lien upon, security title to, and a security interest in the Reserve and the Account and all documents evidencing the Reserve and the Account. Borrower hereby acknowledges that Lender has complete dominion and control over the Reserve and the Account, and Borrower shall not, without the express written consent of Lender, have any access to or right to draw against any of the Reserve or the Account.

(b) Upon the occurrence of an Event of Default or in the event and during the continuation of Borrower's breach of any provision of this Agreement, Lender may terminate this Agreement and shall have all remedies available under Article 9 of the Uniform Commercial Code, under common law, and under any other applicable laws and, in addition, may retain the Reserve then being held pursuant to this Agreement and apply such Reserve in such order and in such amounts as Lender shall elect, in its sole and absolute discretion: (i) to repayment of the indebtedness evidenced by the Note and the Loan Documents; (ii) toward reimbursement of Lender for any losses or expenses (including, without limitation, legal fees) suffered or incurred by Lender

as a result of such default; and/or (iii) in order to proceed under existing contracts or enter into contracts with third parties to make or complete the Tenant Improvements.

In the Event of Default, Lender shall have the right, but not the

obligation, to enter onto the Mortgaged Property and perform any and all work and labor necessary to make or complete the Tenant Improvements and/or employ watchmen to protect the Mortgaged Property from damage. All sums so expended by Lender shall be construed to have been paid to Borrower and shall be secured by the Mortgage. Borrower hereby constitutes and appoints Lender its true and lawful attorney-in-fact with full power of substitution to complete or undertake the Tenant Improvements in the name of the Borrower, enter into contracts for the completion of the Tenant Improvements, incur such obligations, enforce any contracts or agreements made by or on behalf of Borrower (including the prosecution and defense of all actions or proceedings in connection with the Tenant Improvements and the payment, settlement, or compromise of all claims for materials and work performed in connection with the Tenant Improvements) and do any and all things necessary or proper to complete the Tenant Improvements. This power of attorney shall be construed to be a power coupled with an interest which cannot be revoked. Borrower hereby assigns to Lender all rights, claims and causes of action Borrower may have against any person or entities supplying labor or materials in connection with the Tenant Improvements; provided, however, that Lender may not pursue any such right, claim or cause of action unless an Event of Default shall have occurred under the Loan Documents or Borrower shall have otherwise breached any provision in this Agreement.

7. INDEMNIFICATION. Borrower shall hold harmless, indemnify and defend Lender from and against any and all liabilities, obligations, claims, demands, damages, penalties, causes of action, losses, fines, costs and expenses (including without limitation reasonable attorneys' fees and expenses) imposed upon or incurred by Lender arising from, or in connection with, directly or indirectly, this Agreement, except to the extent arising solely out of the willful misconduct or gross negligence of Lender. This indemnity is in addition to any other indemnity agreements made by Borrower to Lender in the Mortgage, the Note or in any of the other Loan Documents. Borrower covenants and agrees that, in performing any of its duties under this Agreement, neither Lender nor any of its successors or assigns shall be liable for any losses, costs or damages which may be incurred by any of them as a result thereof, except for any losses, costs or damages arising out of the willful misconduct or gross negligence of such party.

8. FEES AND COSTS. Borrower shall pay Lender at the closing of the Loan a one time administrative fee of \$500.00 for its services in administering the Reserve. In addition, Borrower shall reimburse Lender within ten (10) days after demand all reasonable fees, charges, costs and expenses incurred by Lender in connection with all inspections made by Lender or Lender's representatives in carrying out Lender's responsibility to make certain determinations under this Agreement.

9. MISCELLANEOUS.

(a) Except as otherwise expressly provided herein, in any instance where the consent or approval of Lender is required or may be given or where any determination, judgment or decision is to be rendered by Lender

under this Agreement, such approval and consent shall be given or withheld in Lender's sole and absolute discretion.

(b) All notices hereunder shall be given in accordance with the provisions of the Mortgage, except all notices hereunder to Lender shall be given to the following address: John Hancock Real Estate Finance, Inc., John Hancock Place, 200 Clarendon Street, Boston, Massachusetts 02116, Attn: Mary Lou Staples, Loan Number 3212525.

(c) This Agreement shall be binding upon Borrower and its heirs, devisees, representatives, successors and assigns, including successors in interest of Borrower in and to all or any part of the Mortgaged Property, and shall inure to the benefit of and may be enforced by Lender and its heirs, successors, legal representatives, substitutes and assigns. Borrower shall not assign any of its rights or obligations under this Agreement.

(d) This Agreement is intended solely for the benefit of Borrower and Lender, and no third party shall have any right or interest in this Agreement, nor any right to enforce this Agreement against any party hereto.

(e) This Agreement contains the complete and entire understanding of the parties with respect to the matters covered and may not be modified, amended, waived, extended, changed, discharged or terminated orally or by any act or failure to act on the part of Borrower and Lender, but only by an agreement in writing signed by the party against whom the enforcement of any modification, amendment, waiver, extension, change, discharge or termination is sought.

(f) No provision of this Agreement or action taken by Lender pursuant hereto shall be construed as acceptance or approval by Lender of any Tenant Improvement or an acknowledgment that the Tenant Improvement has been completed in accordance with applicable building, zoning or other codes, ordinances, statutes, laws, regulations or requirements of any governmental authority. Each and every provision for the consent, approval, inspection, review or verification by Lender hereunder is for Lender's own purpose and benefit only, and no other party may require that the same be given or be entitled to assume that Lender shall refuse to make or give the same. In addition, in no event shall any term hereof, or any action taken by Lender contemplated hereby, be deemed to be or construed as a warranty or representation by Lender as to the adequacy of any Tenant Improvement, nor that the same complies with applicable laws (including, without limitation, any and all environmental laws and laws for the handicapped and/or disabled).

(g) Borrower hereby covenants that Borrower shall not further pledge, assign or grant a security interest or any other interest in or to, the Reserve or the Account, or any proceeds, replacement or substitutes thereto.

(h) No right or remedy conferred upon or reserved to Lender under this Agreement is intended to be exclusive of any other right or remedy, and each and every such right and remedy shall be cumulative and concurrent and may be enforced separately, successively or together, and may be exercised from time to time as often as may be deemed necessary by Lender.

(i) Nothing herein or in the Loan Documents is intended to create, nor creates, nor shall be deemed to create, a joint venture, partnership, tenancy-in-common, or joint tenancy

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JHREF Loan No. 3212525

relationship between Borrower and Lender, nor to grant Lender any interest in the Mortgaged Property other than that of creditor or mortgagee.

(j) If any provisions of this Agreement shall conflict with any provisions of the other Loan Documents regarding the Funds, the provisions contained in this Agreement shall control.

(k) If any term, covenant or condition of this Agreement is held to be invalid, illegal or unenforceable in any respect, this Agreement shall be construed without such provision.

(l) This Agreement shall be governed by and construed in accordance with the laws of the State of New Hampshire and the applicable laws of the United States of America.

(m) This Agreement may be executed in multiple counterparts, each of which when taken together shall constitute one and the same original.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK; SIGNATURE PAGE(S) FOLLOW(S)]

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IN WITNESS WHEREOF, Borrower and Lender have executed this Agreement as of the date first above written.

BORROWER:

Witnessed By:

BIRCH POND REALTY CORPORATION
(doing business in the State of New Hampshire
as BPRC)

By: /s/Olga L. Conley

Name: Katherine Culkin

Name: Olga L. Conley
Its: Treasurer
Borrower's Social Security or Taxpayer
Identification Number: 02-0506310

Name:

LENDER:

JOHN HANCOCK REAL ESTATE
FINANCE, INC.,
A DELAWARE CORPORATION

By: /s/ Timothy A. Roseen

Name: Timothy A. Roseen

Title: Vice President

SCHEDULES AND EXHIBITS

Schedule 1 - Monthly Deposits

[Exhibit A - Specific Lease]

SCHEDULE 1

MONTHLY DEPOSITS

The amount of each monthly deposit is Eight Thousand Four Hundred Dollars (\$8,400.00).

Schedule 1-1

SCHEDULE 3

REQUEST FOR RELEASE (NO.)

TO: JOHN HANCOCK REAL ESTATE FINANCE, INC. ("LENDER")

FROM: ("BORROWER")

This Request for Release is submitted by Borrower in accordance with the Tenant Improvement and Leasing Commissions Agreement dated as of , 199-, between Borrower and Lender (the "AGREEMENT"). Terms used with initial capital letters and not defined in this Disbursement Request have the meanings given them in the Agreement.

Borrower hereby requests disbursement for the payment of the Tenant Improvements (or a portion thereof) in the amounts specified below:

COST OF TENANT IMPROVEMENTS (include quantity, materials and labor)	AMOUNT/PRICE
--	--------------

-----	-----
-----	-----
-----	-----
-----	-----

TOTAL DISBURSEMENT REQUESTED

\$

1. Borrower hereby requests disbursement for the payment of leasing commissions in the amount specified below:

AMOUNT OF LEASING COMMISSIONS

LEASING AGENT

2. Borrower certifies, represents and warrants to Lender that all statements, invoices, bills, costs, expenses and any other sums of money owing with respect to the Tenant Improvement and Leasing Commissions incurred on or before this date have been paid in full in the amounts, if any, described on ANNEX 1 hereto. The estimated costs of completing the uncompleted Tenant Improvements as of this date are as described on a line item basis on ANNEX 1.

Schedule 3-1

3. Borrower certifies, represents and warrants to Lender that (a) Borrower is entitled to a disbursement of the Reserve for the items and amounts requested in Section 1 above pursuant to the Agreement; (b) Borrower's representations and warranties made in the Loan Documents and the Agreement are true and correct on and as of this date; (c) no Event of Default nor any event which with the giving of notice or the lapse of time, or both, would become an Event of Default, has occurred and (d) the Tenant Improvement and Leasing Commissions listed in Sections 1 and 2 above have been fully paid for, and no claim or claims exist against the Borrower or against the Mortgaged Property out of which a lien based on a leasing commission or furnishing labor or material exists or might ripen.

Date: _____, 199__.

BORROWER:

By:

Name:

Title:

SWORN TO AND SUBSCRIBED BEFORE ME by _____,

this _____ day of _____, 199__.

Notary Public (Seal)
Name (Print):

My Commission Expires:

Initial Approval -- Name: -----

Date: -----

Disbursement Approval -- Name: -----

D a t e

Schedule 3-2

ANNEX 1

TENANT IMPROVEMENTS

AMOUNTS PAID

ESTIMATED COSTS OF
COMPLETION

LEASING COMMISSIONS

AMOUNTS PAID

EXHIBIT A

[SPECIFIC LEASE]

1. Lease dated March 1, 1999 between DM Management Company and Birch Pond Realty Corporation.

Schedule 3-2

CONSENT AGREEMENT

This Consent Agreement is made as of this 1st day of March, 1999 by Citizens Bank of Massachusetts (the "Bank") and DM Management Company ("DM").

Whereas, the Bank originally extended financing to DM in June, 1997, which was supplemented in October 1997 and secured at such time by a Mortgage (the "Mortgage") on a certain parcel of land located in Tilton, New Hampshire (the "Tilton Property");

Whereas, the Bank and DM further amended the financing extended to DM pursuant to a Second Amended and Restated Loan Agreement dated as of March 5, 1998 (as amended, the "Loan Agreement"), which is secured pursuant to the terms of a Security Agreement between the Bank and DM, dated June 5, 1997 (as amended, the "Security Agreement");

Whereas, to further secure additional financing extended by the Bank to DM under the New Bridge Note dated March 5, 1998 (as replaced by the Replacement New Bridge Note and the Second Replacement Bridge Note, the "Bridge Note") and the Short Term Revolving Note dated March 5, 1998 (as replaced by the Replacement Short Term Revolving Note and the Second Replacement Short Term Revolving Note, the "Short Term Revolving Note"), DM entered into the Amended Bridge Mortgage on March 5, 1998;

Whereas, the Amended Bridge Mortgage was further amended by the Second Amendment to Bridge Mortgage on September 4, 1998 (the Mortgage, the Amended Bridge Mortgage and the Second Amendment to Bridge Mortgage are referred to herein collectively as the "Mortgages"; the documents referred to above with the other documents executed in connection with such documents are referred to herein as the "Loan Documents");

Whereas, DM desires to transfer the Tilton Property to its subsidiary, Birchpond Realty Corporation ("Birchpond"), which will obtain financing from John Hancock Real Estate Finance, Inc. ("Hancock");

Now, therefore, in consideration of the premises, the Bank and DM agree as follows:

1. Contingent upon its receipt of payment in full of all amounts owed under the Bridge Note and the Short Term Revolving Note, the Bank hereby consents to the transfer of the Tilton Property to Birchpond and agrees to execute and deliver one or more releases of the Mortgages. Such transfer shall not constitute a breach of any term or provision of the Loan Agreement, the

Security Agreement, or any other agreement between the Bank and DM.

2. The Bank hereby consents to DM's guaranty of the Non-Recourse Covenant Obligations of Birchpond as defined in the Mortgage Note from Birchpond to Hancock of even date herewith in the principal sum of \$12,000,000, as more fully set forth in the attached Guaranty Agreement, and agrees that such guaranty shall not constitute a breach of any term or provision of

the Loan Agreement, the Security Agreement or any other agreement between the Bank and DM. The Bank also consents to DM's execution, delivery and performance of an Indemnification Agreement with Hancock and Birchpond pursuant to which DM will indemnify Hancock with respect to the certain liabilities arising under environmental laws, as more fully set forth in the attached Indemnification Agreement, and agrees that such indemnification shall not constitute a breach of any term or provision of the Loan Agreement, the Security Agreement or any other agreement between the Bank and DM.

3. Except as modified by the above paragraphs, in all other respects the Loan Documents remain in full force and effect between the parties in accordance with their terms and DM is not aware of any default by either party thereunder.

In witness whereof, the Bank and DM have executed this Consent under seal as of the date first set forth above.

CITIZENS BANK OF MASSACHUSETTS

By: /s/ Lori B. Leeth

Title: SVP

DM MANAGEMENT COMPANY

By: /s/ Olga L. Conley

Title: CHIEF FINANCIAL OFFICER

CONSENT OF INDEPENDENT ACCOUNTANTS

We consent to the incorporation by reference in these registration statements of DM Management Company and subsidiary on Form S-8 (File Nos. 33-71266, 33-71776, 33-72166, 33-86982, 333-03845, 333-42183, 333-53915 and 333-53917) of our reports dated February 5, 1999, except for Note D, as to which the date is March 1, 1999, on our audits of the consolidated financial statements and financial statement schedule of DM Management Company and subsidiary as of December 26, 1998 and December 27, 1997 and for each of the two years in the period ended December 26, 1998, the six month period ended December 28, 1996 and the twelve month period ended June 29, 1996, which reports are included in this Annual Report on Form 10-K.

PricewaterhouseCoopers LLP

Boston, Massachusetts
March 24, 1999

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE COMPANY'S CONSOLIDATED BALANCE SHEET AT DECEMBER 26, 1998 AND FROM THE CONSOLIDATED STATEMENT OF OPERATIONS FOR THE YEAR ENDED DECEMBER 26, 1998 CONTAINED IN THE COMPANY'S ANNUAL REPORT OF FORM 10-K FOR THE YEAR ENDED DECEMBER 26, 1998.

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<NAME> DM MANAGEMENT COMPANY

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