

SECURITIES AND EXCHANGE COMMISSION

FORM SC 13D

Schedule filed to report acquisition of beneficial ownership of 5% or more of a class of equity securities

Filing Date: **1998-06-22**  
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SUBJECT COMPANY

**HLM DESIGN INC**

CIK: **1049129** | IRS No.: **562018819** | State of Incorporation: **DE** | Fiscal Year End: **0425**  
Type: **SC 13D** | Act: **34** | File No.: **005-54229** | Film No.: **98651948**  
SIC: **8700** Engineering, accounting, research, management

Mailing Address  
*121 WEST TRADE STREET  
SUITE 2950  
CHARLOTTE NC 28202*

Business Address  
*121 W TRADE ST  
STE 2950  
CHARLOTTE NC 28202  
7043580779*

FILED BY

**HARRIS JOSEPH M**

CIK: **1057309**  
Type: **SC 13D**

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*121 W TRADE ST  
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SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549

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SCHEDULE 13D  
(Rule 13d-101)

INFORMATION TO BE INCLUDED IN STATEMENTS FILED PURSUANT TO  
13d-1(a) AND AMENDMENTS THERETO FILED PURSUANT TO 13d-2(a)

HLM Design, Inc.  
(Name of Issuer)

Common Stock, Par Value \$.001 Per Share  
(Title of Class of Securities)

404217 10 1  
(CUSIP Number)

Gary C. Ivey, Esq.; Parker, Poe, Adams & Bernstein, L.L.P.;  
2500 Charlotte Plaza, Charlotte, NC 28244;  
Telephone (704) 372-9000  
(Name, Address and Telephone Number of Person  
Authorized to Receive Notices and Communications)

June 12, 1997  
(Date of Event Which Requires Filing of This Statement)

If the filing person has previously filed a statement on Schedule 13G  
to report the acquisition which is the subject of this Schedule 13D, and is  
filing this schedule because of Rule 13d-1(e), 13d-1(f) or 13d-1(g), check the  
following box .

(Continued on following pages)

Page 1 of 7 Pages

1 NAMES OF REPORTING PERSONS  
I.R.S. IDENTIFICATION NOS. OF ABOVE PERSONS (ENTITIES ONLY)  
Joseph M. Harris

2 CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP\* (a) |  |  
(b) |  |

3 SEC USE ONLY

4 SOURCE OF FUNDS\*  
PF; BK

5 CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED  
PURSUANT TO ITEM 2(d) OR 2(e) |  |

6 CITIZENSHIP OR PLACE OF ORGANIZATION  
United States

7 SOLE VOTING POWER  
367,142. See Items 5 and 6.  
NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH

8 SHARES VOTING POWER  
-0-

9 SOLE DISPOSITIVE POWER 367,142. See Items 5 and 6.

10 SHARES DISPOSITIVE POWER  
-0-

11 AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON  
367,142.

12 CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES  
CERTAIN SHARES\*

|\_ |

-----  
13 PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11)  
17.2%.  
-----

14 TYPE OF REPORTING PERSON\*  
IN

\*SEE INSTRUCTIONS BEFORE FILLING OUT!

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ITEM 1. SECURITY AND ISSUER.

This Schedule is filed with respect to the common stock, par value \$.001 per share (the "Common Stock"), of HLM Design, Inc., a Delaware corporation (the "Company"). All information herein gives effect to an effective 12.75-to-1 stock split (effected in a series of transactions) of the Company's Common Stock as described in the Company's Registration Statement on Form S-1 (Registration No. 333-40617) on file with the Securities and Exchange Commission (the "Registration Statement"). The principal executive offices of the Company are located at 121 West Trade Street, Suite 2950, Charlotte, North Carolina 28202.

ITEM 2. IDENTITY AND BACKGROUND.

This Schedule is filed on behalf of a Joseph M. Harris. Mr. Harris, a United States citizen, is President and Chairman of the Company, whose business address is 121 West Trade Street, Suite 2950, Charlotte, North Carolina 28202.

During the last five years, Mr. Harris has not been convicted in a criminal proceeding (excluding traffic violations or similar misdemeanors) or been party to a civil proceeding of a judicial or administrative body of competent jurisdiction that resulted in a judgment, decree or final order enjoining future violations of, or prohibiting or mandating activities subject to, federal or state securities laws or finding any violation with respect to such laws.

ITEM 3. SOURCE AND AMOUNT OF FUNDS OR OTHER CONSIDERATION.

The 367,142 shares of Common Stock reported by this Schedule

as beneficially owned by Mr. Harris (the "Shares") include 261,375 shares acquired by Mr. Harris as of March 20, 1997, in connection with the original organization of the Company for \$1,000 in cash from Mr. Harris's personal funds. Mr. Harris purchased an additional 47,813 shares as of March 2, 1998, from a former director in a privately negotiated transaction for total consideration of \$100,000. Such amount was financed through a loan from a bank in the ordinary course of its business. For information concerning the additional 57,954 shares reported herein (which are the subject of options), see Items 5 and 6 below.

ITEM 4.

PURPOSE OF TRANSACTION.

Mr. Harris acquired the Shares in connection with the original organization of the Company and in anticipation of the Company's initial public offering of its Common Stock (the "IPO"). Such IPO was effected pursuant to the Registration Statement. His purpose in acquiring the Shares was to continue to exercise influence and control over the Company. Except as indicated below (and as contemplated in the Registration Statement), Mr. Harris has no present plans or proposals that relate to or would result in:

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(a) the acquisition by any person of additional securities of the Company, or the disposition of securities of the Company;

(b) an extraordinary corporate transaction, such as a merger, reorganization or liquidation, involving the Company;

(c) a sale or transfer of a material amount of assets of the Company;

(d) any change in the present Board of Directors or management of the Company, including any plans or proposals to change the number or term of directors or to fill any existing vacancies on the board;

(e) any material change in the present capitalization or dividend policy of the Company;

(f) any other material change in the Company's business or corporate structure;

(g) changes in the Company's charter, bylaws or instruments corresponding thereto or other actions which may impede the acquisition of control of the Company by any person;

(h) causing a class of securities of the Company to be delisted from a national securities exchange or to cease to be authorized to be quoted in an inter-dealer quotation system of a registered national securities association;

(i) a class of equity securities of the Company becoming eligible for termination of registration pursuant to Section 12(g)(4) of the Securities Exchange Act of 1934, as amended; or

(j) any action similar to any of those enumerated above.

The Company's Board of Directors currently consists of four directors. The Company's bylaws provide for a Board consisting of five to seven directors. As provided in the bylaws, such vacancy shall be filled by action of the current directors.

ITEM 5.

INTEREST IN SECURITIES OF THE ISSUER.

The 367,142 Shares constitute approximately 17.2% of the Common Stock outstanding at the date of filing of this Schedule. Of such amount, 57,954 Shares (2.7%) are shares Mr. Harris has a right to acquire upon exercise of currently exercisable options. See Item 6.

Mr. Harris has effected no transactions in the Common Stock during the past 60 days.

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Mr. Harris has sole voting and dispositive power over the Shares. But see Item 6 below.

ITEM 6.

CONTRACTS, ARRANGEMENTS. UNDERSTANDINGS OR RELATIONSHIPS WITH RESPECT TO SECURITIES OF THE ISSUER.

As indicated in Item 3, Mr. Harris's purchase of a portion of the Shares has been financed through a bank in the ordinary course of the bank's business. Such bank financing includes a standard stock pledge with respect to the Shares and standard default and other provisions.

Mr. Harris has signed a Security Holder Acknowledgment directed to Berthel Fisher & Company Financial Services, Inc., Westport Resources Investment Services, Inc. and Marion Bass Securities Corporation, as the representatives of the underwriters of the Company's IPO. Pursuant to such Security Holder Acknowledgment, Mr. Harris has agreed not to offer or sell any of the Shares for a period of twelve months from the effective date of the Registration Statement. See Exhibit 1.

Mr. Harris has also entered into a Security Escrow Agreement with the Company dated as of June 18, 1998, with respect to the Shares pursuant to which all Common Stock owned by him is escrowed for a period of three years from the date of acquisition thereof, subject to prior release if (i) the market price of the Common Stock exceeds 175% of the initial public offering price for at least 90 consecutive trading days after at least one year from the date of effectiveness of this Registration Statement, or (ii) the Company achieves certain earnings results for two consecutive fiscal years. Notwithstanding the foregoing, Mr. Harris has further agreed with the Company pursuant to a letter agreement dated June 12, 1998, that such Common Stock shall not be released from escrow pursuant to (i) or (ii) above to the extent such release would result in the recognition of compensation expense to the Company in connection therewith. Such Security Escrow Agreement also prohibits the transfer of the Shares prior to their release from escrow except in certain limited circumstances. Mr. Harris retains voting rights with respect to the Shares. Any dividends paid by the Company during the escrow period shall also be subject to the escrow. See Exhibits 2 and 3.

For a description of stock options granted to Mr. Harris with respect to 57,954 of the Shares, see Exhibits 4 through 7.

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ITEM 7. MATERIAL TO BE FILED AS EXHIBITS.

Exhibit No.	Description
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1	Security Holder Acknowledgment dated June 12, 1998
2	Security Escrow Agreement dated June 18, 1998
3	Letter Agreement dated June 12, 1998

4 "Management--Stock Option Plan" excerpted from the Registration  
Statement  
5 Form of HLM Design, Inc. 1998 Stock Option Plan (incorporated  
by referenced to Exhibit 10.23 to the Registration Statement)  
6 Nonstatutory Stock Option Agreement and Grant Pursuant to HLM  
Design, inc. 1998 Stock Option Plan  
7 Statutory Incentive Stock Option Agreement and Grant Pursuant to  
HLM Design, inc. 1998 Stock Option Plan

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SIGNATURE

After reasonable inquiry and to the best of our knowledge and belief,  
we certify that the information set forth in this statement is true, complete  
and correct.

Date: June 22, 1998

/s/ Joseph M. Harris

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Joseph M. Harris

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## SECURITY HOLDER ACKNOWLEDGMENT

The undersigned, pursuant to Section 5.12 of the Underwriting Agreement between HLM Design, Inc. (the "Company") and Berthel Fisher & Company Financial Services, Inc. ("Berthel"), Westport Resources Investment Services, Inc. ("Westport") and Marion Bass Securities Corporation ("Marion Bass") (Westport and Marion Bass together with Berthel, the "Managers"), of even date herewith, being all of the officers, directors, or employees of the Company who individually own 5% or more of shares of the Company (based on the number of shares outstanding as of the date hereof) agree and acknowledge that they shall not directly or indirectly offer or sell to the public, or privately, any portion of the shares of common stock of the Company owned by such persons prior to the date of the Underwriting Agreement or hereafter acquire by exercise of an option, for a period of twelve months from the date of the Underwriting Agreement without the prior written consent of Berthel. the undersigned acknowledge that the delivery of this Acknowledgment is a condition of the agreement of the Managers to enter into the Underwriting Agreement with the Company, and that execution by the Managers of the Underwriting Agreement confers upon the undersigned substantial benefits, and is consideration for the execution by the undersigned of this Acknowledgment. If the Managers shall fail to perform their obligations pursuant to Section 3 of the Underwriting Agreement, as extended or waived in writing by the Company, the undersigned shall have no further obligation hereunder following the Closing Date set forth in the Underwriting Agreement.

/s/Joseph M. Harris

-----

June 12, 1998

-----

Date

/s/Vernon B. Brannon

-----

June 12, 1998

-----

Date

## SECURITY ESCROW AGREEMENT

THIS ESCROW AGREEMENT made and entered into this 18th day of June, 1998, among the persons and parties who have signed this Agreement as security holders (herein collectively referred to as the "Security Holders"), HLM Design, Inc., a Delaware corporation (the "Issuer"), and First Union National Bank (the "Escrow Agent");

## WITNESSETH THAT:

A. Each of the Security Holders is the owner of the number of shares of common stock, par value \$.001 per share (the "Common Stock") of the Issuer or possesses options to acquire shares of Common Stock of the Issuer listed opposite his or its name on Exhibit A attached hereto.

B. The Issuer has applied to the state securities administrators of certain states for registration of 1,200,000 shares of Common Stock for sale to the residents of such states (the "Registration"). As a condition of such Registration, certain administrators (the "Administrators") have required that the Security Holders, the Escrow Agent and the Issuer enter into this Agreement and agree to be bound by applicable rules and regulations of the Administrators pertaining to such agreements.

C. Each of the Security Holders has deposited the securities listed opposite his or its name and documents evidencing options to acquire the securities on Exhibit A with the Escrow Agent, and the Escrow Agent hereby acknowledges receipt thereof. Such securities are herein collectively referred to as "Escrowed Stock" or "Shares".

NOW, THEREFORE, the persons and parties hereto agree as follows:

1. DEPOSIT OF CERTIFICATES. Simultaneously with the execution of this Agreement, each Security Holder is depositing with the Escrow Agent, and the Escrow Agent hereby acknowledges receipt of, the certificates and documents representing the Escrowed Stock listed on Exhibit A. At the written request of the Issuer, the Escrow Agent shall make available to the Issuer and any affected Securities Holder, such documents as are necessary to exercise the foregoing options to acquire Shares.

2. TERM. The term of this Agreement shall commence on the date that the Registration is declared effective by the Administrators. The certificates or documents evidencing the Shares are to be deposited with the Escrow Agent and are to be held pursuant hereto, for a period of three years from the date of

acquisition of such Shares unless released earlier in accordance with the terms of this Agreement.

3. RELEASE OF SHARES. The Shares shall be released to Security Holders prior to the end of the term provided in paragraph 2 above as follows:

- a. One-hundred percent (100%) of the Shares shall be released from escrow after the Issuer has had annual net earnings per share as determined in accordance with generally accepted accounting principles (GAAP) equal to, or greater than, seven and one-half percent (7.5%) of the per share public offering price, after taxes and excluding extraordinary items, for any two consecutive fiscal years after the dated of effectiveness; or,
- b. One-hundred percent (100%) of the Shares shall be released from escrow after the Issuer's Shares have traded in a reliable public market at a price of at least one-hundred seventy-five percent (175%) of the initial public offering price for at least ninety (90) consecutive trading days after at least one year from the date of effectiveness.

4. DOCUMENTATION TO ESCROW AGENT REGARDING RELEASE OF SHARES. A request for termination of the escrow, based on the satisfaction of either paragraph 3.a. or 3.b. above, shall be forwarded to the Escrow Agent. A request for termination of the escrow based upon paragraph 3.a shall be accompanied by an earnings per share calculation audited and reported on by an independent certified public accountant.

5. TERMINATION OR PARTIAL OFFERING. The foregoing notwithstanding, the Shares will be released by the Escrow Agent if the public offering has been terminated and no securities were sold pursuant thereto.

6. RESTRICTION ON TRANSFER. The Escrowed Stock may be transferred by will, or pursuant to the laws of descent and distribution, or through appropriate legal proceedings, but in all cases the Shares shall remain in escrow and subject to the terms of this Agreement until released pursuant to paragraph 2 or paragraph 3 above. Upon the death of the holder of any Escrowed Stock, the Escrowed Stock of the deceased holder may be hypothecated, subject to all of the terms of this Agreement, to the extent necessary to pay the expenses of the estate. The Shares in escrow may be transferred by gift to family

members, provided that the Shares shall remain subject to the terms of this Agreement. The Shares may not be pledged to secure a debt except as noted above, and except that Joseph M. Harris and Vernon B. Brannon shall each be permitted to maintain the pledge of 70,000 Shares currently provided to First Charter National Bank to secure certain indebtedness.

7. VOTING POWER. The Escrowed Stock shall have all voting rights to which the non-escrowed shares are entitled.

8. DIVIDENDS. Any dividends paid on the Shares shall be paid to the Escrow Agent by checks of the Issuer made payable to the Escrow Agent with a notation of this

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Agreement thereon, and any such dividends shall be held pursuant to the terms of this Agreement. The Escrow Agent shall treat such dividends as assets of the Issuer, available for distribution under the terms of paragraph 9 below, except as provided herein. The Escrow Agent shall place the dividends in an interest bearing account. The dividends and the interest earned thereon will be disbursed in proportion to the number of Shares released from the escrow at the time the Shares are released pursuant to paragraph 2 or paragraph 3 above, unless they are applied to the payment of the fees of the Escrow Agent under paragraph 13 below.

9. STOCK DIVIDENDS OR SPLITS. Stock dividends on, and shares resulting from stock splits of, the Escrowed Stock shall be delivered to the Escrow Agent and shall be held pursuant to this Agreement as if they were original shares of Escrowed Stock deposited hereunder. In the event of any stock dividend, stock split or recapitalization of the Issuer, the price per share figures herein shall be adjusted appropriately.

10. ADDITIONAL SHARES. Upon the exercise by any Security Holder of his or its options to acquire additional shares of the Issuer pursuant to the documents listed on Exhibit A, the additional shares received from the exercise of such options shall forthwith be deposited in escrow with the Escrow Agent and shall be subject to the terms and conditions of this Agreement.

11. DISSOLUTION PREFERENCE. The Security Holders agree that in the event of dissolution, liquidation, merger, consolidation, sale of assets, exchange, or any transaction or proceeding that results in the distribution of the assets of the Issuer, the Security Holders hereby waive all their rights, title and interests and participations in the assets of the Issuer until the holders of all non-escrowed shares have been paid, or have had irrevocably set aside for them, an amount equal to one hundred percent (100%) of the public offering price per share, adjusted for stock splits and stock dividends. Subsequently, the Shares shall be entitled to receive an amount per share equal to one hundred percent (100%) of the amount per share paid to, or set aside for,

the non-escrowed shares. Thereafter, the Security Holders shall participate on a pro rata basis with all shareholders. Mergers, consolidations, or reorganizations may proceed on terms and conditions different than those stated above if a majority of shares held by persons, other than promoters and Security Holders, approve the terms and conditions by vote at a meeting held for such purpose.

12. RELIANCE BY ESCROW AGENT. The Escrow Agent may conclusively rely on, and shall be protected, when it acts in good faith upon, any statement, certificate, notice, request, consent, order or other document which it believes to be genuine and signed by the proper party. The Escrow Agent shall have no duty or liability to verify any such statement, certificate, notice, request, consent, order or other document and its sole responsibility shall be to act only as expressly set forth in this Agreement. The Escrow Agent shall be under no obligation to institute or defend any action, suit or proceeding in connection with this Agreement unless it is indemnified to its satisfaction. The Escrow Agent may consult counsel with respect to any question arising under this Agreement and the Escrow Agent shall not be liable for any action

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taken, or omitted, in good faith upon advice of counsel. In performing any of its duties hereunder, the Escrow Agent shall not incur any liability to anyone for any damages, losses or

expenses except for willful default or negligence, and it shall accordingly not incur any such liability with respect to: (i) any action taken or omitted in good faith upon advice of its counsel or counsel for the Issuer given with respect to any questions relating to the duties and responsibility of the Escrow Agent under this Agreement, or (ii) any action taken or omitted in reliance upon any instrument, including written advice provided for herein, not only as to its due execution and the validity and effectiveness of its provisions, but also as to the truth and accuracy of any information contained therein, which the Escrow Agent shall in good faith believe to be genuine, to have been signed or presented by the proper person or persons, and to conform with the provisions of this Agreement. All Shares and funds held pursuant to this Agreement shall constitute trust property. The Escrow Agent shall not be liable for any interest on the Shares.

13. COMPENSATION TO ESCROW AGENT. The Escrow Agent shall be entitled to receive from the Issuer reasonable compensation for its services as set forth in

Exhibit B attached hereto. In the event that the Escrow Agent renders any additional services not provided for herein, or if any controversy arises hereunder, or if the Escrow Agent is made a party to, or intervenes in any action, suit or proceeding pertaining to this Agreement, the Issuer shall provide reasonable compensation for such additional services. Upon notice to the Security Holders, the Escrow Agent may deduct its compensation from any cash dividends or distributions held pursuant to paragraph 8 above.

14. QUALIFICATION AND INDEPENDENCE OF ESCROW AGENT. The Issuer hereby represents that a complete list of its officers, directors and promoters is attached hereto as Exhibit C. Based thereon, the Escrow Agent hereby represents and warrants that it is not affiliated with the Issuer, any officer, director or promoter of the Issuer or any Security Holder.

15. INDEMNIFICATION. The Issuer and the Security Holders agree to hold the Escrow Agent harmless from, and indemnify the Escrow Agent for, any and all costs of investigation or claims, costs, expenses, attorney fees or other liabilities or disbursements arising out of any administrative investigation or proceeding or any litigation, commenced or threatened, relating to this Agreement, including without limitation, the implementation of this Agreement, the distribution of the Shares or funds, the investment of funds, the interpretation of this Agreement or similar matters, provided that the Escrow Agent shall not be indemnified for any claims, costs, expenses or other liability arising from its bad faith or negligence or that of its employees, officers, directors or agents.

16. SCOPE. This agreement shall be binding upon, and inure to the benefit of, the parties hereto, their heirs, successors and assigns.

17. TERMINATION. Except for the indemnification provisions of paragraph 15 above, which shall survive in any event, this Agreement shall terminate in its entirety when all the

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Shares have been released as provided in paragraph 2 or paragraph 3 above.

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IN WITNESS WHEREOF, the Security Holders, the Issuer and the Escrow Agent have entered into this Agreement as of the date first above written, in multiple counterparts, each of which shall be considered an original.

SECURITY HOLDERS:

/s/ Joseph M. Harris

-----  
Joseph M. Harris

/s/ Vernon B. Brannon

-----  
Vernon B. Brannon

BERTHEL FISHER & COMPANY  
LEASING, INC.

/s/ Nancy L. Lowenberg

-----  
By: Nancy L. Lowenberg  
Its: Vice President and  
Chief Operating Officer

ISSUER:

HLM DESIGN, INC.

By: /s/ Vernon B. Brannon

-----  
Its:  
-----

ESCROW AGENT

FIRST UNION NATIONAL BANK

/s/ Terry Baker

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By: Terry Baker

-----  
Its: Vice President  
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EXHIBIT A

Securities

Name of Holder -----	Number of Shares -----	Number of Options -----
Joseph M. Harris	309,188	57,954
Vernon B. Brannon	309,187	57,954
Berthel Fisher & Company Leasing, Inc.	43,631	

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EXHIBIT B

Escrow Agent Fees

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EXHIBIT C

Officers and Directors

Officers  
-----

Joseph M. Harris  
Vernon B. Brannon  
Karen Kaplan

Directors  
-----

Joseph M. Harris  
Vernon B. Brannon  
Clay R. Caroland III  
D. Shannon LeRoy

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June 12, 1998

HLM Design, Inc.  
121 West Trade Street  
Suite 2850  
Charlotte, North Carolina 28202

Ladies and Gentlemen:

This will confirm the agreement and understanding of the undersigned that, notwithstanding the provisions of Section 3 of that certain Security Escrow Agreement dated the date hereof among the undersigned, HLM Design, Inc. and First Union National Bank, as escrow agent (the "Agreement") the Shares (as defined in the Agreement) shall not be released from escrow under the Agreement pursuant to such Section 3 to the extent such release would result in the recognition of compensation expense to the Company in connection therewith.

Very truly yours,

/s/ Joseph M. Harris

/s/ Vernon B. Brannon

BERTHEL FISHER & COMPANY LEASING, INC.

By Tom Berthel  
-----

Acknowledged and agreed, the  
day and year first above written  
HLM Design, Inc.

By /s/ Vernon B. Brannon  
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## STOCK OPTION PLAN

In February 1998, the Board of Directors and stockholders of HLM Design adopted the HLM Design, Inc. 1998 Stock Option Plan (the "Stock Option Plan") in order to attract and retain key personnel. The following discussion of the material features of the Stock Option Plan is qualified by reference to the text of such plan filed as an exhibit to the Registration Statement of which this Prospectus is a part.

Under the Stock Option Plan, options to purchase up to an aggregate of 159,955 shares of Common Stock may be granted to key employees of HLM Design and its Managed Firms and to officers, directors, consultants and other individuals providing services to the Company. Unless designated as "incentive stock options" ("ISOs") intended to qualify under Section 422 of the Internal Revenue Code of 1986, as amended (the "Code"), options granted under the Stock Option Plan are intended to be "nonstatutory stock options" ("NSOs").

The Compensation Committee of the Board of Directors of HLM Design will administer the Stock Option Plan and will determine, among other things, the persons who are to receive options, the number of shares to be subject to each option, and the vesting schedule of options; provided, that the Board of Directors of HLM Design will make such determinations with respect to the initial grants made under the Stock Option Plan. Members of the Board of Directors who serve on the Compensation Committee must qualify as "non-employee directors," as that term is defined in Rule 16b-3 promulgated under the Securities Exchange Act of 1934, as amended. The Board of Directors of HLM Design will determine the terms and conditions upon which HLM Design may make loans to enable an optionee to pay the exercise price of an option. In selecting individuals for options and determining the terms thereof, the Compensation Committee may consider any factors it considers relevant, including present and potential contributions to the success of the Company. Options granted under the Stock Option Plan must be exercised within a period fixed by the Compensation Committee, which period, subject to early termination upon the occurrence of certain events, may not exceed ten years from the date of the grant of the option or, in the case of ISOs granted to any holder on the date of the grant of more than ten percent of the total combined voting power of all classes of stock of HLM Design and its affiliated firms, five years from the date of grant of the option. Options may be made exercisable in whole or in installments, as determined by the Compensation Committee. However, the aggregate market value of the Common Stock with respect to which ISOs are exercisable for the first time by the holder during any calendar year may not exceed the limitation set forth in Section 422(d) of the Code (currently \$100,000). For this purpose, the market value shall be determined as of the time the ISOs are granted.

Options generally may not be transferred other than by will or the laws of descent and distribution and during the lifetime of an optionee may be exercised only by the optionee. Notwithstanding the foregoing, the Compensation Committee,

in its discretion, subject to certain limitations, may grant transferable options if such options are not ISOs. The exercise price of options that are NSOs will be determined at the discretion of the Compensation Committee, but will not be less than 85% of the market value of the Common Stock on the date of grant of the NSOs. The exercise price of ISOs may not be less than the market value of the Common Stock on the date of the grant of the option. In the case of ISOs granted to any holder on the date of grant of more than ten percent of the total combined voting power of all classes of stock of HLM Design and its affiliated firms, the exercise price may not be less than 110% of the market value of the Common Stock on the date of the grant of the ISOs. The exercise price may be paid in cash, in shares of Common Stock owned by the optionee, in NSOs granted under the Stock Option Plan (except that the exercise price of an ISO may not be paid in NSOs) or in any combination of cash, shares and NSOs.

Options granted under the Stock Option Plan may include the right to acquire a "reload" option. In such case, if an optionee pays all or part of the exercise price of an option with shares of Common Stock held by the optionee for at least six months, then, upon exercise of the option, the optionee is granted a second option to purchase, at the fair market value as of the date of exercise of the original option, the number of whole shares used by the optionee in payment of the exercise price of the original option. A reload option is not exercisable until one year after the grant date of such reload option or the expiration date of the original option. If the exercise price of a reload option is paid for with shares of Common Stock that have been held by the Optionee for more than six (6) months, then another reload option will be issued. Shares of Common Stock covered by a reload option will not reduce the number of shares of Common Stock available under the Stock Option Plan.

The Stock Option Plan provides that, in the event of changes in the corporate structure of HLM Design or certain events affecting the Common Stock, adjustments will automatically be made in the number and kind of shares available for issuance and in the number and kind of shares and option price thereof covered by outstanding options. It further provides that, in connection with any merger or consolidation in which HLM Design is not the surviving corporation and which results in the holders of the Common Stock owning less than a majority of the surviving corporation or any sale or transfer by HLM Design of all or substantially all its assets or any tender offer or exchange offer for or the acquisition, directly or indirectly, by any person or group of all or a majority of the then-outstanding voting securities of HLM Design, all outstanding options under the Stock Option Plan will become exercisable in full on and after (i) the 15th day prior to the effective date of such merger, consolidation, sale, transfer or acquisition or (ii) the date of commencement of such tender offer or exchange offer, as the case may be.

NONSTATUTORY STOCK OPTION AGREEMENT AND GRANT  
PURSUANT TO  
HLM DESIGN, INC. 1998 STOCK OPTION PLAN

This Nonstatutory Stock Option Agreement and Grant is entered into as of the 12th day of June, 1998 between HLM Design, Inc., a Delaware corporation (the "Company"), and Joseph M. Harris (the "Optionee").

WHEREAS, the Company and its stockholders have approved the HLM Design, Inc. 1998 Stock Option Plan (the "Plan") pursuant to which the Company may, from time to time, make awards of Options (as defined below) and enter into Nonstatutory Stock Option Agreements with, eligible employees of the Company or of any Subsidiary (as defined below);

WHEREAS, pursuant to the Plan, the Company has determined to grant to the Optionee an Option to purchase Common Stock (as defined below) of the Company, which Option shall be subject to the terms and conditions of this Nonstatutory Stock Option Agreement and Grant;

NOW, THEREFORE, in consideration of the premises and the mutual covenants and agreements hereinafter set forth, the parties hereby agree as follows:

1. DEFINITIONS.

For purposes of this Nonstatutory Stock Option Agreement and Grant, the following terms shall have the meanings indicated:

- (a) "ACT" shall mean the Securities Act of 1933, as amended.
- (b) "BOARD" shall mean the Board of Directors of the Company.

(c) "CAUSE" shall mean any act, action or series of acts or actions or any omission, omissions, or series of omissions which result in, or which have the effect of resulting in, (i) the commission of a crime by the Optionee involving moral turpitude, which crime has a material adverse impact on the Company or any Subsidiary, (ii) gross negligence or willful misconduct which is continuous and results in material damage to the Company or any Subsidiary, or (iii) the continuous, willful failure of the person in question to follow the reasonable directives of the Board of Directors.

(d) "CODE" shall mean the Internal Revenue Code of 1986, as amended, any successor revenue laws of the United States and the rules and regulations promulgated thereunder.

(e) "COMMITTEE" shall mean the committee of members of the Board that is designated by the Board to administer the Plan. In the event that no such Committee exists or is appointed, "COMMITTEE" shall mean the Board.

(f) "COMMON STOCK" shall mean the Common Stock, par value \$.001 per share, of the Company.

(g) "DISABILITY" shall mean the inability or failure of a person to perform those duties for the Company or any Subsidiary traditionally assigned to and performed by such person because of the person's then-existing physical or mental condition, impairment or incapacity. The fact of disability shall be determined by the Committee, which may consider such evidence as it considers desirable under the circumstances, the determination of which shall be final and binding upon all parties.

(h) "EXERCISE DATE" shall mean the business day, during the Option Period, upon which the Optionee delivers to the Company the written notice and consideration contemplated by Section 5(c) of the Plan.

(i) "FAIR MARKET VALUE" shall mean, with respect to the Common Stock on any day, its market value determined as provided in Section 5(c) of the Plan.

(j) "IMMEDIATE FAMILY" shall mean the Optionee's spouse, children, present or former stepchildren, grandchildren, present or former stepgrandchildren, parents, present or former stepparents, grandparents, siblings (including half brothers and sisters), in-laws and individuals whose relationship with the Optionee arises due to legal adoption.

(k) "INVOLUNTARY TERMINATION WITHOUT CAUSE" shall mean either (i) the dismissal of, or the request for the resignation of, a person, by court order, order of any court-appointed liquidator or trustee of the Company, or the order or request of any creditors' committee of the Company constituted under the federal bankruptcy laws, provided that such order or request contains no specific reference to Cause; or (ii) the dismissal of, or the request for the resignation of, a person, by a duly constituted corporate officer of the Company or any Subsidiary, or by the Board, for any reason other than for Cause.

(l) "OPTION" shall mean the option to purchase shares of Common Stock granted to the Optionee pursuant to this Option Agreement.

(m) "OPTION AGREEMENT" shall mean this Nonstatutory Stock Option Agreement and Grant between the Company and the Optionee by which the Option is granted to the Optionee pursuant to the Plan.

(n) "OPTION PERIOD" shall mean the period commencing from the

date of this Option Agreement and ending at the close of business ten years from the date of this Option Agreement or such earlier date as when this Option Agreement may be terminated by its terms.

(o) "OPTION SHARES" shall mean the shares of Common Stock purchased upon exercise of the Option.

(p) "OPTIONEE" shall mean the individual executing this Option Agreement and, as applicable, the estate, personal representative, beneficiary or Permitted Transferee to whom this Option may be transferred pursuant to this Option Agreement by will, by the laws of descent and

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distribution, pursuant to a domestic relations order as defined in the Code, or as otherwise permitted by paragraph 3(f) below.

(q) "PERMITTED TRANSFEREE" shall mean a member of the Optionee's Immediate Family, a trust established solely for the benefit of one or more members of the Optionee's Immediate Family or a partnership or limited liability company of which the only individuals or entities who are or could be partners or shareholders are members of the Optionee's Immediate Family and/or a trust established solely for the benefit of one or more members of the Optionee's Immediate Family.

(r) "PLAN" shall mean the HLM Design, Inc. 1998 Stock Option Plan and any amendments thereto.

(s) "RETIREMENT" shall mean, with respect to the Optionee, retirement from the Company and any Subsidiary in accordance with the Company's and/or Subsidiary's retirement policy as may be in effect from time to time.

(t) "SUBSIDIARY" shall mean any subsidiary corporation of HLM Design, Inc. as defined in Sections 424(f) and 424(g) of the Code.

(u) "TERMINATION" shall mean the cessation, for any reason, of the employer-employee relationship between the Company and any Subsidiary and the Optionee.

(v) "TOTAL OPTION PRICE" shall mean the consideration payable to the Company by the Optionee upon exercise of the Option pursuant to Section 5(c) of the Plan.

2. GRANT OF OPTION. Effective upon the date hereof, and subject to the terms and conditions set forth herein, the Company hereby grants to the Optionee the Option to purchase from the Company, at an exercise price of \$5.50 [but not less than 85% of the initial public offering price] per share, up to but not

exceeding in the aggregate 40,568 shares of Common Stock.

3. EXERCISE OF OPTION. The Option granted in paragraph 2 above may be exercised as follows:

(a) The Option shall be exercisable at any time and from time to time during the Option Period. The Option shall terminate on the expiration of the Option Period, if not earlier terminated; provided that, in the event of the Optionee's Retirement, the Committee in its sole and absolute discretion may accelerate the Exercise Date, which acceleration may, in the sole discretion of the Committee, be subject to further terms and conditions mandated by the Committee.

(b) No less than 100 shares of Common Stock may be purchased on any Exercise Date unless the number of shares purchased at such time is the total number of shares in respect of which the Option is then exercisable.

(c) If at any time and for any reason the Option covers a fraction of a share, then, upon exercise of the Option, the Optionee shall receive the Fair Market Value of such fractional share in cash.

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(d) The Option shall be exercised by the Optionee in accordance with the terms and conditions of Section 5(c) of the Plan.

(e) As soon as administratively practicable following the Exercise Date, subject to the receipt of payment of the Total Option Price and of any payment in cash of federal, state or local income tax withholding or other employment tax that may be due upon the issuance of the Option Shares as determined and computed by the Company pursuant to paragraph 6 below, the Company shall issue to the Optionee the number of shares with respect to which such Option shall be so exercised and shall deliver to the Optionee a certificate or certificates therefor.

(f) The Option is not transferable by the Optionee otherwise than (i) by will or the laws of descent and distribution; (ii) pursuant to a domestic relations order as defined in the Code; or (iii) by transfer without consideration to a Permitted Transferee, with the consent of and subject to the rules, terms and conditions imposed by the Committee and provided that the Committee is notified in advance in writing of any proposed transfer to a Permitted Transferee and the Committee determines that the proposed transfer complies with the requirements of the Plan and this Nonstatutory Stock Option Agreement. No assignment or transfer of this Option, or of the rights represented thereby, whether voluntary or involuntary, by operation of law or otherwise, except as described above, shall vest in the assignee or transferee

any interest or right herein whatsoever; but immediately upon any attempt to assign or transfer this Option, except as expressly permitted herein, the same shall terminate and be of no force or effect.

4. TERMINATION. The Option granted hereby shall terminate and be of no force or effect upon and following the occurrence of any of the following events:

(a) The expiration of the Option Period.

(b) The Termination of the Optionee's employment for any reason other than the Optionee's death, Disability or Involuntary Termination Without Cause.

(c) The expiration of three months after the date of the Optionee's Involuntary Termination Without Cause. During such three-month period, the Optionee shall have the right to exercise the Option hereby granted in accordance with the terms of this Option Agreement, but only to the extent the Option was exercisable on the date of the Termination of the Optionee's employment.

(d) The expiration of twelve months after Termination of the Optionee's employment with the Company and any Subsidiary as a result of the Optionee's Disability. During such twelve-month period, the Optionee shall have the right to exercise the Option hereby granted in accordance with the terms of this Option Agreement, but only to the extent the Option was exercisable on the date of the Termination of the Optionee's employment.

(e) In the event of the death of the Optionee while in the employ of the Company or, in the event of the death of the Optionee after Termination described in subparagraph (c) or (d), above, but within the three-month or twelve-month period described in subparagraph (c) or (d), above, upon the expiration of twelve months following the Optionee's death. During such extended

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period, the Option may be exercised by the person or persons to whom the deceased Optionee's rights under the Option Agreement shall pass by will or by the laws of descent and distribution, but only to the extent the Option was exercisable on the date of the Termination of the Optionee's employment.

(f) To the extent set forth in paragraph 7 below, upon the dissolution, liquidation, consolidation or merger of the Company, and, to the extent set forth in subparagraph 3(f) above, upon an attempted assignment or transfer of the Option otherwise than as expressly permitted herein.



Any determination made by the Committee with respect to any matter referred to in this paragraph 4 shall be final and conclusive on all persons affected thereby.

5. RIGHTS AS STOCKHOLDER. An Optionee shall have no rights as a stockholder of the Company with respect to any shares underlying the Option until the day of the issuance of a stock certificate to him or her for those shares upon payment of the exercise price in accordance with the terms and provisions hereof. Subject to paragraph 7 below, no adjustments shall be made for dividends (ordinary or extraordinary, whether in cash, securities or other property) or distributions or other rights for which the record date is prior to the date such stock certificate is issued.

6. PAYMENT OF WITHHOLDING TAXES. Upon the Optionee's exercise of his or her Option with respect to any of the Option Shares in accordance with the provisions of paragraph 3 above, the Optionee shall pay to the Company upon exercise of the Option the amount of any federal, state or local income tax withholding or other employment tax that may be due upon such exercise. The determination of the amount of any such federal, state or local income tax withholding or other employment tax due in such event shall be made by the Company and shall be binding upon the Optionee.

7. RECAPITALIZATION; REORGANIZATION. The shares underlying this Option are shares of Common Stock as constituted on the date of this Option Agreement, but if, during the Option Period and prior to the delivery by the Company of all of the shares of Common Stock with respect to which this Option is granted, the Company shall effect a subdivision or consolidation of shares or other capital readjustment, the payment of a stock dividend or some other increase or decrease in the number of shares of Common Stock outstanding, without receiving compensation therefor in money, services or property, then, (a) in the event of any increase in the number of such shares outstanding, the number of shares of Common Stock then remaining subject to this Option shall be proportionately increased (except that any fraction of a share resulting from any such adjustment shall be excluded from the operation of this Option Agreement), and the exercise price per share shall be proportionately reduced, and, (b) in the event of a reduction in the number of such shares outstanding, the number of shares of Common Stock then remaining subject to this Option shall be proportionately reduced (except that any fractional share resulting from any such adjustment shall be excluded from the operation of this Option Agreement), and the exercise price per share shall be proportionately increased.

In the event of a merger of one or more corporations into the Company with respect to which the Company shall be the surviving or resulting corporation, the Optionee shall, at no additional cost, be entitled upon any exercise of this Option to receive (subject to any required action by shareholders), in lieu of the number of shares as to which this Option shall then be so exercised, the

number and class of shares of stock or other securities to which the Optionee would have been entitled pursuant to the terms of the agreement of merger if, immediately prior to such merger, the Optionee had been the holder of record of a number of shares of Common Stock of the Company equal to the number of shares as to which such Option shall be so exercised; provided, however, that, anything herein contained to the contrary notwithstanding, upon the occurrence of any event described in Section 5(g) of the Plan, this Option shall be subject to acceleration as provided in such Section 5(g).

In the event of a change in the Common Stock as presently constituted, which change is limited to a change of all of the authorized shares with par value into the same number of shares with a different par value or without par value, the shares resulting from any such change shall be deemed to be the Common Stock within the meaning of the Plan.

The existence of this Option shall not affect in any way the right or power of the Company or its shareholders to make or authorize any or all adjustments, dividends, stock dividends, recapitalization, 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 bonds, debentures, preferred or other stocks with preference ahead of or convertible into, or otherwise 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. NO REGISTRATION RIGHTS. Anything in this Option Agreement to the contrary notwithstanding, if, at any time specified herein for the issuance of Option Shares, any law, regulation or requirements of any governmental authority having jurisdiction in the premises shall require either the Company or the Optionee, in the opinion of the Company's counsel, to take any action in connection with the shares then to be issued, the issue of such shares shall be deferred until such action shall have been taken. Nothing in this Option Agreement shall be construed to obligate the Company at any time to file or maintain the effectiveness of a registration statement under the Act, or under the securities laws of any state or other jurisdiction, or to take or cause to be taken any action which may be necessary in order to provide an exemption from the registration requirements of the Act under Rule 144 or any other exemption with respect to the Option Shares or otherwise for resale or other transfer by the Optionee (or by the executor or administrator of such Optionee's estate or a person who is a Permitted Transferee or who acquired the Option or any Option Shares or other rights by bequest or inheritance or by reason of the death of the Optionee) as a result of the exercise of an Option granted pursuant to this Option Agreement.

9. RESOLUTION OF DISPUTES. Any dispute or disagreement that arises under, or as a result of, or pursuant to, this Option Agreement shall be determined by the Committee in its absolute and uncontrolled discretion, and any

such determination or other determination by the Committee under or pursuant to this Option Agreement, and any interpretation by the Committee of the terms of this Option Agreement, shall be final, binding and conclusive on all parties affected thereby.

10. COMPLIANCE WITH THE ACT. Notwithstanding any provision herein or in the Plan to the contrary, the Company shall be under no obligation to issue any shares of Common Stock to the Optionee upon exercise of the Option granted hereby unless and until the Company has determined that such issuance is either exempt from registration, or is registered, under the Act and is either

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exempt from registration and qualification, or is registered or qualified, as applicable, under all applicable state securities or "blue sky" laws.

11. MISCELLANEOUS.

(a) BINDING ON SUCCESSORS AND REPRESENTATIVES. This Option Agreement shall be binding not only upon the parties, but also upon their heirs, executors, administrators, personal representatives, successors and assigns (including any transferee of a party to this Agreement); and the parties agree, for themselves and their successors, assigns and representatives, to execute any instrument which may be necessary legally to effect the terms and conditions of this Option Agreement.

(b) ENTIRE AGREEMENT. This Option Agreement, together with the Plan, constitutes the entire agreement of the parties with respect to the Option and supersedes any previous agreement, whether written or oral, with respect thereto. This Option Agreement has been entered into in compliance with the terms of the Plan; wherever a conflict may arise between the terms of this Option Agreement and the terms of the Plan, the terms of the Plan shall control.

(c) AMENDMENT. Neither this Option Agreement nor any of the terms and conditions herein set forth may be altered or amended orally, and any such alteration or amendment shall be effective only when reduced to writing and signed by each of the parties or their respective successors and assigns.

(d) CONSTRUCTION OF TERMS. Any reference herein to the singular or plural shall be construed as plural or singular whenever the context requires.

(e) NOTICES. All notices, requests and amendments under this Option Agreement shall be in writing, and notices shall be deemed to have been given when personally delivered or sent prepaid registered mail:

(i) if to the Company, at the following address:

HLM Design, Inc.  
121 West Trade Street, Suite 2950  
Charlotte, North Carolina 28202  
Attention: Chief Financial Officer

or at such other address as the Company shall designate by notice.

(ii) if to the Optionee, to the Optionee's address appearing in the Company's employment records, or at such other address as the Optionee shall designate by notice.

(f) GOVERNING LAW. This Option Agreement shall be governed by, and construed in accordance with, the laws of the State of North Carolina (excluding the principles of conflict of laws thereof).

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(g) SEVERABILITY. The invalidity or unenforceability of any particular provision of this Option Agreement shall not affect the other provisions hereof, and this Agreement shall be construed in all respects as if such invalid or unenforceable provisions were omitted.

(h) NOT AN INCENTIVE STOCK OPTION. The Option granted hereunder is not intended to be an "Incentive Stock Option" under Section 422 of the Code.

IN WITNESS WHEREOF, the parties hereto have executed this Option Agreement as of the day and year first written above.

HLM DESIGN, INC.

By: /s/ Vernon B. Brannon

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Title: Senior Vice President  
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OPTIONEE: JOSEPH M. HARRIS

/s/ Joseph M. Harris

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(SEAL)



STATUTORY INCENTIVE STOCK OPTION AGREEMENT AND GRANT  
PURSUANT TO  
HLM DESIGN, INC. 1998 STOCK OPTION PLAN

This Statutory Incentive Stock Option Agreement and Grant is entered into as of the 12th day of June, 1998 between HLM Design, Inc., a Delaware corporation (the "Company"), and Joseph M. Harris (the "Optionee").

WHEREAS, the Company and its stockholders have approved the HLM Design, Inc. 1998 Stock Option Plan (the "Plan") pursuant to which the Company may, from time to time, make awards of Options (as defined below) and enter into Statutory Incentive Stock Option Agreements with eligible employees of the Company or of any Subsidiary (as defined below);

WHEREAS, pursuant to the Plan, the Company has determined to grant to the Optionee an Option to purchase Common Stock (as defined below) of the Company, which Option shall be subject to the terms and conditions of this Statutory Incentive Stock Option Agreement and Grant;

NOW, THEREFORE, in consideration of the premises and the mutual covenants and agreements hereinafter set forth, the parties hereby agree as follows:

1. DEFINITIONS.

For purposes of this Statutory Incentive Stock Option Agreement and Grant, the following terms shall have the meanings indicated:

(a) "ACT" shall mean the Securities Act of 1933, as amended.

(b) "BOARD" shall mean the Board of Directors of the Company.

(c) "CAUSE" shall mean any act, action or series of acts or actions or any omission, omissions, or series of omissions which result in, or which have the effect of resulting in, (i) the commission of a crime by the Optionee involving moral turpitude, which crime has a material adverse impact on the Company or any Subsidiary, (ii) gross negligence or willful misconduct which is continuous and results in material damage to the Company or any Subsidiary, or (iii) the continuous, willful failure of the person in question to follow the reasonable directives of the Board of Directors.

(d) "CODE" shall mean the Internal Revenue Code of 1986, as amended, any successor revenue laws of the United States and the rules and regulations promulgated thereunder.

(e) "COMMITTEE" shall mean the committee of members of the Board that is designated by the Board to administer the Plan. In the event that no such Committee exists or is appointed, "COMMITTEE" shall mean the Board.

(f) "COMMON STOCK" shall mean the Common Stock, par value \$.001 per share, of the Company.

(g) "DISABILITY" shall mean the inability or failure of a person to perform those duties for the Company or any Subsidiary traditionally assigned to and performed by such person because of the person's then-existing physical or mental condition, impairment or incapacity. The fact of disability shall be determined by the Committee, which may consider such evidence as it considers desirable under the circumstances, the determination of which shall be final and binding upon all parties.

(h) "EXERCISE DATE" shall mean the business day, during the Option Period, upon which the Optionee delivers to the Company the written notice and consideration contemplated by Section 5(c) of the Plan.

(i) "FAIR MARKET VALUE" shall mean, with respect to the Common Stock on any day, its market value determined as provided in Section 5(c) of the Plan.

(j) "INVOLUNTARY TERMINATION WITHOUT CAUSE" shall mean either (i) the dismissal of, or the request for the resignation of, a person, by court order, order of any court-appointed liquidator or trustee of the Company, or the order or request of any creditors' committee of the Company constituted under the federal bankruptcy laws, provided that such order or request contains no specific reference to Cause; or (ii) the dismissal of, or the request for the resignation of, a person, by a duly constituted corporate officer of the Company or any Subsidiary, or by the Board, for any reason other than for Cause.

(k) "OPTION" shall mean the option to purchase shares of Common Stock granted to the Optionee pursuant to this Option Agreement.

(l) "OPTION AGREEMENT" shall mean this Statutory Incentive Stock Option Agreement and Grant between the Company and the Optionee by which the Option is granted to the Optionee pursuant to the Plan.

(m) "OPTION PERIOD" shall mean the period commencing from the date of this Option Agreement and ending at the close of business ten years from the date of this Option Agreement (or five years from the date of this Option Agreement in the case of an Optionee who is a Ten Percent Stockholder) or such earlier date as when this Option Agreement may be terminated by its terms.

(n) "OPTION SHARES" shall mean the shares of Common Stock purchased upon exercise of the Option.

(o) "OPTIONEE" shall mean the individual executing this Option Agreement and, as applicable, the estate, personal representative or beneficiary to whom this Option may be transferred pursuant to this Option Agreement by will or by the laws of descent and distribution.

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(p) "PLAN" shall mean the HLM Design, Inc. 1998 Stock Option Plan and any amendments thereto.

(q) "RETIREMENT" shall mean, with respect to the Optionee, retirement from the Company and any Subsidiary in accordance with the Company's and/or Subsidiary's retirement policy as may be in effect from time to time.

(r) "SUBSIDIARY" shall mean any subsidiary corporation of HLM Design, Inc. as defined in Sections 424(f) and 424(g) of the Code.

(s) "TEN PERCENT STOCKHOLDER" shall mean an individual owning, directly or by attribution as provided in Section 424(d) of the Code, on the date of grant, stock possessing more than 10% of the total combined voting power of all classes of stock of the Company or any Subsidiary.

(t) "TERMINATION" shall mean the cessation, for any reason, of the employer-employee relationship between the Company and any Subsidiary and the Optionee.

(u) "TOTAL OPTION PRICE" shall mean the consideration payable to the Company by the Optionee upon exercise of the Option pursuant to Section 5(c) of the Plan.

2. GRANT OF OPTION. Effective upon the date of the commencement of the Company's initial public offering and subject to the terms and conditions set forth herein, the Company hereby grants to the Optionee the Option to purchase from the Company, at an exercise price per share equal to the price at which Common Stock is offered to the public in the Company's initial public offering (or, in the case of an Optionee who is a Ten Percent Stockholder, at an exercise price per share equal to 110% of the price at which Common Stock is offered to the public in the Company's initial public offering), up to but not exceeding in the aggregate 17,386 shares of Common Stock.

3. EXERCISE OF OPTION. The Option granted in paragraph 2 above may be exercised as follows:

(a) The Option shall be exercisable at any time and from time to time during the Option Period; provided however, that in the first calendar year of the Option Period, the Option shall become exercisable only to the



extent of that number of shares of Common Stock having an aggregate fair market value of \$100,000 based on the per share value of the Common Stock at the time of the effectiveness of the grant of the Option (this per share value being equal to the price at which the Common Stock is offered to the public in the Company's initial public offering). In each subsequent calendar year of the Option Period, the Option shall become exercisable to the extent of an additional number of shares of Common Stock having an aggregate fair market value of \$100,000 determined as provided in the preceding sentence. The Option shall terminate on the expiration of the Option Period, if not earlier terminated; provided that, in the event of the Optionee's Retirement, the Committee in its sole and absolute discretion may accelerate the Exercise Date, which acceleration may, in the sole discretion of the Committee, be subject to further terms and conditions mandated by the Committee.

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(b) No less than 100 shares of Common Stock may be purchased on any Exercise Date unless the number of shares purchased at such time is the total number of shares in respect of which the Option is then exercisable.

(c) If at any time and for any reason the Option covers a fraction of a share, then, upon exercise of the Option, the Optionee shall receive the Fair Market Value of such fractional share in cash.

(d) The Option shall be exercised by the Optionee in accordance with the terms and conditions of Section 5(c) of the Plan.

(e) As soon as administratively practicable following the Exercise Date, subject to the receipt of payment of the Total Option Price and of any payment in cash of federal, state or local income tax withholding or other employment tax that may be due upon the issuance of the Option Shares as determined and computed by the Company pursuant to paragraph 6 below, the Company shall issue to the Optionee the number of shares with respect to which such Option shall be so exercised and shall deliver to the Optionee a certificate or certificates therefor.

(f) The Option is not transferable by the Optionee otherwise than by will or the laws of descent and distribution. No assignment or transfer of this Option, or of the rights represented thereby, whether voluntary or involuntary, by operation of law or otherwise, except by will or the laws of descent and distribution, shall vest in the assignee or transferee any interest or right herein whatsoever; but immediately upon any attempt to assign or transfer this Option, except as expressly permitted herein, the same shall terminate and be of no force or effect.

(g) The Optionee agrees to maintain the status of the entire

Option as an "incentive stock option" as defined under Section 422 of the Code.

4. TERMINATION. The Option granted hereby shall terminate and be of no force or effect upon and following the occurrence of any of the following events:

(a) The expiration of the Option Period.

(b) The Termination of the Optionee's employment for any reason other than the Optionee's death, Disability or Involuntary Termination Without Cause.

(c) The expiration of three months after the date of the Optionee's Involuntary Termination Without Cause. During such three-month period, the Optionee shall have the right to exercise the Option hereby granted in accordance with the terms of this Option Agreement, but only to the extent the Option was exercisable on the date of the Termination of the Optionee's employment.

(d) The expiration of twelve months after Termination of the Optionee's employment with the Company and any Subsidiary as a result of the Optionee's Disability. During such twelve-month period, the Optionee shall have the right to exercise the Option hereby granted in accordance with the terms of this Option Agreement, but only to the extent the Option was exercisable on the date of the Termination of the Optionee's employment.

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(e) To the extent permitted for incentive stock options under Section 422 of the Code, in the event of the death of the Optionee while in the employ of the Company or any Subsidiary or, in the event of the death of the Optionee after Termination described in subparagraph (c) or (d), above, but within the three-month or twelve-month period described in subparagraph (c) or (d), above, upon the expiration of twelve months following the Optionee's death. During such extended period, the Option may be exercised subject to Section 5(d)(iv) of the Plan by the person or persons to whom the deceased Optionee's rights under the Option Agreement shall pass by will or by the laws of descent and distribution, but only to the extent the Option was exercisable on the date of the Termination of the Optionee's employment.

(f) To the extent set forth in paragraph 7 below, upon the dissolution, liquidation, consolidation or merger of the Company, and, to the extent set forth in subparagraph 3(f), above, upon an attempted assignment or transfer of the Option otherwise than as expressly permitted herein.

Any determination made by the Committee with respect to any matter

referred to in this paragraph 4 shall be final and conclusive on all persons affected thereby.

5. RIGHTS AS STOCKHOLDER. An Optionee shall have no rights as a stockholder of the Company with respect to any shares underlying the Option until the day of the issuance of a stock certificate to him or her for those shares upon payment of the exercise price in accordance with the terms and provisions hereof. Subject to paragraph 7 below, no adjustments shall be made for dividends (ordinary or extraordinary, whether in cash, securities or other property) or distributions or other rights for which the record date is prior to the date such stock certificate is issued.

6. PAYMENT OF WITHHOLDING TAXES. Upon the Optionee's exercise of his or her Option with respect to any of the Option Shares in accordance with the provisions of paragraph 3 above, the Optionee shall pay to the Company upon exercise of the Option the amount of any federal, state or local income tax withholding or other employment tax that may be due upon such exercise. The determination of the amount of any such federal, state or local income tax withholding or other employment tax due in such event shall be made by the Company and shall be binding upon the Optionee.

7. RECAPITALIZATION; REORGANIZATION. The shares underlying this Option are shares of Common Stock as constituted on the date of this Option Agreement, but if, during the Option Period and prior to the delivery by the Company of all of the shares of Common Stock with respect to which this Option is granted, the Company shall effect a subdivision or consolidation of shares or other capital readjustment, the payment of a stock dividend or some other increase or decrease in the number of shares of Common Stock outstanding, without receiving compensation therefor in money, services or property, then, (a) in the event of any increase in the number of such shares outstanding, the number of shares of Common Stock then remaining subject to this Option shall be proportionately increased (except that any fraction of a share resulting from any such adjustment shall be excluded from the operation of this Option Agreement), and the exercise price per share shall be proportionately reduced, and, (b) in the event of a reduction in the number of such shares outstanding, the number of shares of Common Stock then remaining subject to this Option shall be proportionately reduced (except that any fractional share resulting from any such adjustment shall

be excluded from the operation of this Option Agreement), and the exercise price per share shall be proportionately increased.

In the event of a merger of one or more corporations into the Company with respect to which the Company shall be the surviving or resulting

corporation, the Optionee shall, at no additional cost, be entitled upon any exercise of this Option to receive (subject to any required action by shareholders), in lieu of the number of shares as to which this Option shall then be so exercised, the number and class of shares of stock or other securities to which the Optionee would have been entitled pursuant to the terms of the agreement of merger if, immediately prior to such merger, the Optionee had been the holder of record of a number of shares of Common Stock of the Company equal to the number of shares as to which such Option shall be so exercised; provided, however, that, anything herein contained to the contrary notwithstanding, upon the occurrence of any event described in Section 5(g) of the Plan, this Option shall be subject to acceleration as provided in such Section 5(g).

In the event of a change in the Common Stock as presently constituted, which change is limited to a change of all of the authorized shares with par value into the same number of shares with a different par value or without par value, the shares resulting from any such change shall be deemed to be the Common Stock within the meaning of the Plan.

The existence of this Option shall not affect in any way the right or power of the Company or its shareholders to make or authorize any or all adjustments, dividends, stock dividends, recapitalization, 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 bonds, debentures, preferred or other stocks with preference ahead of or convertible into, or otherwise 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. NO REGISTRATION RIGHTS. Anything in this Option Agreement to the contrary notwithstanding, if, at any time specified herein for the issuance of Option Shares, any law, regulation or requirements of any governmental authority having jurisdiction in the premises shall require either the Company or the Optionee, in the opinion of the Company's counsel, to take any action in connection with the shares then to be issued, the issue of such shares shall be deferred until such action shall have been taken. Nothing in this Option Agreement shall be construed to obligate the Company at any time to file or maintain the effectiveness of a registration statement under the Act, or under the securities laws of any state or other jurisdiction, or to take or cause to be taken any action which may be necessary in order to provide an exemption from the registration requirements of the Act under Rule 144 or any other exemption with respect to the Option Shares or otherwise for resale or other transfer by the Optionee (or by the executor or administrator of such Optionee's estate or a person who acquired the Option or any Option Shares or other rights by bequest or inheritance or by reason of the death of the Optionee) as a result of the exercise of an Option granted pursuant to this Option Agreement.

9. RESOLUTION OF DISPUTES. Any dispute or disagreement that arises under, or as a result of, or pursuant to, this Option Agreement shall be

determined by the Committee in its absolute and uncontrolled discretion, and any such determination or other determination by the Committee under

or pursuant to this Option Agreement, and any interpretation by the Committee of the terms of this Option Agreement, shall be final, binding and conclusive on all parties affected thereby.

10. COMPLIANCE WITH THE ACT. Notwithstanding any provision herein or in the Plan to the contrary, the Company shall be under no obligation to issue any shares of Common Stock to the Optionee upon exercise of the Option granted hereby unless and until the Company has determined that such issuance is either exempt from registration, or is registered, under the Act and is either exempt from registration and qualification, or is registered or qualified, as applicable, under all applicable state securities or "blue sky" laws.

11. MISCELLANEOUS.

(a) BINDING ON SUCCESSORS AND REPRESENTATIVES. This Option Agreement shall be binding not only upon the parties, but also upon their heirs, executors, administrators, personal representatives, successors and assigns (including any transferee of a party to this Agreement); and the parties agree, for themselves and their successors, assigns and representatives, to execute any instrument which may be necessary legally to effect the terms and conditions of this Option Agreement.

(b) ENTIRE AGREEMENT. This Option Agreement, together with the Plan, constitutes the entire agreement of the parties with respect to the Option and supersedes any previous agreement, whether written or oral, with respect thereto. This Option Agreement has been entered into in compliance with the terms of the Plan; wherever a conflict may arise between the terms of this Option Agreement and the terms of the Plan, the terms of the Plan shall control.

(c) AMENDMENT. Neither this Option Agreement nor any of the terms and conditions herein set forth may be altered or amended orally, and any such alteration or amendment shall be effective only when reduced to writing and signed by each of the parties or their respective successors and assigns.

(d) CONSTRUCTION OF TERMS. Any reference herein to the singular or plural shall be construed as plural or singular whenever the context requires.

(e) NOTICES. All notices, requests and amendments under this Option Agreement shall be in writing, and notices shall be deemed to have been given when personally delivered or sent prepaid registered mail:

(i) if to the Company, at the following address:

HLM Design, Inc.  
121 West Trade Street, Suite 2950  
Charlotte, North Carolina 28202  
Attention: Chief Financial Officer

or at such other address as the Company shall designate by notice.

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(ii) if to the Optionee, to the Optionee's address appearing in the Company's employment records, or at such other address as the Optionee shall designate by notice.

(f) GOVERNING LAW. This Option Agreement shall be governed by, and construed in accordance with, the laws of the State of North Carolina (excluding the principles of conflict of laws thereof).

(g) SEVERABILITY. The invalidity or unenforceability of any particular provision of this Option Agreement shall not affect the other provisions hereof, and this Agreement shall be construed in all respects as if such invalid or unenforceable provisions were omitted.

(h) AN INCENTIVE STOCK OPTION. The Option granted hereunder is intended to be an "Incentive Stock Option" under Section 422 of the Code.

IN WITNESS WHEREOF, the parties hereto have executed this Option Agreement as of the day and year first written above.

HLM DESIGN, INC.

By: /s/ Vernon B. Brannon

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Title: Senior Vice President

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OPTIONEE: JOSEPH M. HARRIS

/s/ Joseph M. Harris (SEAL)

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