FORM 10-K

Annual report pursuant to section 13 and 15(d)

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BRENDLES INC

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SIC: **5331** Variety stores

Mailing Address
1919 N BRIDGE ST EXT
ELKIN NC 28621

Business Address
1919 N BRIDGE ST EXT
ELKIN NC 28621
9195265600

SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-K

[X] Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 (Fee Required)

For the fiscal year ended January 29, 1994.

[ ] Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 (No Fee Required)

For the transition period from to
Commission file number

Brendle's Incorporated
(Exact Name of Registrant as Specified in Charter)

North Carolina	56-497852
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

1919 North Bridge Street, Elkin, North Carolina	28621
(Address of Principal Executive Offices)	(Zip Code)

(910) 526-5600
(Registrant's Telephone Number, Including Area Code)

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

Title of Each Class	Name of Each Exchange on Which Registered

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

Common Stock, $1.00 par value per share
(Title of Class)

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)

State the aggregate market value of the voting stock held by non-affiliates of the Registrant. The aggregate market value shall be computed by reference to the price at which the stock was sold, or the average bid and asked prices of such stock, as of a specified date within 60 days prior to the date of filing: $2,512,711 based on the average of the high and low sales prices as of March 26, 1994, of the Registrant's Common Stock (which is the Registrant's only outstanding class of voting equity security) on the National Association of Securities Dealers Automated Quotation System for National Market Issues which amount does not account for the 4,469,701 shares issued by the

Company on April 29, 1994, as part of the Company's Plan of Reorganization. See "Item 1 - Business - Chapter 11 Proceedings." The foregoing market value excludes the dollar amount attributable to shares of the Registrant's Common Stock held by certain executive officers and directors of the Registrant. A determination of "affiliate" status for a particular individual for the purpose of providing information in response to the foregoing inquiry shall not be deemed a determination of "affiliate" status for any other purpose.

Indicate by check mark whether the registrant has filed all documents and reports to be filed by Section 12, 13, or 15(d) of the Securities Exchange Act of 1934 subject to the distribution of securities under a plan confirmed by a court.

Yes X No

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

Class	Number outstanding at April 30, 1994
Common Stock, $1.00 Par Value Per Share.	12,769,145

Documents Incorporated by Reference: None.

Part I

Item 1. Business

Description and Development of Business

General

Brendle's Incorporated (the "Company") and its subsidiaries originated in 1919 as a rural supply company and the parent company was incorporated in 1947 in North Carolina. As of January 29, 1994, the Company operated 30 retail stores in North Carolina, South Carolina, Virginia, and Tennessee offering, for the most part, nationally advertised, brand-name merchandise at prices typically less than the manufacturers' suggested retail prices for such merchandise. The operation of these stores constitutes the sole industry segment in which the Registrant operates and the above-named southeastern states encompass its sole geographic area of operation. The Registrant's stores, operating under the name "Brendle's," are merchandised as if they were a group of specialty stores under one roof, and offer in-depth lines of jewelry, consumer electronics, small appliances, photographic equipment, sporting goods, toys, gifts, house-wares, juvenile items, silver, crystal, lamps, clocks, and other miscellaneous products. All sales operations are the Registrant's and there are no leased department sales. On April 29, 1994, Brendle's Stores, Inc., the Company's wholly-owned operating subsidiary, was merged into the Company. See "Holding Company Status."

Brendle's stores average approximately 50,000 square feet in size, approximately 55% of which is selling space. The stores generally are among the principal or so-called "anchor" tenants in strip shopping centers, as opposed to shopping malls. While many of the Registrant's stores are

located in cities of less than 100,000 people, the Registrant also competes in larger markets including Greensboro, Raleigh, and Winston-Salem, North Carolina. During Fiscal 1994, the Company introduced its mail order business.

The Registrant monitors its inventory and sales, both by store and by item, at cost, on a daily basis through its computerized management information system consisting of a central computer, point-of-sale terminals, and administrative terminals. Specific item data captured at point-of-sale using bar code and price look-up technology allows the Registrant's merchandising staff to monitor sales and inventory levels by reference to each inventory item's own stock-keeping number, thus enabling prompt response to rapidly selling or out-of-stock items. A typical store carries approximately 15,000 different types of inventory and is designed to direct customer attention and traffic to higher profit margin products such as jewelry and gifts.

The Registrant sells few apparel or soft goods items. The Registrant believes that it offers broader assortments of jewelry and other hard goods than are normally carried by other retailers of similar size. In addition, the Registrant maintains a program of direct

import purchases of jewelry which assists in a more timely delivery and improved profit margins for jewelry products.

Chapter 11 Proceedings

Near the end of the fiscal year ended February 1, 1992 ("Fiscal 1992"), significant steps were taken to develop and implement a strategic turnaround plan for the Company. The plan included restructuring bank debt, organizational and administrative changes, and strategic adjustments necessary, in management's opinion, to meet the competition in the market place and to manage in the current economic environment in retailing in the Company's market area. The stated objective of the Company's turnaround plan for the fiscal year ended January 30, 1993 ("Fiscal 1993"), was to reverse the trend of declining earnings from recent years while developing an improved merchandising strategy to become a more focused specialty retailer.

The Company achieved moderate success during the first two quarters of Fiscal 1993 in the implementation of its strategic turnaround plan. As the Company previously reported, pre-tax earnings for the second quarter and first six months of Fiscal 1993 were improved over the results for the corresponding periods in the previous year. The Company was also encouraged by the fact that the results for the second quarter and first six months of Fiscal 1993 were $1.5 million better than the Company's plan for the second quarter and $1.9 million better than the Company's planned six months results.

In September and October 1992, however, the Company began experiencing increased pressure from its vendors and a diminution in the credit terms that were available from its vendors. This tightening of available credit terms from vendors, coupled with unexpected significant decreases in sales during the third quarter of Fiscal 1993, created substantial cash management difficulties. The

Company's inability to obtain inventory on historical terms and the decrease in sales prevented the Company from being able to maintain required inventory levels and to purchase at planned levels the inventory it required for the 1992 Christmas season. As the restriction in credit terms from vendors persisted, the resulting decrease in inventory levels compounded the Company's sales decrease due to lack of sufficient inventory.

Management of the Company explored various alternatives to the cash management crisis it faced, including discussions with its primary lenders regarding modification to its then existing Loan Agreements. After careful consideration of these alternatives, management of the Company and its Board of Directors determined that in order to give the Company the time that it needed to implement its strategic turnaround plan, it was in the best interest of its shareholders, employees, and customers to seek protection under Chapter 11 of the United States Bankruptcy Code.

On November 22, 1992, the Company and its then wholly-owned principal operating subsidiary, Brendle's Stores, Inc. ("BSI"), initiated Chapter 11 reorganization proceedings

by filing petitions with the United States Bankruptcy Court (the "Bankruptcy Court") for the Middle District of North Carolina (the "Chapter 11 Proceeding").

Significant Post-Petition Events

Subsequent to the filing of the voluntary petitions, the Company and BSI sought and obtained numerous orders from the Bankruptcy Court which were intended to stabilize its business. These orders included, among others, orders (i) authorizing the Company and BSI to operate its cash management system substantially as it was operated prior to the filing; (ii) approving a Vendor Assurance Facility giving post-petition trade vendors a super priority lien on inventory; (iii) approving the assumption of certain credit card arrangements for the processing of credit card purchases, including Discover, Mastercard, Visa, and Brendle's credit cards; (iv) authorizing certain pre-petition customer claims including layaway and special order purchases; (v) authorizing the Company and BSI to honor certain pre-petition wages and benefits owing to its active employees; (vi) approving a plan to pay the Company and BSI's qualifying vendors reclamation claims; (vii) authorizing Brendle's to return defective merchandise to its vendors for pre-petition credit; (viii) approving a $25 million post-petition line of credit from The CIT Group/Business Credit, Inc. See also "Item 3 - Legal Proceedings" for additional information regarding the Chapter 11 Proceedings.

Following the date the Chapter 11 proceeding was filed, the Company worked diligently to develop a Joint Plan of Reorganization (the "Plan") which would set forth the payment terms to creditors and provide for other organizational and operational changes of the reorganized Company. A Plan and Disclosure Statement were submitted to the Bankruptcy Court, and on November 10, 1993, a hearing was held resulting in the approval of the Disclosure Statement. The Plan was then voted on and accepted by the creditors and stockholders. An Order confirming the Plan was entered on December 20, 1993, for the Company and on December 23,

1993, for BSI. A Notice of Appeal of the Order confirming the Plan was filed on December 28, 1993 by three individual creditors and certain retiree claimants. The appeal will be dismissed pursuant to agreements reached with the appellants.

The Plan developed by the Company and confirmed by the Bankruptcy Court generally provides for the full payment of all claims of The CIT Group/Business Credit, Inc., the Company's debtor-in-possession lender, and all allowed secured claims, priority claims and administrative claims (as those claims are defined in the Plan). The Plan further provides that general unsecured creditors could elect to receive either (i) a cash payment equal in amount to fifty-two percent (52%) of the amount of their allowed unsecured claim, or (ii) a Reorganization Note equal to eighty percent (80%) of their allowed unsecured claims. The Reorganization Notes, which are dated as of April 30, 1994, will bear interest at the rate of eight percent (8%) per annum and will be payable over a ten (10)-year term. For the first two (2) years, the Reorganization Notes will accrue interest only, and no payments will be made to Reorganization Note holders. At the end of two (2) years, the principal amount of the Reorganization Note, plus accrued but unpaid interest, shall be capitalized, and

during the third year, interest on the capitalized principal balance shall be paid semi-annually. Thereafter, interest on the unpaid principal balance shall be due and payable semi-annually. Annual principal payments will be made at the end of years four (4) through ten (10) in their respective amounts as follows: 11%, 12%, 13%, 14.1%, 15.3%, 16.6%, and 18%. The Reorganization Notes also include standard default provisions. The creditors were solicited to make their election in November, 1993, and over 99% of the creditors, representing approximately $85 million in unsecured obligations, elected to receive the cash payment, with less than 1% of the creditors, representing approximately $160,000 in unsecured obligations electing to receive the Reorganization Notes.

In addition to the items set forth above, all general unsecured creditors will receive, with respect to their allowed claims, a pro rata distribution of stock in the Company, which, in the aggregate, constitutes thirty-five percent (35%) of the outstanding stock of the Company at April 29, 1994, the date the Plan of Reorganization was substantially consummated. As of the date of this report, the Company has outstanding 12,769,145 shares of common stock, which includes 4,469,201 shares of common stock that was issued for the benefit of the unsecured creditors pursuant to the Plan of Reorganization. The stock has been issued to Arnold Zahn of Zahn & Associates, Inc., as Escrow Agent for the unsecured creditors, pending the resolution of certain disputed claims. After a substantial portion of these disputed claims have been resolved, which is expected to take approximately four (4) to six (6) months, the Escrow Agent will make an initial distribution to individual unsecured creditors of their pro rata portion of these shares. A final distribution will be made once all claims have been resolved.

The Plan further provides that certain of the Company's

creditors will have a right to appoint two (2) directors to serve on the Company's Board of Directors for a period of one (1) year following substantial consummation. The creditors have appointed Robert D. Dunn and John A. Northen to serve as members of the Company's Board of Directors. Information regarding these directors is set forth under Item 10 hereof entitled "Directors and Executive Officers of the Registrant."

The Plan also contained certain default provisions, which, among other things, provided that if the cash distributions contemplated by the Plan were not made on or before April 30, 1994, an entity described in the Plan as the Creditor Management Committee would take over management of the Company and would be vested with the powers and authorities of a Chapter 11 Trustee and the Board of Directors. The Company achieved substantial consummation of this Plan of Reorganization on April 29, 1994, and has made its required payments to creditors under the terms of the Plan. See "Item 3. Legal Proceedings."

Store Changes

During the fiscal year ended January 29, 1994 ("Fiscal 1994"), the Company closed twenty-one (21) low performing stores as part of the Company's restructuring. Closed stores were located in Durham, Wilkesboro, Gastonia, Rocky Mount, Statesville, and Charlotte [two (2)], North Carolina; Newport News, Virginia Beach, Charlottesville, Colonial Heights, Chesapeake, Lynchburg, and Roanoke, Virginia; Columbia [two (2)], Hilton Head Island, Charleston, Greenville, and Aiken, South Carolina; and Augusta, Georgia.

Distribution Center

The Company's distribution and warehousing activities have been conducted principally through a distribution center which it previously owned. The distribution center contains in excess of 388,000 square feet and is located in Elkin, North Carolina. Due primarily to the reduction of the number of stores that the Company will operate, management of the Company determined that it no longer required 388,000 square feet of distribution space. Consequently, the Company sold the distribution center on January 31, 1994, for a purchase price of $5,250,000. Under the terms of the sale, the Company was permitted to lease back from the purchaser approximately 224,000 square feet of the distribution facility. The terms of the lease provide that the Company will pay initial annual rent in the amount of $504,000 with increases annually fixed in accordance with the lease terms. The initial term of this lease will expire on January 31, 2003. The net sale proceeds of the distribution center were used to pay the Company's secured lenders who had perfected security interests in the distribution center securing pre-petition debt.

Holding Company Status

From January 31, 1987, through April 29, 1994, substantially all of the activities of the Company were performed through subsidiaries wholly owned, directly or indirectly, by the Company, thus making the corporate structure of the Company and its

subsidiaries as follows: Brendle's Incorporated, a North Carolina holding company owning the active wholly owned subsidiaries; Brendle's Stores, Inc., which owned more than ninety-one percent (91%) of the Company's operating assets; Brendle Transport, Inc., which owned or leased the transportation equipment utilized in the Company's operations; The Electronic Sports Collection USA, Inc., an import buying subsidiary of the Company; Brendle's Acceptance Corporation, which was formed to manage the Company's credit finance operations; and BFS, Inc., an investment management and holding subsidiary organized under the laws of the State of Delaware.

As a component of the Company's substantial consummation of its Plan of Reorganization, Brendle's Stores, Inc. was merged into the Company effective as of April 29, 1994. Management of the Company believes that this merger will help to

streamline its operations and that the benefits once available to the Company through the holding company structure no longer provided the Company with sufficient operational efficiencies to justify the expense of remaining separate. The Company also intends to merge its remaining and resulting subsidiaries into the Company and anticipates that these mergers will occur prior to June 30, 1994.

Seasonality

The Company's retail business (its sole industry segment) is seasonal in nature, being strongest in the Company's fourth fiscal quarter. The Company typically has made, and anticipates to make in the future, in excess of one-third of its revenues for the fiscal year during the fourth fiscal quarter of operations.

Revenues, Profits, Assets, Working Capital and Other Financial Items

For information relating to changes in revenues, profits, assets, working capital and its components and other financial information, reference is made to Management's Discussion and Analysis appearing under Item 7 of this Annual Report on Form 10-K and incorporated herein by reference and to the Company's financial statements and the related notes and schedules thereto which appear, or are incorporated by reference, under appropriate captions elsewhere in this Annual Report on Form 10-K.

Customers

No material part of the business of the Company is dependent on a single customer or a limited number of customers or a group of commonly controlled or affiliated customers. No purchases by any such customer or group comprised ten percent or more of the total revenues of the Company for the fiscal year ended January 29, 1994.

Research and Development Activities

The Company is not engaged in manufacturing operations. During the last three fiscal years, the Company has not expended substantial dollar amounts in

research and development activities relating to its products or services. However, the executive officers of the Company, as well as its merchandising managers and staff, are continually engaged, individually and through focus groups, in evaluating the sales performance of various products and in the development of operating efficiencies by the use of marketing focus groups, normal market visits, and discussions with key suppliers.

Inventory and Supplies: Products and Services

The Company has no long-term contracts with its suppliers for inventory or supplies, but believes that there are adequate sources of supply available for the products which it sells or anticipates selling. The Company believes that it is among the largest customers of many of its suppliers in dollar volume of purchases and therefore believes that it can purchase from these suppliers on terms at least as favorable as those available to most of its competitors from such suppliers. No single supplier accounts for a material amount of the total inventory purchased by the Company. During the last three fiscal years of the Company, no class of similar products or services accounted for ten percent or more of the Company's consolidated revenue for such periods.

Competition

The Company has numerous and significant competitors in the general merchandise retail and discount retail areas, including large discount retailers, department stores, catalog showrooms, mail order houses, and other related operations. Many of these have substantially greater assets, outlets, and facilities than the Company. However, the Company believes that its price structure generally allows it to compete with traditional retailers, such as department stores, and specialty retailers, while the environment, merchandise selection, and services available in its stores generally allow it to compete with most other discount retailers, and catalog showrooms.

Employees

As of January 29, 1994, the Company had approximately 1,600 employees. The Company considers its relations with its employees to be satisfactory.

Environmental Regulation

The Company's business activities are not significantly affected by federal, state, or local environmental regulation.

Foreign and Domestic Operations and Export Sales

During each of the Company's last three fiscal years, the Company's operations and assets in foreign areas and sales by domestic operations to foreign customers, if any, were not material to the Company's business as a whole. All of the Company's domestic operations are conducted in a single four-state geographic area of the southeastern United States.

Patents and Trademarks

The Company believes that the name "Brendle's," used both alone and with the distinctive diamond apostrophe, has acquired commercial value and has helped to promote the Company's reputation in its business. The Company has obtained federal registered trademark protection for the name used in these ways.

Item (unnumbered). Executive Officers of the Company

Pursuant to Item 401 (b) of Regulation S-K and General Instruction G to Form 10-K, the following information is furnished concerning the executive officers of the Company. All officers are elected by the Board of Directors to serve at the pleasure of the Board of Directors for a period of one year or until the next annual meeting of the Board of Directors, and until their respective successors are duly elected. For information regarding the share ownership of the executives named in the Summary Compensation Table included in Item 11, see "Item 12 - Security Ownership of Certain Beneficial Owners and Management."

<TABLE>
<CAPTION>

Registrant		All Positions and Offices with Periods of Service, and business experience for last five years (1)
Name	Age	
<S>	<C>	<C>
Douglas D. Brendle	65	Chairman of the Board of Directors of the Company since February, 1986; Chief Executive Officer and President of the Company since April 13, 1993; Member of Office of Chief Executive, January 15, 1992, to June 2, 1992; Chief Executive Officer of the Registrant from November, 1984, to January 15, 1992; and from November, 1984, to July, 1989, he served as President of the Registrant.
W. Steven Day	47	Vice President of Stores for the Registrant since January, 1992. Divisional Vice President of Hard Lines Merchandise for the Registrant from February, 1990, to January, 1992; Divisional Merchandise Manager for the Registrant from September, 1988, to February, 1989; Prior to 1988 he was a buyer for the Registrant.

William V. Grady	47	Senior Vice President of Marketing and Advertising of the Registrant since December, 1992. National Director of Field Marketing for General Electric Capital Corporation from February, 1988, to December, 1992. Previously Mr. Grady was Operating Vice President of Marketing and Sales

		Promotion for Service Merchandise. Prior to Service Merchandise, Mr. Grady retired from Lowe's Companies, holding a variety of positions over 19 years.
Steven W. Luka	40	Vice President and General Merchandise Manager of the Registrant since January, 1991; Divisional Vice President of Hard Lines Merchandise for the Registrant from February, 1990, to January 1991; Divisional Merchandise Manager of the Registrant from September 1988 to February, 1989; Prior to 1988 he was a buyer for the Registrant.
Aubrey L. Miller, Jr.	45	Vice President of Operations of the Registrant since January, 1992; Divisional Vice President of Management Information Systems for the Registrant from January, 1990, to January, 1992. Prior to 1990, he was Director of Management Information Systems for the Registrant.
David R. Renegar	42	Vice President and Chief Financial Officer of the Registrant since February, 1992. Treasurer of the Registrant since April, 1990; Secretary and Controller of the Registrant since February, 1986.

</TABLE>

(1) Each executive officer of the Company held the identical offices with Brendle's Stores Inc., previously a wholly owned subsidiary of the Company which was merged into the Company effective April 29, 1994. Brendle's Stores, Inc. previously owned the substantial part of the operating assets of the Company.

Item 2. Properties

The corporate headquarters and principal executive offices of the Company are located at 1919 North Bridge Street, Elkin, North Carolina 28621 in leased premises of approximately 135,000 square feet (a substantial portion of which is contiguous warehouse space) under a lease, with an affiliate of the Company, scheduled to expire on October 1, 1995, with options to renew for up to 20 additional years.

The Company's distribution center, opened in December, 1986 in Elkin, North Carolina, previously encompassed over 388,000 square feet of space. On February 1, 1994, the Company sold the distribution center for a purchase price of $5,250,000. Pursuant to the terms of the sales contract, the Company was permitted to lease back 244,000 square feet of distribution center space. The terms of this lease are summarily described under "Item 1. - Description of Business - Distribution Center."

Set forth below is a list of all the Company's stores open on January 29, 1994, the cities in which the stores are located, the year in which the stores were first opened in that city, and their present approximate square footage, separately indicating both selling space and warehouse (storage) space at each store. Certain stores have changed or may change locations within a given city.

Year of Store Opening in	Approximate Selling Area Square	Approximate Warehouse Square	Total Square

City	Location	Footage	Footage	Footage
1967 (1)	Elkin, NC	26,260	15,463	41,723
1968 (2)	Winston-Salem, NC	25,000	35,000	60,000
1971 (3)	Hickory, NC	24,000	38,000	62,000
1972 (4)	Greensboro, NC	28,500	21,852	50,352
1974 (5)	Chapel Hill, NC	32,067	27,933	60,000
1976 (6)	Asheville, NC	33,000	37,000	70,000
1977 (7)	Kingsport, TN	23,100	14,700	37,800
1978 (8)	Concord, NC	30,277	7,881	38,158
1978 (9)	Raleigh, NC	32,067	27,933	60,000
1978 (10)	Winston-Salem, NC	20,000	7,000	27,000
1980 (11)	Burlington, NC	35,000	25,000	60,000
1982 (12)	Wilson, NC	30,993	29,007	60,000
1982 (13)	Myrtle Beach, SC	30,993	29,007	60,000
1982 (14)	Raleigh, NC	28,700	35,300	64,000
1982 (15)	Greensboro, NC	32,000	31,747	63,747
1983 (16)	Jacksonville, NC	23,000	29,471	52,471
1983 (17)	Roanoke, VA	31,971	11,657	43,628
1985 (18)	Boone, NC	30,000	27,000	57,000

1985 (19)	Kinston, NC	28,516	33,024	61,540
1985 (20)	Roanoke Rapids, NC	30,000	21,000	51,000
1985 (21)	Salisbury, NC	28,779	15,221	44,000
1985 (22)	Anderson, SC	20,000	20,000	40,000
1985 (23)	Spartanburg, SC	20,000	25,000	45,000
1985 (24)	Florence, SC	28,084	11,916	40,000
1986 (25)	Enka/Candler, NC	27,263	32,612	59,875
1987 (26)	Wilmington, NC	28,993	21,007	50,000
1988 (27)	Greenville, NC	28,993	21,007	50,000
1989 (28)	Christiansburg, VA	28,912	11,088	40,000
1989 (29)	New Bern, NC	24,241	5,759	30,000
1990 (30)	Fayetteville, NC	23,843	10,469	34,312
TOTAL FOR 30 OPEN STORES		834,552	679,054	1,513,606

The Company owned in fee two of these stores, one each in Salisbury and Enka, North Carolina. These stores are not pledged and encumbered under the terms of the Company's Exit Financing Facility with Foothills Capital Corporation; however, they may at some future date become additional collateral for the loan. See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity." Thirteen (13) of these stores are leased from affiliates of the Registrant, and the remaining fifteen (15) stores are leased from third parties.

For a discussion of capital and operating lease commitments for the Company's store, equipment and corporate headquarters facility, reference is made in Notes to Consolidated Financial Statements, which discussion is incorporated herein by reference.

Leases on stores closed during Fiscal 1994 have been rejected or assumed and assigned to third parties pursuant to Bankruptcy Court orders.

The Company closed twenty-one (21) low or marginal performing stores in fiscal 1994. The closed stores were located in Durham, Wilkesboro, Gastonia, Rocky Mount, Statesville, and Charlotte [two (2)], North Carolina; Newport News, Virginia Beach, Charlottesville, Colonial Heights, Chesapeake, Lynchburg, and Roanoke, Virginia; Columbia [two (2)], Hilton Head Island, Charleston, Greenville, and Aiken, South Carolina; and

Augusta, Georgia.

Item 3. Legal Proceedings.

On November 22, 1992, the Company and BSI, its then wholly-owned subsidiary of the Company which owned the primary operating assets of the Company, filed for protection under Chapter 11 of the United States Bankruptcy Code. The following discussion provides

general background information regarding the Chapter 11 Proceeding, but it is not intended to be an exhaustive summary. For additional information regarding the effect of these cases on the Company, reference should be made to the Bankruptcy Code and to the Bankruptcy Court proceedings themselves.

Chapter 11 Reorganization Under the Bankruptcy Code

Although the Company and BSI were authorized to operate the Company's business as a debtor-in-possession, they were not permitted to engage in transactions outside the ordinary course of business without first complying with the notice and hearing provisions of the Bankruptcy Code and obtaining Bankruptcy Court approval when necessary. The requirement to comply with the notice and hearing provisions in the Bankruptcy Code terminates once a Plan of Reorganization, having been confirmed by the Bankruptcy Court, is substantially consummated. The Company achieved substantial consummation of its Plan of Reorganization on or about April 30, 1994. By virtue of the provisions of the Bankruptcy Code and the Plan, substantial consummation of the Plan effected a discharge of all indebtedness of the Company not otherwise provided for in the Plan.

Plan of Reorganization - Procedures

For 120 days after the date of the filing of the voluntary Chapter 11 petition (or such larger period as the Bankruptcy Court may allow), the debtor-in-possession has the exclusive right to propose and file a plan of reorganization with the Bankruptcy Court. If the debtor-in-possession files a plan of reorganization during the 120-day exclusivity period (or such longer period as the Bankruptcy Court may allow), no other party may file a plan of reorganization until 180 days after the date of filing of the Chapter 11 petition, during which period the debtor-in-possession has the exclusive right to solicit acceptances of the plan. If a Chapter 11 debtor fails to file its plan during the 120-day exclusivity period, or such additional time period ordered by the Bankruptcy Court or after such plan has been filed, fails to obtain acceptance of such plan from impaired classes of creditors and equity security holders during the exclusive solicitation period, any party in interest, including the debtor, a creditor, an equity security holder, or a committee of creditors or equity security holders may file a plan of reorganization for such Chapter 11 debtor.

Given the magnitude of the Company's operations and the number of interested parties

possessing claims that have to be resolved in the Chapter 11 Proceeding, the plan formulation process was very complex. Accordingly, the Company and BSI were granted an extension of the exclusivity period to September 21, 1993. A plan of reorganization was filed by the Company on that date and was subsequently amended on November 10, 1993. A hearing on the confirmation of the Company's Plan of Reorganization was held on December 14,

1993, and an Order approving the Plan was entered on December 20, 1993, for the Company, and on December 23, 1993, for BSI. The Plan that was developed by the Company and was confirmed by the Bankruptcy Court provides for the full payment of all claims of The CIT Group/Business Credit, Inc., the Company's debtor-in-possession lender, and all allowed secured claims, priority claims, and administrative claims (as those claims are defined in the Plan). The Plan further provides that general unsecured creditors could elect to receive either (i) a cash payment equal in amount to fifty-two percent (52%) of the amount of their unsecured claim, or (ii) a Reorganization Note equal to eighty percent (80%) of their allowed unsecured claims. The Reorganization Notes, which were dated as of April 30, 1994, will bear interest at the rate of eight percent (8%) per annum and will be payable over a ten (10)-year term. For the first two (2) years, the Reorganization Notes will accrue interest only, and no payments will be made to Reorganization Note holders. At the end of two (2) years, the principal amount of the Reorganization Note, plus accrued but unpaid interest, shall be capitalized, and during the third year, interest on the capitalized principal balance shall be semi-annually. Thereafter, interest on the unpaid principal balance shall be due and payable semi-annually. Annual principal payments will be made at the end of years four (4) through ten (10) in their respective amounts as follows: 11%, 12%, 13%, 14.1%, 15.3%, 16.6%, and 18%. The Reorganization Notes also include standard default provisions. The creditors were solicited to make their election in November, 1994, and over 99% of the creditors, representing approximately $85 million in unsecured obligations, elected to receive the cash payment, with less than 1% of the creditors, representing approximately $160,000 in unsecured obligations electing to receive the Reorganization Notes.

In addition to the items set forth above, all general unsecured creditors will receive, with respect to their allowed claims, a pro rata distribution of stock in the Company, which, in the aggregate, will constitute thirty-five percent (35%) of the outstanding stock of the Company as of substantial consummation. As of the date of this report, the Company has outstanding 12,769,145 shares of common stock, which includes 4,469,201 shares of common stock that were issued for the benefit of the unsecured creditors. The stock has been issued to Arnold Zahn of Zahn & Associates, Inc., as Escrow Agent for the unsecured creditors, pending the resolution of certain disputed claims. After a substantial portion of these disputed claims have been resolved, which is expected to take approximately four (4)

to six (6) months, the Escrow Agent will make an interim distribution to unsecured creditors of their pro rata portion of these shares. A final distribution will be made once all claims have been resolved.

The Plan further provides that certain of the Company's creditors have a right to appoint two (2) directors to serve on the Company's Board of Directors for a period of one year following substantial consummation. The creditors have appointed Robert D. Dunn and John A. Northen to serve as directors on the

Company's Board of Directors. Information regarding these directors is set forth under Item 10 hereof entitled "Directors and Executive Officers of the Registrant."

The Plan also contained certain default provisions, which, among other things, provided that if the cash distributions contemplated by the Plan were not made on or before April 29, 1994, an entity described in the Plan as the Creditor Management Committee would take over management of the Company and would be vested with the powers and authorities of a Chapter 11 Trustee and the Board of Directors. The Company achieved substantial consummation of this Plan of Reorganization on April 30, 1994 and has made its required payments to creditors under the terms of the Plan.

The Company has filed numerous objections to claims which have been filed in the Chapter 11 proceeding. It is anticipated that a substantial majority in number of those objections will be resolved within four (4) to six (6) months. As to any claim which is only partially in dispute, the undisputed portion was paid at substantial consummation of the Plan.

The Company is involved in various other litigation matters in the ordinary course of business. In the opinion of management, settlement of these matters will not have a material effect on the financial condition of the Company.

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

No matter was submitted to a vote of security holders of the Company during the fourth quarter of the Company's fiscal year covered by this report.

Part II

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

The Company's common stock is traded on the NASDAQ National Market system under the symbol BRDLQ. At January 29, 1994, there were approximately 1130 shareholders of record. The Company has not declared any cash dividends since January 31, 1983. The current policy of the Board of Directors is to retain earnings in order to help finance the Company's business.

The following table shows quarterly high and low prices for the common stock from February 2, 1992 to January 29, 1994.

	Fiscal Year 1993		Fiscal Year 1994	
	High	Low	High	Low
First Quarter	3 1/2	2	1 3/8	7/8
Second Quarter	3 1/2	2	1 1/8	7/8
Third Quarter	2 1/2	1 3/4	1 1/4	3/8
Fourth Quarter	2 1/4	7/16	2 1/8	1

ITEM 6. Selected Financial Data.

The following selected financial data of Brendle's at and for each year on the five (5)-year period ended January 29, 1994, have been extracted from audited financial statements filed with the Securities and Exchange Commission. The selected financial data should be read in conjunction with Management's Discussion and Analysis and Brendle's consolidated financial statements and the notes thereto included elsewhere in this Form 10-K.

<TABLE>
<CAPTION>

	1994	1993	1992	1991	1990
<S>	<C>	<C>	<C>	<C>	<C>
RESULTS OF OPERATIONS:					
Revenues	$171,073	$235,090	$301,359	$311,001	$277,416
Income (loss) before interest, depreciation, amortization, restructuring and taxes (OPEARN)	2,487	(3,216)	6,457	14,325	15,555
Net income (loss)	(19,619)(a)	(19,899)(a)	(26,374)(a)	1,242	3,431
Net income (loss) per share	(2.36)	(2.45)	(3.28)	0.15	0.43
Ratios & Rates					
Gross margin to total revenues	26.92%	28.16%	26.63%	27.21%	27.10%
Selling, operating and administrative expenses to total revenues	25.47%	29.53%	24.49%	22.61%	21.50%
OPEARN to total revenues	1.45%	(1.37)%	2.14%	4.61%	5.61%
Effective tax rate	-	-	(7)%	38%	40%
Net income (loss) to total revenues	(11.47)%	(8.46)%	(8.75%)	0.40%	1.24%
Financial Position:					
Inventories	54,133	57,893	78,757	103,553	81,363
Working capital	(b)	(b)	21,216	24,972	39,265
Total assets	107,563	147,487	136,591	166,628	129,565
Long-term obligations (c)	(b)	(b)	14,973	9,557	10,634
Shareholders' equity	5,460	24,766	44,172	69,606	65,532
Book value per share	0.66	3.05	5.49	8.68	8.53
Weighted average shares outstanding	8,297	8,120	8,041	8,021	8,035
Ratios					
Current ratio	0.93	0.91	1.32	1.30	1.84
Sales per square foot of selling space	187	160	185	212	229

OTHER INFORMATION					
Number of shareholders	1,130	1,138	1,163	1,115	1,089
Number of stores	30	43	52	57	45

</TABLE>

(a) Net loss has been increased by $16,090,000, $4,572,000, and $20,350,000 as a result of the provision for restructuring for the year ended January 29, 1994, January 30, 1993, and February 1, 1992, respectively.

(b) Not applicable. The majority of the amounts comprising this item have been reclassed to liabilities subject to compromise.

(c) Includes both long-term debt and capitalized lease obligations.

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

Overview.

On November 22, 1992, the Company and its wholly-owned principal operating subsidiary, Brendle's Stores, Inc. (BSI) (collectively sometimes referred to as the "Company"), filed for protection under Chapter 11 of the Bankruptcy Code. Under Chapter 11, the Company and BSI, Debtors In Possession, continued to conduct business in the ordinary course under the protection of the Bankruptcy Code while a Plan of Reorganization was developed to restructure and reorganize the debt structure and allow the Company to strengthen its financial position.

At the time of the filing of the Petitions, the Company was operating 51 retail stores in North Carolina, South Carolina, Virginia, Tennessee, and Georgia. The Company reviewed the operations of each of its stores and closed twenty-one stores during Fiscal 1994 whose profitability was not considered by management to be adequate. The stores that remained open include older locations including 13 stores leased by the Company from Brenco, a North Carolina general partnership composed of certain principal shareholders of the Company. Eight store locations were closed in the winter of 1993 and thirteen store locations were closed in the spring/summer of 1993. The inventory, fixtures, and real estate (at two of the company-owned stores) that became available for sale as a result of these closings were sold to generate cash to help fund the Plan of Reorganization. The Company also sold its distribution center located in Elkin, NC and leased back approximately 244,000 sq. ft. of the 388,000 square feet facility. Proceeds from this sale were also used to help fund the Plan of Reorganization.

The overhead structure of the Company has been significantly curtailed, and employment levels at the corporate offices have been reduced commensurate with the downsizing of the Company's operations. The merchandising strategy has been reviewed, the number of SKUs offered has been reduced, and the merchandise mix has been reformulated based on Brendle's strengths in gift merchandise. The advertising strategy of the Company has been revised to include more targeted mailings and a renewed annual catalog to be distributed to Brendle's customers. The Company previously owned its fleet of trucks which it used to ship

merchandise from its distribution center to the stores. Some of the equipment has been sold, and the transportation needs of the Company have been outsourced.

During the Chapter 11 proceeding, the Company has maintained substantial cash deposits primarily due to the liquidation of the 21 locations. Because of its substantial amounts of unencumbered cash, the Company did not have an immediate need for a debtor in possession revolving credit facility. To provide assurance of payment to its trade vendors, the Company established a vendor assurance facility, giving vendors a super-priority Administrative Expense Claim and lien on inventory up to $10 million (the "Vendor Assurance Facility"). The Vendor Assurance Facility was prospectively terminated by order of the Bankruptcy Court entered on September 9, 1993. Further, all inventory vendor payables under the Vendor Assurance Facility outstanding as of September 9, 1993, were paid in full by October 14, 1993. On November 2, 1993, the Bankruptcy Court agreed to enter an order terminating all vendors' liens under the Vendor Assurance Facility.

Also on September 9, 1993, the Bankruptcy Court approved a debtor-in-possession revolving credit facility with The CIT Group/Business Credit, Inc. This facility provided for a revolving line of credit of up to $25 million. The facility was created to enhance the credit terms offered by vendors shipping for the Christmas season.

On November 10, 1993, the Company filed a modified Plan of Reorganization with the United States Bankruptcy Court for the Middle District of North Carolina. The modified Plan of Reorganization was approved by the Company's Creditors and shareholders in December, 1993, and was confirmed by the Bankruptcy Court by order entered on December 20, 1993. See "Item 3 - Legal Proceedings."

On April 20, 1994, the Company received Bankruptcy Court approval for a $45 million revolving line of credit to be used to partially fund the Plan of Reorganization and to provide working capital funds to the Company. See "Liquidity and Capital Resources." On April 29, 1994, the Company substantially consummated its Plan of Reorganization by making payments to creditors in accordance with the Plan and distributing stock for the benefit of certain unsecured and secured creditors.

Comparison of Operations.

Net sales for Fiscal 1994 were $170,345,000 compared to net sales of $233,889,000 for the fiscal year ended January 30, 1993 ("Fiscal 1993"), a decrease of $63,544,000 or 27.2%. This sales decrease resulted from operating fewer stores. The Company operated forty-three stores during the first quarter and part of the second quarter of Fiscal 1994. Net sales for Fiscal 1993 were $233,889,000 compared to $300,198,000 for Fiscal 1992, a decrease of $66,309,000 or 22.1% This decrease in sales resulted primarily from operating a net seven fewer stores and a 17.1% decrease in comparable store sales.

The Company's business is a seasonal one with a significant portion of its sales occurring in the fourth quarter of the fiscal year. Fourth quarter

revenues accounted for 42.5% of total revenues in Fiscal 1994, compared to 41.3% in Fiscal 1993 and 43.8% in Fiscal 1992.

The Company's sales for the first quarter of Fiscal 1994 were adversely impacted by the disruption in the normal receipt of merchandise in the period surrounding the filing of Chapter 11 Proceeding. Comparable store sales decreased 9.2% in the first quarter of Fiscal 1994. The Company closed thirteen stores at the end of May 1993 and the remaining 30 comparable store sales increased 1.2% for the second quarter of Fiscal 1994. Comparable store sales continued to increase in the third and fourth quarters at 3.2% and 16%, respectively resulting in a 6% comparable stores sales increase for the year. Sales in the fourth quarter reflected a better in-stock position and a more aggressive, targeted marketing approach.

Other income for Fiscal 1994, 1993, and 1992 was $728,000, $1,201,000 and $1,161,000, respectively. Fiscal 1994 other income includes non-recurring items such as rental income from the distribution center and prior year bad debt recovery. Prior year other income included shelf allowance and other non-recurring items such as proceeds from insurance recoveries. Interest on short-term investments which was classified as other income in Fiscal 1993 has been offset against reorganization expense in Fiscal 1994 in accordance with AICPA Statement of Position 90-7 (Financial Reporting by Entities Reorganizing Under the Bankruptcy Code).

The cost of merchandise sold in Fiscal 1994 was $125,015,000 or $43,864,000 less than Fiscal 1993 due to the sales decline as discussed above. The gross margin as a percentage of revenues for Fiscal 1994 was 26.9% compared to 28.2% for Fiscal 1993. The decrease in gross margin percentage was primarily the result of increased promotional activity and the continued competitive retail environment.

Selling, operating and administrative expenses ("SO & A") for Fiscal 1994 were $43,571,000 compared to $69,427,000 for Fiscal 1993. This $25,856,000 decrease in SO & A is primarily the result of operating fewer stores, reduction of corporate overhead, and aggressive cost management. SO & A expenses, as a percentage of revenues, decreased to 25.5% in Fiscal 1994 compared to 29.5% for the same period last year.

Depreciation and amortization for Fiscal 1994, Fiscal 1993, and Fiscal 1992 were $4,877,000, $7,184,000, and $8,219,000, respectively. Expense for fixed asset depreciation and amortization is less because the Company is operating fewer stores.

Interest on capital leases for Fiscal 1994, Fiscal 1993, and Fiscal 1992 was $756,000, $1,199,000, and $1,667,000, respectively. No additional capital leases have been signed during the three-year period discussed, and all remaining capital leases are in the second half of their term, resulting in a book expense reduction.

Interest expense on debt other than capital leases was $383,000, $3,728,000, and $4,567,000 for Fiscal 1994, 1993, and 1992, respectively. The decrease in interest expense for Fiscal 1994 is

because the Company discontinued accruing interest on its interest-bearing, pre-petition debt obligations on the petition date in accordance with the Bankruptcy Code and

AICPA Statement of Position 90-7 (Financial Reporting by Entities Reorganizing Under the Bankruptcy Code).

Reorganization costs for Fiscal 1994 of $16,090,000 primarily relate to the costs associated with the closing of certain stores including the write-off of the remaining book value of assets, the loss on the sale of real property, lease liabilities, employee severance costs, inventory liquidation, and professional fees for the Company and Creditor Committees. Interest on short-term investment is also included in reorganization costs as required by AICPA Statement of Position 90-7 (Financial Reporting by Entities Reorganizing Under the Bankruptcy Code).

Net loss for Fiscal 1994, Fiscal 1993, and Fiscal 1992 was $19,619,000, $19,899,000, and $26,374,000, respectively. The loss in Fiscal 1994 reflects reorganization costs of $16,090,000, the impact of Chapter 11 proceedings and store closings. The Fiscal 1993 loss reflects a restructuring charge of $4,570,000, resulting primarily from the impact of the Chapter 11 Proceedings on operations. The Fiscal 1992 loss includes a restructuring charge of $20,350,000 related to the restructuring plan of January, 1992, which included closing certain stores, modifying product mix, and reorganizing the executive management of the Company.

Liquidity and Capital Resources

As a result of the Chapter 11 Proceeding, the Company's liquidity position has been positively affected because the cash requirements for the payment of scheduled principal payments, accrued interest, accounts payable, and other liabilities that were incurred prior to the filing of Chapter 11 Proceeding were, in most cases, deferred and subsequently settled at a reduced amount under the Plan of Reorganization.

The Company's cash balance at January 29, 1994, was $34.8 million which included approximately $19.8 million of cash generated from the closing of twenty-one stores which had been escrowed for distribution to creditors under the Plan of Reorganization.

Merchandise inventories were $54.1 million at January 29, 1994, compared to $57.9 million at January 30, 1993. The decline in inventories was primarily the result of closing thirteen stores since January 30, 1993, offset by a better in-stock position at the remaining 30 stores.

Post-petition liabilities were $6.4 million at January 29, 1994, compared with $11.6 million at January 30, 1993. This decrease in post-petition liabilities is the result of a reduction in the restructuring expense liability offset by an increase in accounts payable-trade. The increase in accounts payable-trade is due to more favorable credit terms from the Company's vendors.

Pre-petition debt of the Company and BSI, classified as "Liabilities Subject to Compromise," on the January 29, 1994, Consolidated Balance Sheet was $95.7 million and included $42.7 million of pre-petition debt borrowings under credit agreements with lender banks, $1.6 million of debt borrowings from related parties, and $51.4 million of pre-petition liabilities for accounts payable and other liabilities. In accordance with the terms of the Plan of Reorganization, substantially all of these liabilities have been reconciled and paid. The total cost required to settle these liabilities is approximately $48.0 million, resulting in debt forgiveness to the Company of approximately $39.0 million.

The $48.0 million required to fund the payment to creditors was funded from $30.0 million of the cash on hand at January 29, 1994, and the balance from borrowings of approximately $18 million from the Company's $45 million Revolving Credit Facility with Foothill Capital Corporation ("Exit Financing Facility") which was closed on April 29, 1994.

On April 20, 1994, the Company received Bankruptcy Court Approval for a five year $45 million Exit Financing Facility which will be used to fund payments to creditors described above while the balance of the facility may be used to fund working capital, inventory purchases, capital expenditures, and other general corporate purposes. The Exit Financing Facility includes restrictions on capital expenditures as well as standard covenants found in similar agreements. These include two financial ratio covenants: (1) current ratio, and (2) total liabilities to tangible net worth ratio.

Under the Exit Financing Facility, the lender agrees to make revolving loans and issue or guarantee letters of credit for the Company in an amount not exceeding the lesser of the Borrowing Base (as defined in the Loan Agreement) or $45.0 million. The Exit Financing Facility includes a sublimit of $10 million for documentary and stand-by letters of credit.

The Exit Financing Facility provides that each loan shall bear interest at a rate of prime plus one and forty-four one hundredths (1.44) percentage points. Interest on these loans shall be payable monthly in arrears on the first day of each month. Also under the Exit Financing Facility, the Company pays an unused line fee for an amount equal to one-half of one percent (.50%) per annum on the unused portion of the Exit Financing Facility and a letter of credit fee equal to 2.5% per annum on the average daily balance of the aggregate undrawn letters of credit and letter of credit guarantees outstanding during the immediately preceding month and certain other fees. The Exit Financing Facility also requires an annual facility fee equal to one-half of one percent (.50%) of the maximum amount of the facility payable on each anniversary of the Facility closing date and a monthly servicing fee of $3,500 per month. The Company also paid an initial, one-time fee of $450,000 in order to establish the Exit Financing Facility.

The Company's ability to continue as a going concern is dependent, in part, on the Company's ability to obtain merchandise on a timely basis from vendors on acceptable credit terms. Since the filing of the Chapter 11 Proceeding, the Company's ability to obtain credit through arrangements such as the Exit Financing Facility terms and credit lines have improved

and are approaching historical levels experienced by the Company. Management of the Company believes that its ability to obtain credit should continue to improve based on the acceptable performance of the Company. Management further believes the Exit Financing Facility, together with the cash from operations and vendor credit, should be adequate to cover working capital requirements and capital expenditures.

In addition to cash used in operations, approximately $823,000 was also used for capital expenditures during Fiscal 1994. The Company anticipates capital expenditures for Fiscal 1995 primarily for normal facility maintenance and various projects to improve management information systems.

Item 8. Financial Statements and Supplementary Data.

The following financial statements are filed with this Form 10-K Annual Report:

Report of Independent Accountants

Consolidated Balance Sheets at January 29, 1994, and January 30, 1993

Consolidated Statements of Operations for the three years ended January 29, 1994

Consolidated Statements of Shareholders' Equity for the three years ended January 29, 1994

Consolidated Statements of Cash Flows for the three years ended January 29, 1994

Notes to Consolidated Financial Statements

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

No such changes in accountants or disagreements on accounting or financial disclosure occurred in fiscal 1994 or 1993.

Part III

Item 10. Directors and Executive Officers of the Registrant.

The information as to executive officers is set forth in Part I hereof under the caption "Executive Officers of the Registrant." The additional information required by this item is set forth below:

Set forth below are the names of the members of the Board of Directors, their principal occupation or employment during the past five years, all their positions with the Company, the Common Stock of the Company beneficially owned by each of them as well as that beneficially owned by all directors and executive officers as a group, in each case as of April 15, 1994, and certain other information with respect to such directors

<TABLE>
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Name	Age	Principal Occupation for Past 5 Years and other Information(1)	Director of Company Since	Common Stock Beneficially Owned(2)	% of Class*
<S>	<C>	<C>	<C>	<C>	<C>
Douglas D. Brendle	65	Chairman of the Board of Directors of the Company since February, 1986; Chief Executive Officer of the Company from November, 1984, to June 2, 1982, and from January 13, 1993, to present; President of the Company from November, 1984, to June, 1989, and from April 13, 1993, to present.(3)(4)(5)	1954	2,102,816(6)	16.5%
S. Floyd Brendle	63	Vice Chairman of the Board of Directors of the Company since April, 1989; Executive Vice President of the Company from November, 1984, to February, 1989, and from January 13, 1993, to April 13, 1993.(3)(5)	1954	1,723,515(7)	13.5%

William F. Cosby	54	President and Chief Operating Officer of the Corporation from January 13, 1993, to April 13, 1993; Senior Vice President of the Company from February, 1986, to June, 1989; for in excess of one year prior thereto he was Vice President of the Company.	1973	470,797(8)	3.7%
Thomas H. Davis	76	Retired; Director Emeritus, USAir, Inc. since August, 1989; Chairman of the Executive Committee of Piedmont Aviation, Inc. for in excess of five years prior thereto(9)	1987	5,000	**
James B. Edwards	65	President of the Medical University of South Carolina in Charleston, SC since November, 1982; prior thereto he was the Secretary of Energy of the United States.(10)	1986	1,000	**
John D. Gray	87	Chairman Emeritus of the Board and Retired Chief Executive Officer of Hartmarx Corporation, a diversified men's clothing manufacturer.	1984	2,000	**
John A. Northen	44	Partner in the law firm of Northen, Blue, Rooks, Thibaut, Anderson & Woods, located in Chapel		-0-	

Hill, North Carolina.(11)

Robert R. Dunn	47	President of The Finley Group, Inc., a turn-around management firm located in Charlotte, North Carolina, since October, 1993; Vice President of The Finley Group, Inc., since 1986.(11)		-0-	
Patty Brendle Redway	66	Director of the Company since 1984. (5)(12)	1984	1,912,667(13)	15.0%
All directors and officers as a group (12 persons, including the above)(1)	___	___	___	6,261,435(14)	49.0%

</TABLE>

*Does not include shares of Douglas D. Brendle, S. Floyd Brendle, William F. Cosby, or Patty Brendle Redway that will be received as a distribution from the Escrow Agent in accordance with the Plan of Reorganization. The number of shares to be received is indeterminate at the date of this Annual Report, pending resolution of all disputed claims.

** less than 1%.

(1) Each director and officer of the Company previously held the identical directorships and offices with Brendle's Stores, Inc., a wholly-owned subsidiary of the Company. Brendle's Stores, Inc. was merged into the Company effective April 29, 1994.

(2) As reported to the Company by the directors. Includes, where appropriate, shares held by spouses, minor children, family companies, partnerships and trusts.

(3) Douglas D. Brendle and S. Floyd Brendle are brothers.

(4) Douglas D. Brendle serves on Advisory Boards of Appalachian State University and Campbell University and for the Business School of the University of South Carolina.

(5) By virtue of their stockholdings in the Company, positions with the Company and family relationships, including relationships by marriage, each of Douglas D. Brendle, S. Floyd Brendle, and Patty Brendle Redway may be deemed to be a controlling person of the Company within the meaning of the rules of the Securities and Exchange Commission.

(6) The information as to beneficial ownership set forth in footnote (3) under Item 12 is incorporated herein by reference.

(7) The information as to beneficial ownership set forth in footnote (5) under Item 12 is incorporated herein by reference.

(8) The information as to beneficial ownership set forth

in footnote (7) under Item 12 is incorporated herein by reference.

(9) Thomas H. Davis is a director emeritus of USAir Group, Inc., ALLTEL Corp., and Duke Power Company.

(10) James B. Edwards was the Governor of the State of South Carolina from 1975 until 1979. He is a director of Chemical Waste Management, Inc., Encyclopedia Britannica, Inc., Imo Industries, Inc., National Data Corporation, Phillips Petroleum Company, SCANA Corporation, and South Carolina National Bank.

(11) Mr. Northen and Mr. Dunn became members of the Board of Directors upon substantial consummation of the Company's Plan of Reorganization on April 29, 1994. The Plan of Reorganization provided that certain of the Company's creditors had the right to appoint two individuals to the Company's Board of Directors for a period of one (1) year following substantial consummation. Mr. Northen and Mr. Dunn have filled these positions.

(12) Patty Brendle Redway is the widow of J. Harold Brendle, who was the brother of Douglas D. Brendle and S. Floyd Brendle.

(13) The information as to beneficial ownership set forth in footnote (8) under Item 12 is incorporated herein by reference.

(14) Includes 44,240 shares which may be acquired upon the exercise of options exercisable April 30, 1994, or within 60 days thereafter. Also includes certain shares as to which beneficial ownership is disclaimed by certain directors and officers as referred to in these footnotes. Does not include stock appreciation rights held by the unaffiliated Directors.

Committees

The Board of Directors has an Audit Committee consisting of Douglas D. Brendle, Thomas H. Davis, James B. Edwards, John D. Gray, and Patty Brendle Redway. The Audit Committee recommends matters involving the engagement and discharge of independent auditors, directs and supervises special investigations, reviews the plans for and results of the Company's procedures for internal auditing, and reviews the adequacy of the Company's system of internal accounting controls.

Other standing committees of the Board of Directors include the Stock Option Committee, which administers the Company's stock option plans; the Stock Appreciation Rights Committee, which administers the Company's Unaffiliated Director Stock Appreciation Rights Plan; the Unaffiliated Directors Committee, which reviews and approves or disapproves certain transactions between the Company and any of its affiliates; and the Compensation Committee, which reviews and approves or disapproves certain compensation and employee benefit matters and makes recommendations to the full Board of Directors regarding compensation in general. The Stock Option Committee consists of Douglas D. Brendle, S. Floyd Brendle and William F. Cosby; the Stock Appreciation Rights Committee consists of Douglas D. Brendle and S. Floyd Brendle; the Unaffiliated Directors Committee consists of Thomas H. Davis, James B. Edwards, and John D. Gray; and the Compensation Committee consists

of Douglas D. Brendle, Thomas H. Davis, James B. Edwards, and John D. Gray. There is no nominating committee of the Board of Directors.

During the fiscal year ended January 29, 1994, the Board of Directors held a total of four (4) meetings. The Compensation Committee met once and there were no other meetings of formal committees. Also during such fiscal year, no director attended fewer than a total of 75% of the aggregate of all meetings of the Board of Directors and all meetings held by all committees of the Board of Directors on which he served.

Each of the non-employee or non-officer directors, William F. Cosby, Thomas H. Davis, James B. Edwards, John D. Gray, and Patty Brendle Redway, traditionally received a standard fee of $10,000 annually for service as a director plus $500 for each Board of Directors' meeting attended. Non-employee members of the Audit Committee and the Compensation Committee receive $250 for each meeting attended. As a cost-saving measure, the Board members agreed to reduce their compensation during Fiscal 1994, and no non-employee director received in excess of $3,000 for serving on the Board. Directors who are also officers of the Company receive no additional compensation for attending Board of Director or committee meetings. No compensation or fee (other than transportation costs) was paid for membership or participation in any other committee.

Item 11. Executive Compensation.

The following table presents information relating to total compensation during the fiscal year ended January 29, 1994, of the Chief Executive Officer, Douglas D. Brendle and the Company's Senior Vice President (as of January 29, 1994), William V. Grady and two of the Company's Vice Presidents, Aubrey L. Miller and Steven W. Luka (the "Named Executives"). All remaining Executive Officers of the Company, who served in such capacities on January 29, 1994, were paid less than $100,000 in total compensation for the fiscal year ending January 29, 1994.

<TABLE>
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Summary Compensation Table

		Annual Compensation			Long Term Compensation: Awards	
Name and Principal Position	Year	Salary	Bonus	Other Annual Compensation(1)	Options/SARs (Shares)	All Other Compensation(2)
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Douglas D. Brendle(6)	1993-94	$199,992	-0-	-0-	-0-	$20,596
Chairman and	1992-93	$200,000	-0-	-0-	-0-	$56,259
Chief Executive Officer	1991-92	$249,990	-0-	-0-	-0-	-0-
William V. Grady(3)(6)	1993-94	$110,006	-0-	-0-	-0-	$ 6,186
Senior Vice President	1992-93	$ 8,462	-0-	-0-	-0-	$27,600
	1991-92	-0-	-0-		-0-	--
Aubrey L. Miller(3)(5)	1993-94	$104,994	-0-	-0-	-0-	$ 886
Vice President	1992-93	$ 88,840	-0-	-0-	-0-	$ 489
of Operations	1991-92	$ 79,872	-0-	-0-	-0-	$ 278
Steven W. Luka(4)(5)	1993-94	$104,994	-0-	-0-	-0-	$ 611

Vice President and General Merchandise Manager	1992-93	$ 88,840	-0-	-0-	-0-	$	356
	1991-92	$ 79,192	-0-	-0-	-0-	$	287

</TABLE>

(1)None of the Named Executives received perquisites or other personal benefits in excess of the lesser of $50,000 or 10% of the total of his salary and bonus for any of the reported years.

(2)Includes value of premium payments on life insurance policies for the Named Executives maintained by the Company and moving expenses for William V. Grady.

(3)Mr. Grady joined the Company in November, 1992.

(4)Mr. Miller also has options to acquire 11,770 shares of the Company's common stock, 11,416 of which are currently exercisable. The option prices range from $5.50 per share to $14.50 per share and currently have no value.

(5)Mr. Luka also has options to acquire 9,570 shares of the Company's common stock, 9,356 of which are currently exercisable. The option prices range from $5.50 per share to $14.50 per share and currently have no value.

(6)For a further discussion of the offices held by the Named Executives, see the textual discussion included in Item 12.

Employee Benefit Plans

The Company maintains a variety of employee benefit plans, including a Non-Contributory Profit Sharing Plan, the Brendle's Incorporated 1990 Stock Plan, and the Brendle's Incorporated 1986 Non-Qualified Stock Option Plan. A description of these plans is included in Note 9 to the Consolidated Financial Statements of the Company included in this Annual Report on Form 10-K and is incorporated herein by reference. Only the named Executives indicated in the footnotes to the above tables participate in the Company's Stock Option Plans (with no executive having currently exercisable options which are in-the-money), and none of the Named Executives receive perquisites or other forms of employment benefits that exceeds $50,000.

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

The following table sets forth certain information with respect to the beneficial ownership of the Company's Common Stock, the Company's only class of equity voting security, as of April 15, 1994, by each person, including any "group" as that term is used in Section 13(d)(3) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), known by the Company to be the beneficial owner of more than five percent of the Company's outstanding Common Stock, or that may be a member of a control group owning more than five percent (5%) of the Company's outstanding stock:

<TABLE>
<CAPTION>

	Common Stock Beneficially Owned(1)	
Name and Address of Beneficial Owner(2)	Amount and nature of Beneficial Ownership	Percentage of Class
<S>	<C>	<C>
Douglas D. Brendle	2,102,816(3)	16.5%
D & L Brendle Associates	1,035,000(4)	8.1%
S. Floyd Brendle	1,723,515(5)	13.5%
K & F Brendle Associates	500,000(6)	3.9%
William F. Cosby	470,797(7)	3.7%
Patty Brendle Redway (Trusts under Agreement with J. Harold Brendle).	.1,912,667(8)	15.0%

</TABLE>

(1) None of the persons or entities indicated own any shares subject to options exercisable on April 15, 1994 or within 60 days thereafter.

(2) The address of these beneficial owners, except Patty Brendle Redway, is c/o Brendle's Incorporated, 1919 North Bridge Street Extension, Elkin, North Carolina 28621. The address of Patty Brendle Redway is c/o Wachovia Bank and Trust Company, N.A., Trust Department, Post Office Box 3099, Winston-Salem, North Carolina 27102.

(3) Of such 2,102,816 shares, Douglas D. Brendle may be deemed to have sole voting power as to 924,330 shares, shared voting power as to 1,178,486 shares, sole investment power as to 924,330 shares and shared investment power as to 1,178,486 shares.

The above shares include (i) 1,035,000 shares held by D & L Brendle Associates, a North Carolina limited partnership in which the general partners are Lydia U. Brendle, wife of Douglas D. Brendle, and a corporation controlled by Douglas D. Brendle and members of his family, (ii) 133,036 shares held by Lydia U. Brendle as trustee for their daughter, as to which shares Lydia U. Brendle has sole voting and investment power, (iii) 5,450 shares held individually by Lydia U. Brendle, (iv) 5,000 shares held jointly by Douglas D. Brendle and Lydia U. Brendle, (v) 869,629 shares held of record by Lydia U. Brendle under a trust agreement with Douglas D. Brendle which is revocable by him and as to which shares he retains all voting and dispositive powers, and (vi) 54,701 shares of which Mr. Brendle is the sole record and beneficial owner.

Mr. Brendle disclaims beneficial ownership of the shares described in items (i), (ii) and (iii) above and any other shares held by D & L Brendle Associates and also disclaims membership in any "group," within the meaning of the Exchange Act.

(4) D & L Brendle Associates may be deemed to have sole voting and investment power as to all of such 1,035,000 shares and shared voting and investment power as to none of such shares. D & L Brendle Associates disclaims beneficial ownership of any additional shares in excess of the 1,035,000 shares over which it has sole voting and dispositive power and also disclaims membership in any "group," within the meaning of the Exchange Act.

(5) Of such 1,723,515 shares, S. Floyd Brendle may be

deemed to have sole voting power as to 1,223,515 shares, shared voting power as to 500,000 shares, sole investment power as to 1,223,515 shares, and shared investment power as to 500,000 shares.

The above shares include 500,000 shares held by K & F Brendle Associates, a North Carolina limited partnership in which the general partners are Kathryn C. Brendle, wife of S. Floyd Brendle, and a corporation controlled by S. Floyd Brendle and members of his family. Excluded are an aggregate of 1,600 shares represented by presently exercisable options held by Mr. Brendle's two sons, respectively, each of whom is an adult not living in his home.

Mr. Brendle disclaims beneficial ownership of any shares held by K & F Brendle Associates as well as the shares excluded above and also disclaims membership in any "group," within the meaning of the Exchange Act.

(6) K & F Brendle Associates may be deemed to have sole voting and investment power as to all of such 500,000 shares and shared voting and investment power as to none of such shares. K & F Brendle Associates disclaims beneficial ownership of any additional shares in excess of the 500,000 shares over which it has sole voting and investment power and also disclaims membership in any "group," within the meaning of the Exchange Act.

(7) Of such 470,797 shares, William F. Cosby may be deemed to have sole voting power as to 140,797 shares, shared voting power as to 330,000 shares, sole investment power as to 140,797 shares, and shared investment power as to 330,000 shares.

The above shares include 330,000 shares held by C & W Cosby Associates, a North Carolina limited partnership in which the general partners are Patricia R. Cosby, wife of William F. Cosby, and a corporation controlled by William F. Cosby and members of his family.

Mr. Cosby disclaims beneficial ownership of any shares held by C & W Cosby Associates and also disclaims membership in any "group," within the meaning of the Exchange Act.

(8) Of such 1,912,667 shares, Patty Brendle Redway may be deemed to have sole voting and investment power as to all of such shares, and shared voting and investment power as to none of such shares.

All of the above 1,912,667 shares are held in two trusts created under an agreement dated October 20, 1982, with J. Harold Brendle. Patty Brendle Redway, widow of J. Harold Brendle, has sole voting and investment power over all such shares. Wachovia Bank and Trust Company, N.A., a subsidiary of The First Wachovia Corporation, is trustee of such trusts.

Excluded are an aggregate of 8,448 shares represented by presently exercisable options held by Ms. Redway's son who is an adult not living in her home.

Ms. Redway disclaims beneficial ownership of the 1,912,667 shares as well as the other shares excluded above and also disclaims membership in any "group," within the meaning of the Exchange Act.

The Common Stock holdings of Douglas D. Brendle, S. Floyd Brendle, Patty Brendle Redway (her holdings being with respect to shares forming a part of the Trusts created under an Agreement with J. Harold Brendle), certain members of their immediate

families and the family partnerships described above (collectively, the "Brendle Family") aggregate in excess of two-thirds of the Company's outstanding Common Stock. If all or certain members of the Brendle Family were to vote in the same manner concerning certain matters subject to a vote of shareholders of the Company, the Brendle Family or such members could determine the outcome of any such vote. Accordingly, under proper circumstances the Brendle Family may be said to be in "control" of the Company within the meaning of that term under the Exchange Act. However, the Brendle Family has not agreed to act in concert or as a group in connection with voting any of the Company's Common Stock.

Item 13. Certain Relationships and Related Transactions.

Shareholders' Agreement

In April of 1986, prior to the initial public offering of the Company's Common Stock, all of the then shareholders of the Company (including Douglas D. Brendle, S. Floyd Brendle, Patty Brendle Redway, and William F. Cosby) entered into a Shareholders' Agreement with the Company. Therein, the shareholders agreed, among other things, to restrict the transfer of their Common Stock to any unrelated party (as defined) without the written consent of all remaining shareholders who are parties to the Agreement unless the transferring shareholder

gives a right of first refusal to related parties (as defined) of the transferring shareholder and to the remaining shareholders who are parties to the Agreement, and such right of first refusal is not exercised. In addition, the Shareholders' Agreement gives the right, exercisable within nine months of death, to the personal representative of certain deceased shareholders who were parties to the Agreement, to cause the Company to redeem from the deceased shareholder's estate up to that number of shares of Common Stock of the Company owned by the deceased shareholder at his death valued at the average of the closing prices for the 20 trading days prior to the date of death, not to exceed the life insurance proceeds received by the Company as a result of such death. The Company has purchased life insurance in the face amounts set forth below at a net aggregate cost (premiums less dividends and increase in cash surrender value) for the fiscal year ended January 29, 1994 of approximately $257,747: Douglas D. Brendle, $5,000,000; S. Floyd Brendle, $5,250,000; William F. Cosby, $3,070,000; and Patty Brendle Redway $3,000,000. The Company has borrowed $1,840,000, in the aggregate, against these policies.

One effect of the Shareholders' Agreement may be to make it more difficult for a third party to acquire a significant equity position in the Company. Conversely, the Shareholders' Agreement may make it easier for a party to the Shareholders' Agreement, including incumbent management of the Company, to retain significant equity positions in the Company or to retain their management positions with the Company. In addition, implementation of certain of the aforesaid rights may, under proper circumstances, cause a change in control of the Company.

Split Dollar Insurance Agreements

The Company has entered into split dollar life insurance agreements for the benefit of six of its executive officers and/or directors or their spouses and families. Upon the death of any such officer or director, the Company will receive not less than the net premiums paid, and the insured's beneficiary will receive the balance of the insurance proceeds. Pursuant to the agreements, life insurance coverage, the premiums for which are paid by the Company, has been purchased on the following persons in the following aggregate policy amounts: Douglas D. Brendle, $3,000,000; S. Floyd Brendle, $2,000,000; Aubrey L. Miller, $153,097; W. Steven Day, $132,785; Steven W. Luka $123,758 and David R. Renegar, $113,220. The Company's net aggregate cost (premiums less dividends and increase in cash surrender value) for such insurance for the fiscal year ended January 29, 1994 was approximately $48,712.

Leases

Brenco, a partnership consisting of Douglas D. Brendle, S. Floyd Brendle, William F. Cosby, and two Trusts under an Agreement with J. Harold Brendle, dated October 20, 1982, ("Brenco"), leases 13 stores and the Company's corporate office building and contiguous warehouse to the Company. During the fiscal year ended January 29, 1994, the Company paid

or accrued to Brenco an aggregate of approximately $2,458,132 with respect to these leases. All of the leases are for a 10-year period from their respective dates of origin, except for one lease which is for a 7-year period, with remaining lease terms ranging from one (1) year to five (5) years, and the leases have certain extension options. All of the leases grant to Brenco the right to require the Company to purchase any or all of the premises under any or all of the leases at a purchase price equal to the fair market value of the respective premises purchased, as such fair market value is determined by a third party appraiser acceptable to both the Company and Brenco, provided, however, that, in each event, the purchase of the premises is first approved by the Committee of Unaffiliated Directors of the Company in their sole discretion. The total amount owing under the Brenco leases for their remaining terms is approximately $5,569,000. The Bankruptcy Court is expected to approve amendments to the Brenco leases which will provide for incentive rent based on the performance of the Company and which will extend certain of the leases by one (1) to two (2) years.

On November 1, 1991, the Company and Brenco entered into an agreement wherein Brenco agreed to reduce rents payable by the Company by an annual amount of $500,000. This agreement was required by the Company's lenders as part of the loan agreement reached between the Company and its lenders in October, 1991.

Brenco is the owner and franchisee of the Holiday Inn located in Jonesville, North Carolina, in which the Company held various meetings and corporate functions during the fiscal year ended January 29, 1994. The Company was charged the standard corporate rates for these services and paid an aggregate of $30,305 therefore.

Management of the Company believes that the terms of all these leases are no less favorable to the Company than would have been available from unaffiliated

third parties.

Transportation Activities

During the fiscal year ended January 29, 1994, a subsidiary of the Company occasionally used an airplane owned by Sky-Lease, Inc., the voting securities of which are owned by Douglas D. Brendle, S. Floyd Brendle, William F. Cosby, and a Trust under an Agreement dated October 20, 1982 with J. Harold Brendle, and Sky-Lease, Inc. was paid an aggregate of $43,340 in rent charges for such airplanes. The Company previously leased two airplanes from Sky-Lease, Inc., however, such leases were terminated effective December 31, 1991, by mutual agreement of the parties and as a condition to the loan agreement entered into between the Company and its lenders in October 1991.

Loan Agreements

As a condition to the loan agreement entered into between the Company and its lenders in October, 1991, Douglas D. Brendle and Brenco each loaned $1,000,000 to the Company,

which loans were repaid in full by the Company in April, 1994, pursuant to the provisions of the Plan of Reorganization. Under the terms of the Plan, Mr. Brendle and Brenco received payment of the principal balance of their secured claims and 52% of their unsecured claims, without any allowances for post-petition interest accruals.

Hold Harmless and Other Agreements

The Company is party to agreements with Thomas H. Davis, James B. Edwards, and John D. Gray, non-employee directors of the Company, to hold each harmless, subject to certain limitations under applicable law, from liabilities arising from service as a director of the Company. The agreements contain certain assurances that the provisions of the Company's by-laws relating to indemnification of directors will not be changed.

Part IV

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

Page in 10-K

(a) The following documents are filed as part of this report:

(1) Financial Statements:

All other schedules are omitted because they are not applicable or the required information is shown in the financial statements or notes thereto.

(b) The Company filed a Form 8-K on December 20, 1993, reporting under Item 3 the confirmation of its Plan of Reorganization.

(c) See the Exhibit Index attached hereto.

(d) All required financial statements and schedules are filed herewith.

SIGNATURES

Pursuant to the requirements of Section 13 or 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.

BRENDLE'S INCORPORATED
(Registrant)

Date: May 12, 1994

By: Douglas D. Brendle /s/
Douglas D. Brendle,*
Chief Executive Officer and
Chairman of the Board of Directors

*Executed pursuant to Power of Attorney included with this report as an Exhibit.

SIGNATURES

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.

Date: May 12, 1994

Douglas D. Brendle /s/
Douglas D. Brendle,*
Chief Executive Officer and Chairman

of the Board of Directors

Date: May 12, 1994 — S. Floyd Brendle /s/
S. Floyd Brendle,
Vice Chairman of the Board of Directors

Date: May 12, 1994 — William F. Cosby,
Director

Date: May 12, 1994 — Thomas H. Davis /s/
Thomas H. Davis,
Director

Date: May 12, 1994 — James B. Edwards /s/
James B. Edwards,*
Director

Date: May 12, 1994 — John D. Gray /s/
John D. Gray,*
Director

Date: May 12, 1994 — Patty Brendle Redway /s/
Patty Brendle Redway,*
Director

Date: May 12, 1994 — David R. Renegar /s/
David R. Renegar,
Chief Financial Officer
(principal accounting officer)

* Executed pursuant to Power of Attorney included with this report as an Exhibit.

Brendle's Incorporated
Financial Statements
January 29, 1994 and January 30, 1993

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Shareholders
of Brendle's Incorporated

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of operations, of changes in shareholders' equity and of cash flows present fairly, in all material respects, the financial position of Brendle's Incorporated and its subsidiaries (the Company) at January 29, 1994 and January 30, 1993, and the results of their operations and their cash flows for each of the three fiscal years in the period ended January 29, 1994, 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 based on our audits.
We conducted our audits of these 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.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the financial statements, on November 22, 1992, Brendle's Incorporated and its primary operating subsidiary, Brendle's Stores, Inc., filed a voluntary petition for relief under Chapter 11, Title 11, of the United States Code (the Bankruptcy Code) in the U.S. Bankruptcy Court for the Middle District of North Carolina. The filing and issues surrounding it raise substantial doubt about the entity's ability to continue as a going concern. The continued viability of the Company in its present form is dependent upon, among other factors, the Company's ability to generate sufficient cash from operations or other sources that will meet ongoing obligations over a sustained period. Management's plans in regard to these matters are also described in Note 1. The accompanying financial statements do not include any adjustments relating to the recoverability and classification of reported asset amounts or the amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern, nor do these financial statements

include adjustments relating to the recoverability and classification of reported asset amounts or adjustments relating to the establishment, settlement and classification of liabilities that may be required in connection with restructuring the Company under the Bankruptcy Code.

(Signature of Price Waterhouse)

PRICE WATERHOUSE
Winston-Salem, North Carolina
March 30, 1994, except for Notes 1 and 13,
which is as of April 29, 1994

Brendle's Incorporated

(Debtor-in-Possession)
Consolidated Balance Sheet
(In thousands, except share data)

<TABLE>
<CAPTION>

	January 29, 1994	January 30, 1993
<S>	<C>	<C>

Assets		
Current assets:		
Cash and temporary cash investments (Note 2)	$ 34,774	$ 36,594
Receivables (Note 3)	1,480	6,336
Merchandise inventories (Note 2)	54,133	57,893
Other current assets	970	5,634
Total current assets	91,357	106,457
Property and equipment, less accumulated depreciation and amortization (Notes 2 and 4)	15,767	40,364
Other assets	439	666
	$107,563	$147,487
Liabilities and Shareholders' Equity		
Current liabilities:		
Current portion of restructuring expenses	$ 509	$ 6,603
Accounts payable - trade	3,002	1,184
Accrued compensation	508	1,108
Other accrued liabilities	2,335	2,713
Total current liabilities	6,354	11,608
Liabilities subject to compromise (Note 6)	95,749	111,113
Total liabilities	102,103	122,721
Shareholders' equity		
Common stock, $1 par value, 20,000,000 shares authorized, 8,299,454 shares issued at January 29, 1994 and 8,289,276 shares issued at January 30, 1993	8,299	8,289
Capital in excess of par value	18,112	18,111
Retained deficit	(20,951)	(1,634)
Total shareholders' equity	5,460	24,766
Commitments and contingencies (Notes 7, 8, 10, and 11)	--	--
	$107,563	$147,487

</TABLE>

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

Brendle's Incorporated

(Debtor-in-Possession)
Consolidated Statement of Operations
(In thousands, except share data)

<TABLE>
<CAPTION>

	Fiscal year ended		
	January 29, 1994	January 30, 1993	February 1, 1992
<S>	<C>	<C>	<C>
Net sales	$170,345	$233,889	$300,198
Other income	728	1,201	1,161
Total revenues	171,073	235,090	301,359
Costs and expenses:			
Cost of merchandise sold	125,015	168,879	221,099
Selling, operating and administrative expenses	43,571	69,427	73,803
Depreciation and amortization	4,877	7,184	8,219

Interest expense:			
Capitalized leases	756	1,199	1,667
Other	383	3,728	4,567
Provision for restructuring (Note 5)	16,090	4,572	20,350
	190,692	254,989	329,705
Loss before income taxes	(19,619)	(19,899)	(28,346)
Provision for income taxes (Note 9)	-	-	(1,972)
Net loss	$(19,619)	$(19,899)	$(26,374)
Net loss per share	$ (2.36)	$ (2.45)	$ (3.28)

</TABLE>

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

Brendle's Incorporated

(Debtor-in-Possession)
Consolidated Statement of Changes in Shareholders' Equity
(In thousands, except share data)

<TABLE>
<CAPTION>

	Common Stock Shares	Common Stock Amount	Capital in Excess of Par Value	Retained Earnings (Deficit)	Total Shareholders' Equity
<S>	<C>	<C>	<C>	<C>	<C>
Balance, February 2, 1991	8,037,421	$8,037	$17,776	$ 43,793	$ 69,606
Net loss	-	-	-	(26,374)	(26,374)
Reclassification from other deferred credit (Note 8)	-	-	-	883	883
Issuance of stock	16,281	17	40	-	57
Balance, February 1, 1992	8,053,702	8,054	17,816	18,302	44,172
Net loss	-	-	-	(19,899)	(19,899)
Reclassification to other deferred credit (Note 8)	-	-	-	(37)	(37)
Issuance of stock	235,574	235	295	-	530
Balance, January 30, 1993	8,289,276	8,289	18,111	(1,634)	24,766
Net loss	-	-	-	(19,619)	(19,619)
Reclassification from other deferred credit (Note 8)	-	-	-	302	302
Issuance of stock	10,178	10	1	-	11
Balance, January 29, 1994	8,299,454	$8,299	$18,112	$ (20,951)	$ 5,460

</TABLE>

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

Brendle's Incorporated

(Debtor-in-Possession)
Consolidated Statement of Cash Flows
(In thousands)

<TABLE>
<CAPTION>

	Fiscal year ended		
	January 29, 1994	January 30, 1993	February 1, 1992
<S>	<C>	<C>	<C>
Operations:			
Net loss	$(19,619)	$(19,899)	$(26,374)
Items not requiring (providing) cash:			
Depreciation and amortization	4,877	7,184	8,219
Loss on sale of property and equipment	11,839	712	1,261
Deferred income taxes	-	-	879
Deferred store credit card costs	-	-	971
Restructuring reserve	(4,109)	(6,239)	14,976
Other	-	(1,040)	(414)
Changes in assets and liabilities:			
Accounts receivable	4,856	(2,246)	(1,481)
Income taxes refundable	-	2,851	(2,851)
Merchandise inventories	3,760	20,864	24,796
Other current assets	4,664	(4,237)	155
Accounts payable and other liabilities	(4,278)	19,745	(1,715)
Cash provided (used) by operations	1,990	17,695	18,422
Investing activities:			
Additions to property and equipment	(823)	(1,630)	(2,690)
Proceeds from sale of property and equipment	8,704	880	12
Cash provided (used) for property and equipment	7,881	(750)	(2,678)
Other	529	49	1,057
Cash provided (used) by investing activities	8,410	(701)	(1,621)
Financing activities:			
Decrease in capitalized lease obligations	(1,356)	(2,028)	(2,942)
Increase (decrease) in short term borrowings	(10,875)	28,239	(22,000)
Increase (decrease) in long term borrowings	-	(8,375)	8,375
Issuance of common stock	11	530	57
Cash provided (used) by financing activities	(12,220)	18,366	(16,510)
Net increase (decrease) in cash and temporary cash investments	(1,820)	35,360	291
Cash and temporary cash investments - - - beginning of year	36,594	1,234	943
Cash and temporary cash investments - - - end of year	$ 34,774	$ 36,594	$ 1,234
Interest paid during the year	$ 383	$ 3,746	$ 4,586

</TABLE>

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

Brendle's Incorporated

(Debtor-in-Possession)
Notes to Consolidated Financial Statements

NOTE 1 - PROCEEDINGS UNDER CHAPTER 11

On November 22, 1992 (the Petition Date), Brendle's Incorporated and its primary operating subsidiary, Brendle's Stores, Inc., filed a voluntary petition for relief under Chapter 11 of the Federal Bankruptcy Code in the U.S. Bankruptcy Court for the Middle District of North Carolina (the Bankruptcy Court), and is currently operating as a Debtor-in-Possession. As a Debtor-in-Possession, the Company is authorized to operate its business, but may not engage in transactions outside of the normal course of business without approval, after notice and hearing, of the Bankruptcy Court. A creditors' committee was formed, which has the right to review and object to business transactions outside the ordinary course and participate in any plan or plans of reorganization.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. The continued viability of the Company subsequent to Chapter 11 is dependent upon, among other factors, the ability to generate sufficient cash from operations and financing sources to meet obligations.

As of the Petition Date, actions to collect prepetition indebtedness were stayed and other contractual obligations could not be enforced against the Company. Certain prepetition liabilities were approved by the Bankruptcy Court for payment in the ordinary course of business.

The Bankruptcy Code allows the debtor to either assume or reject certain executory contracts, subject to approval of the Bankruptcy Court. Parties to contracts which are rejected are entitled to file claims for losses or damages sustained as a result of the rejection. Management's estimate of allowable claims that will result from contracts that management has rejected or intends to reject has been included within liabilities subject to compromise. Liabilities subject to compromise represent those liabilities and obligations whose disposition is dependent upon the outcome of the Chapter 11 proceedings. Management may reject other executory contracts, or the Bankruptcy Court may allow claims for contingencies and other disputes, and if so, the allowable claims will constitute additional liabilities subject to compromise. These potential allowable claims have not been reflected in the accompanying financial statements.

The Company discontinued accruing interest on its interest-bearing prepetition debt obligations as of the Petition Date. In accordance with the American Institute of Certified Public Accountants' Statement of Position 90-7, "Financial Reporting by Entities in Reorganization Under the Bankruptcy Code," (SOP 90-7), interest on secured prepetition obligations after the Petition Date ceased accruing as the outstanding debt and accrued interest exceeded the estimated fair value of the collateral.

The final plan of reorganization may require additional material adjustments to asset values and liabilities which could result from asset disposals or liquidation of liabilities at amounts different than presently reflected in the accompanying financial statements.

On December 23, 1993, the Bankruptcy Court confirmed the Company's plan of reorganization contingent upon the Company's obtaining exit financing in order to fund payments to creditors under the plan of reorganization.

The Company obtained this reorganization credit facility (the "Credit Facility") for $45,000,000 from Foothill Capital Corporation on April 21, 1994. The Credit Facility is for a term of five years and bears interest at a per annum rate of prime plus 1.44% or 7%, whichever is greater. Interest will be paid monthly with the facility expiring on April 29, 1999. As further discussed in Note 2, cash of $31,032,000 has been provided by the Company to fund a portion of the payments of secured and general unsecured, undisputed claims. On April 29, 1994, the Company disbursed $45,382,000 in payment of secured and general unsecured claims. This payment was funded through cash on hand and borrowings against the Credit Facility.

In addition on April 29, 1994, Brendle's Incorporated issued 4,469,201 shares of Brendle's Incorporated common stock to Arnold Zahn (the "Escrow Agent"). These shares will be issued to creditors when all remaining claim amounts are reconciled. See discussion of specific provisions related to claim payments under "General Unsecured Claims" below.

Any gain on the forgiveness of pre-petition debt will be recorded during the first quarter of fiscal 1995. The Company will not account for the reorganization using fresh-start reporting due to the fact that a significant change in ownership will not have occurred.

The confirmed plan provides for the following:

Secured Claims

The Bank Group will receive the sum of $16,000,000 less all amounts paid to the Bank Group by the Company subsequent to July 8, 1993 in cash in full and complete satisfaction of the allowed secured portion of their claim. The Brenco and Douglas D. Brendle Secured Claims will be treated similarly, receiving a recovery in the same proportion as the Bank Group's recovery. The balance of the Bank Group claim, approximately $35,000,000 will be treated as a general unsecured claim.

General Unsecured Claims

Holders of unsecured claims will receive the following for their claims in accordance with the proposed plan of reorganization: (a) the claim-holder's pro rata share of a total distribution to all general unsecured claim holders of 35% of the issued and outstanding common stock of the reorganized Company; and (b) the opportunity to elect one of the following options: (i) a cash payment equal to 52% of the amount of the general unsecured claim ("the cash option"); or (ii) a reorganization note in a principal amount equal to 80% of the general unsecured claim, bearing interest at the rate of 8% per annum and payable over ten years ("the note option").

During the balloting, all of the holders of unsecured claims elected the cash option with the exception of holders of approximately $161,000 in unsecured claims.

Common Stock

The holders of the outstanding shares of the Company's existing common stock will retain their stock and will be entitled to all the rights and privileges of shareholders.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

The Company's consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the payment of liabilities in the ordinary course of business, in accordance with SOP 90-7. Substantially all current and long-term liabilities existing at the time the petition for reorganization under Chapter 11 was filed have been reclassified as liabilities subject to compromise. The consolidated financial statements do not include any adjustments or reclassifications that might be necessary should the Company be unable to continue in existence.

Basis of consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries. All significant intercompany balances and transactions are eliminated in consolidation.

Cash and temporary cash investments

Temporary cash investments are defined as short-term investments having an original maturity of three months or less. Cash at January 29, 1994 and January 30, 1993 includes $31,032,000 and $3,329,000, respectively, of restricted cash related to the bankruptcy proceedings.

Merchandise inventories

Merchandise inventories are stated at the lower of cost or market, with cost being determined by the last-in, first-out (LIFO) method. The stated LIFO value of merchandise inventories approximates replacement cost.

Property and equipment

Property and equipment are stated at cost. Expenditures for maintenance and repairs which do not improve or extend the life of an asset are charged to expense as incurred. Major renewals and betterments are capitalized. Upon retirement or sale of an asset, its cost and related accumulated

depreciation or amortization are removed from the property accounts and any gain or loss is recorded as income or expense.

Depreciation and amortization of property and equipment owned or leased under capital leases are provided on the straight-line method over their estimated useful lives.

Net income per share

Net income or loss per share is computed using the weighted average number of common shares outstanding during each period which were 8,297,000, 8,120,000 and 8,041,000, for the years ended January 29, 1994, January 30, 1993 and February 1, 1992, respectively.

Postemployment benefits

In November 1992, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 112, "Employers' Accounting for Postemployment Benefits" (SFAS 112). SFAS 112 applies to benefits provided by an employer to former or inactive employees after employment but before retirement and will require that, effective for years beginning after December 15, 1993, the costs of providing such benefits be charged to the period in which certain specific conditions are met. Adoption of this statement is not expected to materially impact the Company's financial condition or results of operations.

Income taxes

Income taxes are provided based upon income reported for financial statement purposes. See discussion of deferred income taxes in Note 9.

Issuance of stock

During fiscal 1994 and 1993, 12,378 and 124,241 shares, respectively, were issued to the 401(k) plan and during fiscal 1993, 111,333 shares were issued to lessors as consideration for rent concessions.

Reclassifications

Certain amounts previously reported have been reclassified to conform with classifications used during fiscal 1994.

NOTE 3 - RECEIVABLES

Receivables consist of the following:

	January 29, 1994	January 30, 1993
Trade	$1,480	$1,226
Receivable from liquidators	-	5,110
	$1,480	$6,336

The receivable from liquidators as of fiscal 1993 year end relates to January 1993 store closings.

NOTE 4 - PROPERTY AND EQUIPMENT

<TABLE>
<CAPTION>

(In thousands)	Estimated useful life	January 29, 1994	January 30, 1993
<S>	<C>	<C>	<C>
Land and improvements		$1,666	$3,372
Buildings:			
Capitalized leases	10 to 25 years	10,703	12,704
Owned	19 to 25 years	5,379	15,418
		16,082	28,122
Property and equipment:			
Furniture, fixtures and equipment	5 to 10 years	23,570	38,173
Leasehold improvements	10 years	9,380	12,216
Transportation equipment	3 to 7 years	691	953
Construction in progress	-	141	334
		33,782	51,676
		51,530	83,170
Less accumulated depreciation and amortization		35,763	42,806
		$15,767	$40,364

</TABLE>

Accumulated depreciation and amortization includes $9,562,000 at January 29, 1994 and $10,109,000 at January 30, 1993 relating to capital leases. The charge to operations resulting from amortization of capital leases is included in depreciation and amortization expense in the consolidated statement of operations.

NOTE 5 - RESTRUCTURING CHARGES

During the fourth quarter of fiscal 1992, the Company recorded the impact of a restructuring plan designed to increase the overall profitability of the Company by closing certain stores, modifying the product mix offered to the consumer, streamlining the product selection process and reorganizing the management of the Company. Restructuring costs of $20,350,000 represented provisions for store closings, lease termination costs, severance pay and write-down of related assets. The restructuring charge also included a provision for the estimated loss on disposal of discontinued

product lines.

Continued financial difficulties necessitated a more extensive restructuring which required an additional provision of $4,572,000 in the fourth quarter of fiscal 1993. Management made even further structural changes during fiscal 1994, resulting in the closing of thirteen Company stores, the reduction of overhead costs at the Company's corporate headquarters and distribution center and the downsizing of certain of the Company's product lines. The total cost of this additional restructuring is estimated to be $16,090,000, which includes professional fees related to the Chapter 11 proceedings.

Unpaid restructuring costs at the end of fiscal 1994 and fiscal 1993 were $4,628,000 and $8,737,000, respectively. Of these costs $4,119,000 and $2,134,000 related to leases for closed stores and have been classified as liabilities subject to compromise at January 29, 1994 and January 30, 1993, respectively.

NOTE 6 - LIABILITIES SUBJECT TO COMPROMISE AND CONTINGENCIES

Liabilities subject to compromise include substantially all of the current and noncurrent liabilities of the Company as of the Petition Date. As discussed further in Note 1, prepetition liabilities, including the maturity of debt obligations, have been stayed while the Company continues to operate. Certain prepetition obligations are secured by both real and personal prepetition property of the Company; however, these obligations are recorded as liabilities subject to compromise as the ultimate adequacy of security for any secured prepetition debt cannot be determined until a plan of reorganization is confirmed. Additional bankruptcy claims and prepetition liabilities could arise by reason of termination of various contractual obligations and as certain contingent and/or disputed bankruptcy claims are settled. Those claims and liabilities could materially exceed the amounts recorded.

Liabilities subject to compromise are summarized as follows (in thousands):

<TABLE>
<CAPTION>

	January 29, 1994	January 30, 1993
<S>	<C>	<C>
Revolving credit facility from banks	$32,722	$ 43,201
Term loan from banks	10,029	10,029
Notes payable to affiliated parties	1,613	2,009
Capitalized lease obligations	4,657	6,013
Restructuring expenses	4,119	2,134
Accounts payable and other liabilities	42,609	47,727
Total	$95,749	$111,113

</TABLE>

In accordance with SOP 90-7, interest on secured prepetition obligations after the Petition Date

ceased accruing as the outstanding debt and accrued interest exceeded the estimated fair value of the collateral. Interest on the unsecured debt also ceased accruing on the Petition Date. Interest accrued on prepetition secured debt through the Petition Date was $257,000. While future debt service and related interest expense cannot be determined before conclusion of the reorganization period, had interest been accrued on all debt under prefiling terms and conditions, interest expense would have increased by approximately $4,225,000 and $855,000 in fiscal 1994 and fiscal 1993, respectively.

Although only payments authorized by the Bankruptcy Court can be made, the following is a description of the terms and conditions of the Company's debt agreements prior to the filing of the Bankruptcy petition.

Loans payable to banks

In October 1991, the Company obtained a revolving credit facility for up to $49,000,000 from its primary lenders. In February 1992, the facility was amended and extended through April 1993. Under the amended agreement the facility is seasonally adjusted with a maximum amount of $44,000,000. The revolving credit facility was to bear interest at the lender banks' prime rate plus two percent with step-downs to prime plus one percent based on debt reduction. Borrowings outstanding at January 29, 1994 and January 30, 1993 were $32,722,000 and $43,000,000, respectively, while accrued interest was $0 and $201,000 at January 29, 1994 and January 30, 1993, respectively.

In October 1991 the Company obtained a $20,000,000 term loan from its primary lenders. In February 1992 the term loan was amended, resulting in a reduction to $13,000,000 and an extension to December 31, 1993. The payment schedule for the term loan required a $3,000,000 payment on September 30, 1992, a $4,000,000 payment on July 31, 1993 and a final payment of $2,982,000 on December 31, 1993. The term note was to bear interest at the lenders' prime rate

plus two percent with step-downs to prime plus one percent based on debt reduction. Borrowings outstanding at January 29, 1994 and January 30, 1993 were $10,029,000 and $9,982,000, respectively, while accrued interest was $0 and $47,000 at January 29, 1994 and January 30, 1993, respectively.

The revolving credit facility and term loan were secured by substantially all the assets of the Company, excluding inventory, prior to the Chapter 11 filing with the Bankruptcy Court. The amended agreements contained covenants which stipulate minimum net worth levels and financial ratios of which the Company is in violation.

Notes payable to affiliate parties

In October 1991, the Company entered into two $1,000,000

note payable agreements with an affiliate entity owned by executive officers of the Company and with an executive officer of the Company. The notes had a stated interest rate of prime plus two percent payable monthly and a maturity date of December 31, 1993. Borrowings outstanding at January 29, 1994 and January 30, 1993 were $1,613,000 and $2,000,000, respectively, while accrued interest was $0 and $9,000 at January 29, 1994 and January 30, 1993, respectively. These notes were secured by substantially all assets of the Company, excluding inventory, prior to the Chapter 11 filing with the Bankruptcy Court.

Capital lease obligations

The Company has capital and operating lease commitments for stores, equipment and its corporate headquarters facility expiring on varying dates from fiscal 1995 to 2007. The leases generally include renewal options and rental escalation clauses. Future minimum lease commitments, including leases with affiliates (Note 11) and closed stores (Note 6), at January 29, 1994 are as follows:

(in thousands) Fiscal year	Capitalized leases	Operating leases
1995	$2,045,000	$1,681,000
1996	1,410,000	1,547,000
1997	235,000	1,376,000
1998	226,000	1,336,000
1999	99,000	1,115,000
Thereafter	2,060,000	2,418,000
Total minimum lease payments	6,075,000	$9,473,000
Less amount representing interest	1,418,000	
Present value of capitalized lease obligations	4,657,000	
Less current maturities	1,744,000	
Capitalized lease obligations	$2,913,000	

NOTE 7 - SHORT TERM BORROWINGS

On September 9, 1993, the Bankruptcy Court signed an order approving the debtor-in-possession financing agreement (the "DIP Facility") dated September 9, 1993 with The CIT Group/Business Credit, Inc., (the "DIP lenders") that established a revolving credit facility in the maximum amount of $25,000,000. The DIP Facility has a super-priority status against all assets of the Company with the exception of inventory. Borrowings under the DIP Facility may be used to fund working capital, inventory purchases, capital expenditures and for other general corporate purposes. The DIP Facility also contains certain provisions regarding the maintenance of various financial ratios. At January 29, 1994, the Company was in compliance or had obtained waivers for any violations of the covenants.

Under the DIP Facility, the DIP lenders agree to make revolving loans to and issue letters of credit for the Company in an amount not exceeding at any time the lesser of the borrowing base (as defined in the DIP Facility) or $25,000,000. The DIP Facility also includes a sublimit of $6,000,000 for documentary and standby letters of credit. At January 29, 1994, the Company had no revolving loans outstanding against the DIP Facility and $293,329 in undrawn letters of credit.

The DIP Facility provides that each loan shall bear interest at a rate of prime plus one percent. Interest on these loans shall be payable monthly in arrears on the first business day of each month.

Under the DIP Facility, the Company pays an unused line fee of one-half of one percent on the unused portion, a letter of credit fee equal to 1.5% per annum on the average daily balance of the aggregate undrawn letter of credit availability and certain other fees. The DIP Facility expires on the earlier of substantial consummation of a plan of reorganization or twelve months from the effective date of the order or upon the release of certain funds escrowed for unsecured creditors.

NOTE 8 - SHAREHOLDERS' EQUITY

In April 1986, four shareholders of the Company entered into an agreement whereby they cannot transfer or sell their common stock to any unrelated party (as defined) without the written consent of the other parties to the agreement. In addition, in the event of the death of one of the four shareholders, the Company can be required to purchase their common stock at fair value up to the life insurance proceeds, consisting of policies with a face value of $5,250,000, $5,000,000, $3,070,000 and $3,000,000, respectively. Outstanding borrowings against the cash surrender value of these policies were approximately $1,828,000 and $1,387,000 at the end of fiscal 1994 and 1993, respectively. An amount equal to the cash surrender value of these policies not borrowed against at January 29, 1994 and January 30, 1993 of $219,000 and $516,000, respectively, has been shown as a liability subject to compromise and as an other deferred credit on the balance sheet with a corresponding reduction in retained earnings.

NOTE 9 - PROVISION FOR INCOME TAXES

The provision for income taxes consists of the following:

<TABLE>
<CAPTION>

(In thousands)	Fiscal 1994	Fiscal 1993	Fiscal 1992
<S>	<C>	<C>	<C>
Currently payable (refundable):			
Federal	$ -	$ -	$(2,851)
State and local	-	-	-
	-	-	(2,851)
Deferred taxes	-	-	879

Total income taxes	$ -	$ -	$(1,972)

The components of the deferred provision for income taxes are as follows:

Deferred income taxes:			
Depreciation	$(1,728)	$493	$ 249
Capital lease book charges over rental charges for tax purposes	(37)	(222)	(163)
Additional inventory costs capitalized for tax purposes	30	(157)	(242)
Deferred compensation	4	(7)	(9)
Provision for store closings	-	(59)	(113)
Restructuring reserve	1,561	(2,064)	5,092
Other	89	203	(36)
Interaction of net operating loss carryforward	81	1,813	(3,899)
	$ -	$ -	$ 879

</TABLE>

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the deferred tax liabilities and assets are as follows:

(In thousands)	Fiscal 1994
Deferred tax liabilities:	
Book-tax basis difference in property and equipment	$ 228
Other	127
Gross deferred tax liabilities	355
Deferred tax assets:	
Net operating loss carryforward	20,967
Reorganization cost	1,418
Capital leases for books	1,346
Additional inventory costs capitalized for tax purposes	555
Other	914
Gross deferred tax assets	25,200
Valuation allowance for deferred tax assets	24,845
Net deferred tax assets	355
Net deferred tax liabilities	$ -

The following is a reconciliation of the effective income tax rate with the statutory rate:

<TABLE>
<CAPTION>

	Fiscal 1994	Fiscal 1993	Fiscal 1992
<S>	<C>	<C>	<C>
Statutory federal income tax rate	(34)%	(34)%	(34)%
Premium on officers' life insurance policies	-	-	1
Limitation of tax loss carrybacks	34	34	27
Other, net	-	-	(1)

</TABLE>

Brendle's Incorporated

(Debtor-in-Possession)
Notes to Consolidated Financial Statements

In February 1992, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" (SFAS 109). SFAS 109 mandates the use of the liability method in accounting for deferred income taxes. SFAS 109 is effective for fiscal year 1994 and permits restatement of earlier years or presentation of the cumulative effect of the change in the year of adoption. The Company has adopted SFAS 109 prospectively in fiscal 1994 and the adoption has not materially impacted the Company's financial condition or results of operations and has not resulted in a material cumulative effect of a change in accounting principles.

The Company made income tax payments of $269,000 in fiscal 1992. No income tax payments were made in fiscal 1994 and 1993. The Company has net operating loss carryforwards of approximately $55,000,000 for financial reporting purposes and approximately $49,000,000 for tax purposes at January 29, 1994. These loss carryforwards expire beginning in fiscal 2007.

NOTE 10 - EMPLOYEE BENEFIT PLANS

The Company has a defined contribution profit-sharing plan covering substantially all employees who have met certain age and length of service requirements. Contributions to the profit-sharing plan are determined by the Board of Directors. No contribution was made for fiscal year 1994, 1993 or 1992.

The Company has a defined contribution retirement savings plan (the "Plan"), a voluntary compensation deferral plan under Section 401(k) of the Internal Revenue Code. The Plan allows participants to contribute up to 6% of their annual compensation to the Plan. As of January 15, 1993, the Board of Directors of the Company adopted an amendment to the Plan whereby the employer matching contribution was discontinued with respect to salary reduction contributions made for compensation earned after January 15, 1993. The Company has contributed the minimum contribution of $40,000, $169,000 and $112,000 for fiscal years 1994, 1993 and 1992, respectively. Effective September 17, 1993, all assets of the defined contribution profit sharing plan were merged with the defined contribution retirement savings plan.

The Brendle's Incorporated 1990 Stock Option Plan approved by the shareholders on May 31, 1990, authorizes the grant of stock options for the purchase of up to 300,000 shares of the Company's common stock to be made to unaffiliated directors, officers and other key employees of the Company in order to provide incentives to remain in the employ of the Company. The plan permits the issuance of incentive stock options, nonqualified stock options and stock appreciation rights ("Right") in tandem with stock options. Incentive stock options may be granted at not less than 100%, and nonqualified stock options may be granted at not

less than 95%, of market value.
Options granted are exercisable only after one year of continuous employment with the Company immediately following the date of grant. The Stock Option Committee may prescribe longer time periods and additional requirements with respect to the exercise of a stock option or Right.

The Brendle's Incorporated 1986 Incentive Stock Option Plan, as adopted by the shareholders of the Company on January 31, 1986, authorizes the grant of both incentive stock options and nonqualified options to purchase up to 400,000 shares of the Company's common stock to officers and other key employees of the Company. Incentive stock options may be granted at not less than 100%, and nonqualified options at not less that 95%, of market value. Options granted to date become exercisable at the rate of 20% annually, subject to continuous employment with the Company, beginning one year and expiring six years from the date of grant.

On April 10, 1986, the shareholders of the Company adopted the Brendle's Incorporated 1986 Nonqualified Stock Option Plan, which authorizes the grant of stock options to non-employee directors of the Company for the purchase of up to 10,000 shares of the Company's common stock. All of these options have been granted as of January 29, 1994.

The following table summarizes the changes in stock options for the plans for the three years ended January 29, 1994.

Shares subject to option:

	Number of shares	Per share option price
Balance February 2, 1991	271,760	$5.50-$14.50
Granted	-	-
Exercised	-	-
Cancelled	49,970	$7.00-$14.50
Balance February 1, 1992	221,790	$5.50-$14.50
Granted	-	-
Exercised	-	-
Cancelled	25,790	$7.00-$14.50
Balance January 30, 1993	196,000	$5.50-$14.50
Granted	-	-
Exercised	-	-
Cancelled	25,680	$7.00-$14.50
Balance January 29, 1994	170,320	$5.50-$14.50
Exercisable at end of year	153,276	
Shares reserved for future grant:		
Beginning of year	214,000	
End of year	239,680	

Brendle's Incorporated

(Debtor-in-Possession)
Notes to Consolidated Financial Statements

Effective February 1, 1988, the Company entered into deferred compensation agreements with three former employees. The agreements provide monthly payments for a period of fifteen years commencing on the respective retirement dates. The present value of the obligations totalling $436,000 and $447,000 for fiscal years ended January 29, 1994 and January 30, 1993, respectively, are included in liabilities subject to compromise on the accompanying balance sheets.

Effective August 18, 1989, the Board of Directors of the Company adopted the Brendle's Key Employee Stock Appreciation Rights Plan and the Brendle's Incorporated Unaffiliated Directors Stock Appreciation Rights Plan. The Key Employee SAR Plan and the Unaffiliated Directors' SAR Plan provide for the issuance of up to a maximum of 75,000 and 15,000 stock appreciation rights, respectively. The Company, at the end of fiscal 1994 and 1993, had 40,000 outstanding stock appreciation rights under the plans, at prices from $7.00 to $8.25. Compensation expense for stock appreciation rights, measured by the difference between the market value and the option price, was zero for each of the fiscal years ending January 29, 1994, January 30, 1993 and February 1, 1992.

NOTE 11 - RELATED PARTIES

The Company has capital and operating lease commitments with affiliates of certain executive officers for stores, equipment and its corporate headquarters facility. Real estate leases, as amended, generally provide for renewal options and escalation of rent to reflect 60% of any increase in the Consumer Price Index at the lease extension dates. Additionally, certain of these leases provide for contingent rental payments in that annual rental payments are the greater of a base rental amount or a defined percentage of the sales of a particular location. Also, the Company can be required to purchase the properties at appraised market value, subject to approval by the outside directors.

Effective January 14, 1992, the Company negotiated a final settlement for the lease agreement of a location closed due to relocation. As a result of this settlement, the rental commitments for real estate were reduced by $260,000. The capitalized lease asset and related obligation were also reduced to reflect the effect of the settlement.

Brendle's Incorporated

(Debtor-in-Possession)
Notes to Consolidated Financial Statements
Future minimum lease commitments to affiliates at January

29, 1994 are as follows:

(in thousands) Fiscal year	Capitalized leases	Operating leases
1995	$1,518,000	$933,000
1996	945,000	850,000
1997	-	684,000
1998	-	488,000
1999	-	151,000
Thereafter	-	-
Total minimum lease payments	2,463,000	$3,106,000
Less amount representing interest	332,000	
Present value of capitalized lease obligations	$2,131,000	

Lease payments to affiliates of the Company were $2,501,000, $2,724,000 and $3,481,000 for the years ended January 29, 1994, January 30, 1993 and February 1, 1992, respectively.

NOTE 12 - LITIGATION

The Company is involved in various litigation matters in the ordinary course of business. In the opinion of management, settlement of these matters will not have a material effect on the Company's financial position. In the event of a judgment adverse to the Company, any liability would be subject to the bankruptcy proceedings.

NOTE 13 - MERGER

On April 29, 1994, Brendle's Stores, Inc., was merged with Brendle's Incorporated. As all intercompany balances and transactions are eliminated on a consolidated basis, this merger had no impact on the consolidated financial statements as of and for the year then ended January 29, 1994.

REPORT OF INDEPENDENT ACCOUNTANTS ON FINANCIAL STATEMENT SCHEDULES

To the Board of Directors and Shareholders
of Brendle's Incorporated

Our audits of the consolidated financial statements referred to in our report dated March 30, 1994, except for Notes 1 and 13, which is as of April 29, 1994, appearing on pages F-1 and F-2 of this Form 10-K also included an audit of the Financial Statement Schedules listed in Item 14(a) of this Form 10-K. In our opinion, these Financial Statement Schedules present fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements.

(Signature of Price Waterhouse)

PRICE WATERHOUSE
Winston-Salem, North Carolina
March 30, 1994, except for Notes 1 and 13,
which is as of April 29, 1994

Indebtedness of and to Related Parties - Not Current (a) SCHEDULE IV

<TABLE>
<CAPTION>

Name of Debtor	Balance at Beginning of year	Indebtedness to Additions	Deductions	Balance at End of Year
<S>	<C>	<C>	<C>	<C>
Fiscal year ended February 1, 1992:				
Brenco (b)	$7,023,000	-	$2,562,000	$4,461,000
Fiscal year ended January 30, 1993				
Brenco (b)	$4,461,000	-	$1,059,000	$3,402,000
Fiscal year ended January 29, 1994				
Brenco (b)	$3,402,000	-	$1,271,000	$2,131,000

</TABLE>

(a) All amounts represent the present value of capitalized lease obligations.

(b) A partnership consisting of principal shareholders.

Brendle's Incorporated and Consolidated Subsidiaries

Property and Equipment SCHEDULE V

<TABLE>
<CAPTION>

Classification	Balance at Beginning of Year	Additions	Retirements	Transfers	Balance at End of Year
<S>	<C>	<C>	<C>	<C>	<C>
Fiscal year ended February 1, 1992:					
Land	$ 3,372,000	$ -	$ -	$ -	$ 3,372,000
Buildings:					
Capitalized leases	14,989,000	-	2,216,000	-	12,773,000
Owned	15,145,000	110,000	-	137,000	15,392,000
Furniture, fixtures and equipment	35,580,000	1,898,000	253,000	398,000	37,623,000
Leasehold improvements	13,182,000	433,000	335,000	-	13,280,000
Transportation equipment	1,000,000	13,000	20,000	-	993,000
Construction in progress	1,123,000	236,000	-	(535,000)	824,000
	$84,391,000	$2,690,000	$ 2,824,000	$ -	$ 84,257,000
Fiscal year ended January 30, 1993:					
Land	$ 3,372,000	$ -	$ -	$ -	$ 3,372,000
Buildings:					
Capitalized leases	12,773,000	-	69,000	-	12,704,000
Owned	15,392,000	26,000	-	-	15,418,000
Furniture, fixtures and equipment	37,623,000	1,140,000	657,000	67,000	38,173,000
Leasehold improvements	13,280,000	380,000	1,467,000	23,000	12,216,000
Transportation equipment	993,000	-	40,000	-	953,000
Construction in progress	824,000	84,000	484,000	(90,000)	334,000
	$84,257,000	$1,630,000	$ 2,717,000	$ -	$ 83,170,000
Fiscal year ended January 29, 1994:					
Land	$ 3,372,000	$ -	$ 1,706,000	$ -	$ 1,666,000

Buildings:					
Capitalized leases	12,704,000	-	2,001,000	-	10,703,000
Owned	15,418,000	-	10,039,000	-	5,379,000
Furniture, fixtures					
and equipment	38,173,000	590,000	15,487,000	294,000	23,570,000
Leasehold improvements	12,216,000	132,000	2,968,000	-	9,380,000
Transportation equipment	953,000	-	262,000	-	691,000
Construction in progress	334,000	101,000	-	(294,000)	141,000
	$83,170,000	$ 823,000	$ 32,463,000	$ -	$ 51,530,000

</TABLE>

Brendle's Incorporated and Consolidated Subsidiaries

Accumulated Depreciation and Amortization of Property and Equipment SCHEDULE VI

<TABLE>
<CAPTION>

	Balance at Beginning of Year	Additions Charged to Expense	Retirements	Balance at End of Year
<S>	<C>	<C>	<C>	<C>
Fiscal year ended				
February 1, 1992:				
Land				
Buildings:				
Capitalized leases	$ 9,167,000	$ 1,187,000	$ 951,000	$ 9,403,000
Owned	1,693,000	621,000	-	2,314,000
Furniture, fixtures				
and equipment	14,166,000	4,879,000	247,000	18,798,000
Leasehold improvements	4,690,000	1,299,000	335,000	5,654,000
Transportation equipment	364,000	233,000	18,000	579,000
	$ 30,080,000	$ 8,219,000	$ 1,551,000	$ 36,748,000
Fiscal year ended				
January 30, 1993:				
Land				
Buildings:				
Capitalized leases	$ 9,403,000	$ 706,000	$ -	$ 10,109,000
Owned	2,314,000	626,000	-	2,940,000
Furniture, fixtures				
and equipment	18,798,000	4,496,000	462,000	22,832,000
Leasehold improvements	5,654,000	1,170,000	627,000	6,197,000
Transportation equipment	579,000	186,000	37,000	728,000
	$36,748,000	$7,184,000	$ 1,126,000	$ 42,806,000
Fiscal year ended				
January 29, 1994:				
Land				
Buildings:				
Capitalized leases	$ 10,109,000	$ 593,000	$ 1,140,000	$ 9,562,000
Owned	2,940,000	408,000	1,979,000	1,369,000
Furniture, fixtures				
and equipment	22,832,000	2,832,000	7,377,000	18,287,000
Leasehold improvements	6,197,000	922,000	1,171,000	5,948,000
Transportation equipment	728,000	122,000	253,000	597,000
	$42,806,000	$4,877,000	$ 11,920,000	$ 35,763,000

</TABLE>

Brendle's Incorporated and Consolidated Subsidiaries

Short Term Borrowings SCHEDULE IX

<TABLE>
<CAPTION>

Category of Aggregate Term Borrowings	Balance at End of Period	Weighted Average Interest Rate at End of Period	Maximum Amount Outstanding During Period	Average Amount Outstanding During Period (a)	Weighted Average Interest Rate During the Period (b)
<S>	<C>	<C>	<C>	<C>	<C>
1992					
Amounts Payable to Banks on Borrowings	$ 15,375,000	7.50%	$ 57,000,000	$ 53,728,000	8.50%
Amounts Payable to Banks on Borrowings	$ 18,000,000	6.75%	$ 46,100,000	$ 33,331,000	7.76%
Amounts Payable to Affiliated Parties	$ 2,000,000	6.75%	$ 2,000,000	$ 1,769,000	7.50%
1993 (c)					
Amounts Payable to Banks on Borrowings	$ 43,000,000	8.00%	$ 43,000,000	$ 34,791,000	6.34%
Amounts Payable to Banks on Borrowings	$ 10,000,000	8.00%	$ 15,375,000	$ 12,255,000	6.49%
Amounts Payable to Affiliated Parties	$ 2,000,000	8.00%	$ 2,000,000	$ 2,000,000	6.32%
1994					
Amounts Payable to Banks on Borrowings	$ 32,722,000	-	$ 43,000,000	$ 40,856,000	-
Amounts Payable to Banks on Borrowings	$ 10,029,000	-	$ 10,029,000	$ 10,029,000	-
Amounts Payable to Banks on Borrowings	-	-	$ 4,200,000	$ 398,000	7.08%
Amounts Payable to Affiliated Parties	$ 1,613,000	-	$ 2,000,000	$ 1,922,000	-

</TABLE>

(a) Computed using daily total borrowings during the year.
(b) Computed by dividing interest expense on the borrowings by the average amount outstanding during the year.
(c) 1993 figures are as of November 21, 1992.

Brendle's Incorporated and Consolidated Subsidiaries

Supplementary Income Statement Information SCHEDULE X

<TABLE>
<CAPTION>

Item	Fiscal Year Ended January 29, 1994	January 30, 1993	February 1, 1992

The following amounts were charged to costs and expenses:			
Advertising	$ 5,464,000	$ 9,977,000	$ 6,005,000

Other items required by rule 12-11 are not presented because each item does not exceed one percent of total revenues as reported in the consolidated statement of income.

EXHIBIT INDEX

Any document referred to below as being incorporated by reference is so incorporated to the files of the Securities and Exchange Commission, Washington, DC 20549. The term "Company" herein refers to Brendle's Incorporated or its wholly-owned subsidiary, Brendle's Stores, Inc.

Exhibit Number per Item 601 of Regulation S-K	Description of Exhibit*	Number in Sequential Numbering System
3	Articles of Incorporation and By-Laws (incorporated by reference to Exhibit 3 of the Company's Annual Report on Form 10-K for the fiscal year ended February 2, 1991)	
3.1	The Company's Restated charter, as amended by: (1) Articles of Amendment dated May 13, 1986, and (2) Articles of Amendment dated June 3, 1988 (incorporated by reference to Exhibit 3.1 of the Company's Annual Report on Form 10-K for the fiscal year ended January 31, 1988)	
3.2	The Company's By-Laws, as amended on April 20, 1994.	
3.3	Articles of Amendment amending the Company's Articles of Incorporation effective April 27, 1994.	
3.4	Articles and Plan of Merger providing for the merger of Brendle's Stores, Inc. into the Company effective April 29, 1994.	
4	Instruments defining the rights of security holders, including indentures: Not Applicable. (See the Company's Restated Charter, as amended, incorporated by reference to Exhibit 3.1 above, and the Company's By-Laws, as amended, incorporated by reference to Exhibit 3.2 above)	
9	Voting Trust Agreement: Not Applicable. (See the Shareholders' Agreement dated April 10, 1986, incorporated by reference to Exhibit 10.15 to the Company's report on Form 10-K for the fiscal year ended January 31, 1988	
10	Material Contracts:	

10.1	Brendle's Incorporated Amended and Restated Employee's Profit-Sharing Plan and Trust Agreement effective February 1, 1989 (incorporated by reference to the company's report on Form 10-K for the fiscal year ended January 31, 1989; as amended by the First Amendment dated December 29, 1989) as further amended by the Second Amendment dated December 1, 1990 (incorporated by reference to the Company's Annual Report on Form 10-K for the fiscal year ended February 2, 1991).
10.2	Brendle's Incorporated 1986 Incentive Stock Option Plan, as amended (incorporated by reference to Exhibit 4(a) to the Company's Registration Statement on Form S-8 dated April 24, 1987; Reg. No. 33-13622)
10.3	Brendle's Incorporated 1986 Nonqualified Stock Option Plan, as amended (incorporated by reference to Exhibit 4(b) to the Company's Registration Statement on Form S-8 dated April 24, 1987; Reg. No. 33-13622)
10.4	Brendle's Incorporated 1990 Stock Option Plan (incorporated by reference to the Company's Annual Report on Form 10-K for the fiscal year ended February 2, 1991).
10.5	Aircraft Lease between Brendle Transport, Inc. and Sky-Lease, Inc. dated February 4, 1990 (incorporated by reference to the Company's Annual Report on Form 10-K for the fiscal year ended February 2, 1991).
10.6	Hold Harmless Agreement between the Company and John D. Gray (incorporated by reference to Exhibit 10.9 to the Company's Registration Statement on Form S-1 dated April 11, 1986)
10.7	Hold Harmless Agreement between the Company and James B. Edwards (incorporated by reference to Exhibit 10.10 to the Company's Registration Statement on Form S-1 dated April 11, 1986)]

10.8	Hold Harmless Agreement between the Company and Thomas H. Davis (incorporated by reference to Exhibit 10.14 to the Company's report on form 10-K for the fiscal year ended January 31, 1988)
10.9	Shareholders' Agreement dated April 10, 1986, among the then shareholders of the Company (incorporated by reference to Exhibit 10.11 to the Company's Registration Statement on Form S-1 dated April 11, 1986)
10.10	Last Will and Testament of James Harold Brendle (incorporated by reference to Exhibit 10.12 to the Company's Registration Statement on Form S-1 dated April 11, 1986)
10.11	Split-Dollar Life Insurance Agreement dated January 8, 1982, between the Company and the Trustee of the Douglas D. Brendle Irrevocable Life Insurance Trust (incorporated by reference Exhibit 10.13 to the Company's Registration Statement on Form S-1 dated April 11, 1986)
10.12	Split-Dollar Life Insurance Agreement dated January 8, 1982, between the Company and the Trustee of the Sidney Floyd Brendle Irrevocable

Life Insurance Trust (incorporated by reference Exhibit 10.14 to the Company's Registration Statement on Form S-1 dated April 11, 1986)

10.13 Form of Split-Dollar Life Insurance Trust Agreement adopted April 7, 1986 (incorporated by reference Exhibit 10.16 to the Company's Registration Statement on Form S-1 dated April 11, 1986)

10.14 Schedule Identifying Omitted Split-Dollar Life Insurance Agreements dated April 7 and April 8, 1986, which are substantially identical to the form of Split-Dollar Life Insurance Agreement (incorporated by reference Exhibit 10.21 to the Company's report on form 10-K for the fiscal year ended January 31, 1988) and to the Company's Registration Statement on form S-1 dated April 11, 1986 (incorporated by

reference Exhibit 10.17 to the Company's Registration Statement on Form S-1 dated April 11, 1986)

10.15 Split-Dollar Life Insurance Agreement dated June 1, 1988, between the Company and Douglas D. Brendle (incorporated by reference to the Company's report on Form 10-K for the fiscal year ended January 31, 1989)

10.16 Split-Dollar Life Insurance Agreement dated September 13, 1988, between the Company and Jeffrey D. Mick (incorporated by referenced to the Company's report on Form 10-K for the fiscal year ended January 31, 1989)

10.17 Split-Dollar Life Insurance Agreement dated September 13, 1989, between the Company and Johanna L. Johnson (wife of Dennis B. Johnson)

10.18 Triple Net Lease between Edna A. Brendle and the Company dated October 1, 1985 re: a portion of former Store #1, (now service center location) Elkin, NC (incorporated by reference to Exhibit 10.18 to the Company's Registration Statement on Form S-1 dated April 11, 1986)

10.19 Triple Net Lease between Brendle Brothers and the Company dated October 1, 1985 re: former Store #1, Elkin, NC (now service center location) (incorporated by reference to Exhibit 10.19 to the Company's Registration Statement on Form S-1 dated April 11, 1986)

10.20 First Amendment to Triple Net Lease (re: former Store #1, Elkin, NC) among Brendle Brothers, the Company and a subsidiary, dated August 2, 1987 (incorporated by reference to Exhibit 10.25 to the Company's report on Form 10-K for the fiscal year ended January 31, 1988)

10.21 Triple Net Lease between Brenco and the Company effective November 18, 1988 re: Store #1, Elkin, NC (incorporated by reference to the Company's Annual Report on Form 10-K for the fiscal year ended February 2, 1991).

10.22 Triple Net Lease between Brenco and the Company dated October 1, 1985 re: Store #2, Winston-Salem, NC (incorporated by reference to Exhibit 10.20 to the Company's Registration Statement on Form S-1 dated April 11, 1986)

10.23 Triple Net Lease between Brenco and the Company dated October 1, 1985 re: Store #3, Hickory, NC (incorporated by referenced to Exhibit 10.21 to the Company's Registration Statement on Form S-1 dated April 11, 1986)

10.24 Triple Net Lease between Brenco and the Company dated October 1, 1985 re: Store #5, Chapel Hill, NC (incorporated by reference to Exhibit 10.22 to the Company's Registration Statement on Form S-1 dated April 11, 1986)

10.25 Shopping Center Store-Space Lease between Brenco and the Company dated October 1, 1985 re: Store #6, Asheville, NC (incorporated by reference to Exhibit 10.23 to the Company's Registration Statement on Form S-1 dated April 11, 1986)

10.26 Triple Net Lease between Brenco and the Company dated October 1, 1985 re: Store #7, Kingsport, TN (incorporated by reference to Exhibit 10.24 to the Company's Registration Statement on Form S-1 dated April 11, 1986)

10.27 Shopping Center Store-Space Lease between Brenco and the Company dated October 1, 1985 re: Store #12, Salem, VA (incorporated by reference to Exhibit 10.25 to the Company's Registration Statement on Form S-1 dated April 11, 1986)

10.28 Triple Net Lease between Brenco and the Company dated October 1, 1985 re: Store

#13, Burlington, NC (incorporated by reference to Exhibit 10.26 to the Company's Registration Statement on Form S-1 dated April 11, 1986)

10.29 Triple Net Lease between Brenco and the Company dated October 1, 1985 re: Store #14, Wilson, NC (incorporated by reference to Exhibit 10.27 to the Company's Registration Statement on Form S-1 dated April 11, 1986)

10.30 Triple Net Lease between Brenco and the Company dated October 1, 1985 re: Store #15, Myrtle Beach, SC (incorporated by reference to Exhibit 10.28 to the Company's Registration Statement on Form S-1 dated April 11, 1986)

10.31 Shopping Center Store-Space Lease between Brenco and the Company dated October 1, 1985 re: Store #16, Raleigh, NC (incorporated by reference to Exhibit 10.29 to the Company's Registration Statement on Form S-1 dated April 11, 1986)

10.32 Shopping Center Store-Space Lease between Brenco and the Company dated October 1, 1985 re: Store #17, Greensboro, NC (incorporated by reference to Exhibit 10.30 to the Company's Registration Statement on Form S-1 dated April 11, 1986)

10.33 Triple Net Lease between Brenco and the Company dated October 1, 1985 re: Store #23, Boone, NC (incorporated by reference to Exhibit 10.31 to the Company's Registration Statement on Form S-1 dated April 11, 1986)

10.34 Triple Net Lease between Brenco and the Company dated October 1, 1985 re: Elkin, NC Corporate Headquarters and Warehouse Facility (incorporated by reference to Exhibit 10.32 to the Company's Registration Statement on Form S-1 dated April 11, 1986)

10.35 Master First Amendment to Leases (re: Leases between the Company and Brenco in

effect on
August 2, 1987) among Brenco, the Company and a subsidiary, dated August 2, 1987 (incorporated by reference to Exhibit 10.39 to the Company's report on Form 10-K for the fiscal year ended January 31, 1988)

10.36 Triple Net Lease between Brenco and the Company dated as of September 14, 1987, re: Store #38, Wilmington, NC (incorporated by reference to the Company's report on Form 10-K for the fiscal year ended January 31, 1989)

10.37 Triple Net Lease between Brenco and the Company dated April 29, 1988, re: Store #42, Greenville, NC (incorporated by reference to the Company's report on Form 10-K for the fiscal year ended January 31, 1989)

10.38 Consulting Agreement with S. Floyd Brendle, dated February 17, 1989 (incorporated by reference to the Company's report on Form 10-K for the fiscal year ended February 3, 1990)

10.39 Brendle's Incorporated Stock Savings Plan and Trust Agreement dated August 1, 1989 (incorporated by reference to the Company's report on Form 10-K for the fiscal year ended February 3, 1990)

10.40 Brendle's Key Employee Stock Appreciation Rights Plan, dated effective August 18, 1989 (incorporated by reference to the Company's report on Form 10-K for the fiscal year ended February 3, 1990)

10.41 Brendle's Unaffiliated Directors' Stock Appreciation Rights Plan, dated effective August 18, 1989 (incorporated by reference to the Company's report on Form 10-K for the fiscal year ended February 3, 1990)

10.42 Bill of Sale and Lease Termination dated September 29, 1989 (incorporated by reference to the Company's report on Form 10-K for the fiscal year ended February 3, 1990)

10.43 Employment Agreement dated May 12, 1990 between the Company and Dennis B. Johnson (incorporated by reference to the Company's Annual Report on Form 10-K for the fiscal year ended February 2, 1991).

10.44 Loan Agreement between the Company and its Lender banks dated October 18, 1991 in connection

with its $49,000,000 Revolving Line of Credit and $20,000,000 Term Loan. (Incorporated by reference to the Company's report on Form 10-K for the fiscal year ended February 1, 1992.)

10.45 Agency Agreement between the Company and Schottenstein Stores Corporation with amendments. (Incorporated by reference to the Company's report on Form 10-K for the fiscal year ended February 1, 1992.)

10.46 Master amendment to leases and amended and restated master amendment to leases entered into between the Company and Brenco. (Incorporated by reference to the Company's report on Form 10-K for the fiscal year ended February 1, 1992.)

10.47 AirCraft Lease Termination Agreement. (Incorporated by reference to the Company's report on Form 10-K for the fiscal year ended February 1, 1992.)

10.48 Letter Agreement between the Company and The GDL Group, Inc. for consulting services. (Incorporated by reference to the Company's report on Form 10-K for the fiscal year ended February 1, 1992.)

10.49 First amendment to Brendle's Incorporated Stock Savings Plan and Trust Agreement. (Incorporated by reference to the Company's report on Form 10-K for the fiscal year ended February 1, 1992.)

10.50 Employment Agreement dated December 9, 1992 between the Company and William V. Grady. (Incorporated by reference to the Company's Annual Report on Form 10-K for the fiscal year ended January 30, 1993.)

10.51 Employment Agreement dated November 17, 1992 between the Company and Steve W. Luka. (Incorporated by reference to the Company's Annual Report on Form 10-K for the fiscal year ended January 30, 1993.)

10.52 Employment Agreement dated November 17, 1992 between the Company and A.L. Miller, Jr. (Incorporated by reference to the Company's Annual Report on Form 10-K for the fiscal year ended January 30, 1993.)

10.53 Employment Agreement dated November 17, 1992 between the Company and David R. Renegar. (Incorporated by reference to the Company's Annual Report on Form 10-K for the fiscal year ended January 30, 1993.)

10.54 Employment Agreement dated November 17, 1992 between the Company and W. Steven Day. (Incorporated by reference to the Company's Annual Report on Form 10-K for the fiscal year ended January 30, 1993.)

10.55 Employment Agreement dated November 17, 1992 between the Company and Gregory S. Stegall.

(Incorporated by reference to the Company's Annual Report on Form 10-K for the fiscal year ended January 30, 1993.)

10.56	Letter Amendment Agreement dated June 2, 1992 between the Company and The GDL Group, Inc. for consulting services. (Incorporated by reference to the Company's Annual Report on Form 10-K for the fiscal year ended January 30, 1993.)
10.57	Management and Consulting Contract dated November 17, 1992 between The GDL Group, Inc. and Brendle's Stores, Inc. for consulting services. (Incorporated by reference to the Company's Annual Report on Form 10-K for the fiscal year ended January 30, 1993.)
10.58	First Amendment to Loan Agreement dated May 14, 1992 between the Company (and Brendle's Stores, Inc.) and its primary lender banks. (Incorporated by reference to the Company's Annual Report on Form 10-K for the fiscal year ended January 30, 1993.)
10.59	Lease Agreement effective February 1, 1994 between the Company and P.B. Realty, Inc. for the lease of distribution center space.
10.60	Loan and Security Agreement between the Company and Foothill Capital Corporation dated April 21, 1994.
11	Statement regarding computation of per share earnings: no statement setting forth the computation of per share earnings has been made since the computation can be clearly determined from material contained in this report, including the consolidated financial statements and related notes, with particular reference to Note 1 thereto.
12	Statement regarding computation of ratios: Not Applicable
16	Letter regarding change in certifying accountants: Not Applicable

18	Letter regarding change in accounting principles: Not Applicable
19	Previously unfiled documents: Not Applicable
22	Subsidiaries of the Company
23	Published report regarding matters submitted to vote of security holders: Not Applicable
24	Consent of Price Waterhouse
25	Powers of Attorney
28	Additional Exhibits: Not Applicable
29	Information from reports furnished to state insurance regulatory authorities: Not Applicable

</TABLE>

*The Company's Registration Statement on Form S-1 dated April 11, 1986 to which certain documents are incorporated by reference herein is Registration No. 33-4774.

****

APPENDIX

Price Waterhouse signatures appear where indicated.
State of North Carolina logos appear where indicated in the Article of Amendment page. State seals appear where indicated in the Article of Amendment page.
Douglas D. Brendles signatures appear where indicated.
John D. Gray signature appears where indicated.
Thomas H. Davis signature appears where indicated.
James B. Edwards signature appears where indicated.
****

BY-LAWS AS AMENDED THROUGH 4/20/94
OF
BRENDLE'S INCORPORATED

ARTICLE I.

OFFICES

Section 1. Principal Office: The principal office of the Corporation shall be located at 1919 N. Bridge Street Ext., Elkin, North Carolina.

Section 2. Registered Office: The registered office of the Corporation required by law to be maintained in the State of North Carolina may be, but need not be, identical with the principal office.

Section 3. Other Offices: The Corporation may have offices at such other places, either within or without the State of North Carolina, as the Board of Directors may designate or as the affairs of the Corporation may require from time to time.

ARTICLE II.

MEETINGS OF SHAREHOLDERS

Section 1. Place of Meetings: All meetings of Shareholders shall be held at the principal office of the Corporation, or at such other place, either within or without the State of North Carolina, as shall be designated in the notice of the meeting or agreed upon by a majority of the Shareholders entitled to vote thereat.

Section 2. Annual Meetings: The annual meeting of Shareholders shall be held at a time designated by the Board of Directors on a business day in the months of May or June in each year for the purpose of electing Directors of the Corporation and for the transaction of such other business as may be properly brought before the meeting.

Section 3. Substitute Annual Meeting: If the annual meeting shall not be held on the day designated by these By-Laws, a substitute annual meeting may be called in accordance with the provisions of Section 4 of this Article II. A meeting so called

shall be designated and treated for all purposes as the annual meeting.

Section 4. Special Meetings: Special meetings of the Shareholders may be called at any time by the President, Secretary or Board of Directors of the Corporation, or by any Shareholder pursuant to the written request of the holders of not less than

one-tenth (1/10th) of all the shares entitled to vote at the meeting.

Section 5. Notice of Meeting: Written or printed notice stating the time and place of the meeting shall be delivered not less than ten (10) nor more than fifty (50) days before the date of any Shareholders' meeting, either personally or by mail, by or at the direction of the President, the Secretary or other person calling the meeting, to each Shareholder of record entitled to vote at such meeting; provided that such notice must be given not less than twenty (20) days before the date of any meeting at which a merger or consolidation is to be considered. If mailed, such notice shall be deemed to be delivered when deposited in the United States mail, addressed to the Shareholder at his address as it appears on the record of Shareholders of the Corporation, with postage thereon paid.

In the case of a special meeting, the notice of meeting shall specifically state the purpose or purposes for which the meeting is called; but, in the case of an annual or substitute annual meeting, the notice of meeting need not specifically state the business to be transacted thereat unless such a statement is required by the provisions of the North Carolina Business Corporation Act.

When a meeting is adjourned for thirty (30) days or more, notice of the adjourned meeting shall be given as in the case of an original meeting. When a meeting is adjourned for less than thirty (30) days in any one adjournment, it is not necessary to give any notice of the adjourned meeting other than by announcement at the meeting at which the adjournment is taken.

Section 6. Voting Lists: At least ten (10) days before each meeting of Shareholders, the Secretary of the Corporation shall prepare an alphabetical list of the Shareholders entitled to vote at such meeting or any adjournment thereof, with the address of and number of shares held by each, which list shall be kept on file at the registered office of the Corporation for a period of ten (10) days prior to such meeting, and shall be subject to inspection by any Shareholder at any time during the usual business hours. This list shall also be produced and kept open at the time and place of

the meeting and shall be subject to inspection by any Shareholder during the whole time of the meeting.

Section 7. Quorum: A majority of the outstanding shares of the Corporation entitled to vote, represented in person or by proxy, shall constitute a quorum at a meeting of Shareholders, except that at a substitute annual meeting of Shareholders the number of shares there represented either in person or by proxy, even though less than a majority, shall constitute a quorum for the purpose of such meeting.

The Shareholders present at a duly organized meeting may continue to transact business until adjournment, notwithstanding the withdrawal of enough Shareholders to leave less than a quorum.

In the absence of a quorum at the opening of any meeting of Shareholders, such meeting may be adjourned from time to time by a vote of the majority of the shares voting on the motion to adjourn; and at any adjourned meeting at which a quorum is present, any business may be transacted which might have been transacted at the original meeting.

Section 8. Proxies: Shares may be voted either in person or by one or more agents authorized by a written proxy executed by the Shareholder or by his duly authorized attorney-in-fact. A proxy is not valid after the expiration of eleven (11) months from the date of its execution, unless the person executing it specified therein the length of time for which it is it continue in force, or limits its use to a particular meeting, but no proxy shall be valid after ten (10) years from the date of its execution.

Section 9. Voting of Shares: Subject to the provisions of Section 4 of Article III, each outstanding share entitled to vote shall be entitled to one vote on each matter submitted to a vote at a meeting of Shareholders.

Except in the election of Directors as governed by the provisions of Section 3 of Article III, the vote of a majority of the shares voted on any matter at a meeting of Shareholders at which a quorum is present shall be the act of the Shareholders on that matter, unless the vote of a greater number is required by law or by the Charter or By-Laws of this Corporation.

Shares of its own stock owned by the Corporation, directly or indirectly, through a subsidiary corporation or otherwise, shall not be voted at any meeting and shall not be counted in determining the total number of shares entitled to vote, except that shares held in a fiduciary capacity may be voted and shall be counted to the extent provided by law.

Section 10. Informal action by Shareholders: Any action which may be taken at a meeting of the Shareholders may be taken without a meeting if a consent in writing, setting forth the action so taken, shall be signed by all of the persons who would be entitled to vote upon such action at a meeting, and filed with the Secretary of the Corporation to be kept as part of the corporate records.

ARTICLE III.

BOARD OF DIRECTORS

Section 1. General Powers: The business and affairs of the Corporation shall be managed by its Board of Directors.

Section 2. Number, Term and Qualifications: The number of Directors constituting the Board of Directors shall be not less than seven (7) nor more than eleven (11), as may be fixed or changed from time to time, within the minimum and maximum, by the Shareholders or by the Board of Directors. Directors need not be residents of the State of North Carolina or Shareholders of the Corporation.

Section 3. Election of Directors: Except as provided in Section 5 of this Article III, the Directors shall be elected at the annual meeting of Shareholders; and those persons who receive the highest number of votes shall be deemed to have been elected. If any Shareholder so demands, the election of Directors shall be by ballot.

Section 4. Removal: Any Director may be removed at any time with or without cause by a vote of the Shareholders holding a majority of the outstanding shares entitled to vote at an election of Directors. However, unless the entire Board is removed, an individual Director shall not be removed when the number of shares voting against the proposal for removal would be sufficient to elect a Director if such shares could be voted cumulatively at an annual election. If any Directors are so removed, new Directors may be elected at the same meeting.

Section 5. Vacancies: Any vacancy occurring in the Board of Directors may be filled by the affirmative vote of a majority of the remaining Directors even though less than a quorum, or by the sole remaining Director. A Director elected to fill a vacancy shall be elected for the unexpired term of his predecessor in office.

Section 6. Chairman of the Board: There may be a Chairman of the Board of Directors elected by the Directors from their number

at any meeting of the Board. The Chairman shall preside at all meetings of the Board of Directors and perform such other duties as may be directed by the Board.

Section 7. Compensation: The Board of Directors may compensate Directors for their services as such and may provide for the payment of any or all expenses incurred by Directors in attending regular and special meetings of the Board.

ARTICLE IV.

MEETINGS OF DIRECTORS

Section 1. Regular Meetings. A regular meeting of the Board of Directors shall be held immediately after, and at the same place as, the annual meeting of Shareholders. In addition, the Board of Directors may provide, by resolution, the time and placed, either within or without the State of North Carolina, for holding of additional regular meetings.

Section 2. Special Meetings: Special meetings of the Board of Directors may be called by or at the request of the President or any two (2) Directors. Such a meeting may be held either within or without the State of North Carolina, as fixed by the person or persons calling the meeting.

Section 3. Notice of Meetings: Regular meetings of the Board of Directors may be held without notice.

The person or persons calling a special meeting of the Board of Directors shall, at least two (2) days before the meeting give notice thereby by any usual means of communication. Such notice need not specify the purpose for which the meeting is called.

Section 4. Waiver of Notice: Any Director may waive notice of any meeting. The attendance by a Director at a meeting shall constitute a waiver of notice of such meeting, except where a Director attends a meeting for the express purpose of objecting to the transaction of any business because the meeting is not lawfully called or convened.

Section 5. Quorum: A majority of the number of Directors fixed by these By-Laws shall constitute a quorum for the transaction of business at any meeting of the Board of Directors.

Section 6. Manner of Acting: Except as otherwise provided in these By-Laws, the act of the majority of the Directors present at a meeting at which a quorum is present shall be the act of the

Board of Directors.

Section 7. Presumption of Assent: A Director of the Corporation who is present at a meeting of the Board of Directors at which action on any corporate matter is taken shall be presumed to have assented to the action taken unless his contrary vote is recorded or his dissent is otherwise entered in the minutes of the meeting or unless he shall file his written dissent to such action with the person acting as the Secretary of the meeting before the adjournment thereof or shall forward such dissent by registered mail to the Secretary of the Corporation immediately after the

adjournment of the meeting. Such right to dissent shall not apply to a Director who voted in favor of such action.

Section 8. Informal Action by Directors: Action taken by a majority of the Directors without a meeting is nevertheless Board action if written consent to the action in question is signed by all the Directors and filed with the minutes of the proceedings of the Board, whether done before or after the action so taken.

ARTICLE V.

EXECUTIVE AND OTHER COMMITTEES

Section 1. Creation: The Board of Directors, by resolution adopted by a majority of the number of Directors fixed by these By-Laws may designate two (2) or more Directors to constitute an Executive Committee, which committee, to the extent provided in such resolution, shall have and may exercise all of the authority of the Board of Directors in the management of the Corporation.

Section 2. Vacancy: Any vacancy occurring in an Executive Committee shall be filled by a majority of the number of Directors fixed by these By-Laws at a regular of special meeting of the Board of Directors.

Section 3. Removal: Any member of an Executive Committee may be removed at any time with or without cause by a majority of the number of Directors fixed by these By-Laws.

Section 4. Minutes: The Executive Committee shall keep regular minutes of its proceedings and report the same to the Board when required.

Section 5. Responsibility of Directors: The designation of

an Executive Committee and the delegation thereto of authority shall not operate to relieve the Board of Directors, or any member thereof, of any responsibility or liability imposed upon it or him by law.

If action taken by the Executive Committee is not thereafter formally considered by the Board, a Director may dissent from such action by filing his written objection with the Secretary with reasonable promptness after learning of such action.

Section 6. Other Committees: The Board of Directors, by resolution adopted by a majority of the entire Board, may appoint from among its members one or more other committees, each to consist of at least three members and to be authorized, by the resolution appointing the members thereof, to have and exercise the

powers and authority specified in such resolution, except that no such committee shall be authorized to exercise any power or authority which the Executive Committee of the Board of Directors may not exercise. A majority of any such committee shall constitute a quorum. Actions taken at a meeting of any such committee shall be reported to the next succeeding meeting of the Board of Directors unless otherwise directed by the Board of Directors. The Board of Directors may appoint other committees, whose members may but need not be Directors, to perform the administrative and ministerial functions, not requiring action by the Board of Directors, with respect to the business and affairs of the Corporation and to recommend action to the Board of Directors. Any such other committees shall not be deemed committees of the Board of Directors and shall perform such duties as the Board of Directors may from time to time direct.

ARTICLE VI.

OFFICERS

Section 1. Officers of the Corporation: The officers of the Corporation may consist of a Chairman of the Board, a Vice Chairman of the Board, a President, a Chief Executive Officer or an Office of the Chief Executive composed of three (3) persons appointed by the Board of Directors, a Chief Operating Officer, a Chief Financial Officer, one (1) or more Executive Vice Presidents, Senior Vice Presidents and Vice Presidents, a Secretary, a Treasurer and such Assistant Vice Presidents, Assistant Secretaries, Assistant Treasurers and other officers as the Board of Directors may from time to time appoint. Any two (2) or more offices may be held by the same person, but no officer may act in

more than one (1) capacity where action of two (2) or more officers is required. The title of any officer may include any additional designation descriptive of such officer's duties as the Board of Directors may prescribe.

Section 2. Appointment and Term: The officers of the Corporation shall be appointed from time to time by the Board of Directors; provided, that the Board of Directors may authorize a duly appointed officer to appoint one or more other officers or assistant officers, other than appointment of the Chief Executive Officer, the Chairman of the Board, the President, the Chief Operating Officer or the Chief Financial Officer. Each officer shall serve as such at the pleasure of the Board of Directors.

Section 3. Removal: Any officer may be removed by the Board of Directors at any time with or without cause; but such removal shall not itself affect the contract rights, if any, of the person so removed.

Section 4. Bonds: The Board of Directors may by resolution require any officer, agent or employee of the Corporation to give bond to the Corporation, with sufficient sureties, conditioned on the faithful performance of the duties of his respective office or position, and to comply with such other conditions as may from time to time be required by the Board of Directors.

Section 5. Compensation: The compensation of all officers of the Corporation shall be fixed by, or in the manner prescribed by, the Board of Directors.

Section 6. Chief Executive Officer: If there is a Chairman of the Board and the Board of Directors designates the Chairman of the Board as the Chief Executive Officer, then the Chairman of the Board shall be the Chief Executive Officer of the Corporation. Subject to the direction and control of the Board of Directors, the Chief Executive Officer shall supervise and control the management of the Corporation and shall have such duties and authority as are normally incident to the position of chief executive officer of a corporation and such other duties and authority as may be prescribed from time to time by the Board of Directors or as are provided for elsewhere in these Bylaws. The title of the Chairman of the Board or President, as the case may be, serving as the Chief Executive Officer may, but need not, also refer to his or her position as Chief Executive Officer.

Section 7. Office of the Chief Executive: The Board of Directors may, but need not, appoint an Office of the Chief Executive composed of three (3) persons appointed by them. When there has been appointed and is functioning an Office of the Chief

Executive, any member of the Office of the Chief Executive may act with the authority of a Chief Executive Officer, as set forth in Section 6 above, so long as said action has been consented to by a majority of the members of the Office of the Chief Executive. The Office of the Chief Executive, if appointed, shall supervise and control the management of the Corporation and shall have such duties and authority as may be prescribed from time to time by the Board of Directors. The Office of the Chief Executive shall operate through a majority vote of its members.

Section 8. Chairman of the Board: The Board of Directors may, but need not, appoint from among its members an officer designated as the Chairman of the Board. If there is appointed a Chairman of the Board and such Chairman of the Board is also designated by the Board of Directors to be the Chief Executive Officer, then the Chairman of the Board shall have all of the duties and authority of the Chief Executive Officer and shall also, when present, preside over meetings of the Board of Directors. If there is a Chairman of the Board but such Chairman of the Board is not also designated as the Chief Executive Officer, then the Chairman of the Board shall, when present, preside over meetings of

the Board of Directors and shall have such other duties and authority as may be prescribed from time to time by the Board of Directors or as are provided for elsewhere in these Bylaws.

Section 9. Chief Operating Officer: If there is appointed a Chairman of the Board who is also the Chief Executive Officer, then the President shall be the Chief Operating Officer. Subject to the direction and control of the Chief Executive Officer and the Board of Directors, the Chief Operating Officer shall supervise and control the operations of the Corporation, shall have such duties and authority as are normally incident to the position of chief operating officer of a corporation and such other duties as may be prescribed from time to time by the Chief Executive Officer or the Board of Directors, and, in the absence or disability of the Chief Executive Officer, shall have the authority and perform the duties of the Chief Executive Officer. The title of the President or other officer serving as the Chief Operating Officer may, but need not, also refer to his or her position as Chief Operating Officer.

Section 10. President: Unless there is appointed a Chairman of the Board who is also designated the Chief Executive Officer, the President shall be the Chief Executive Officer of the Corporation and shall have all of the duties and authority of that office. If the President is not the Chief Executive Officer, then the President shall be the Chief Operating Officer and shall have all of the duties and authority of that office. If the president shall be the Chief Executive Officer and no other officer shall

have been designated by the Board of Directors as the Chief Operating Officer, then the President shall also have all of the duties and authority of the Chief Operating Officer. The President shall also have such other duties and authority as may be prescribed from time to time by the Board of Directors.

Section 11. Vice President: The Board of Directors may appoint such Executive Vice Presidents, Senior Vice Presidents or other Vice Presidents as they shall desire, with such authority and duties as they see fit. In the absence of clear resolutions of the Board to the contrary, in the absence of the President, an Executive Vice President, without specific designation of areas of responsibility, shall act in place of the President. For example, an Executive Vice President would act before an Executive Vice President - Store Operations.

In addition, each Executive Vice President, with specific area of responsibility designated, Senior Vice President or Vice President shall perform such other duties and have such other powers as are normally incident to their offices or as shall be prescribed by the Chief Executive Officer, the Chief Operating Officer or the Board of Directors.

Section 12. Secretary: The Secretary shall have the responsibility and authority to maintain and authenticate the

records of the Corporation; shall keep, or cause to be kept, accurate records of the acts and proceedings of all meetings of Shareholders, Directors and Committees; shall give, or cause to be given, all notices required by law and by these Bylaws; shall have general charge of the corporate books and records and of the corporate seal, and shall affix the corporate seal to any lawfully executed instrument requiring it; shall have general charge of the stock transfer books of the Corporation and shall keep, or cause to be kept, all records of Shareholders as are required by applicable law or these Bylaws; shall sign such instruments as may require the signature of the Secretary; and, in general, shall perform all duties incident to the office of Secretary and such other duties as may be assigned to him or her from time to time by the Chief Executive Officer, the Chief Operating Officer, or the Board of Directors.

Section 13. Chief Financial Officer: The Chief Financial Officer shall have responsibility for all funds and securities belonging to the Corporation and shall receive, deposit or disburse the same under the direction of the Board of Directors; shall keep, or cause to be kept, full and accurate accounts of the finances of the Corporation in books especially provided for that purpose, and shall generally have charge over the Corporation's accounting and

financial records; shall cause a true statement of its assets and liabilities as of the close of each fiscal year, and of the results of its operations and of cash flows for such fiscal year, all in reasonable detail, including particulars as to convertible securities then outstanding, to be made as soon as practicable after the end of such fiscal year. The Chief Financial Officer shall also prepare and file, or cause to be prepared and filed, all reports and returns required by Federal, State or local law and shall generally perform all other duties incident to the office of Chief Financial Officer and such other duties as may be assigned to him or her from time to time by the Chief Executive Officer, the Chief Operating Officer or the Board of Directors.

Section 14. Treasurer: The Treasurer shall be appointed by the Board of Directors and shall act to assist the Chief Financial Officer in carrying out the duties of the office of Chief Financial Officer. In the absence or in the event of the disability of the Chief Financial Officer, the Treasurer shall have the authority and shall perform the duties of the office of the Chief Financial Officer. The Treasurer shall also perform such other duties as may be assigned to him or her from time to time by the Chief Executive Officer, the Chief Financial Officer, the Chief Operating Officer or the Board of Directors.

Section 15. Assistant Secretaries and Assistant Treasurers: The Assistant Secretaries and Assistant Treasurers, if any, shall, in the absence or disability of the Secretary or the Treasurer, respectively, have all the powers and perform all of the duties of those offices, and they shall in general perform such other duties

as shall be assigned to them by the Secretary or the Treasurer, respectively, or by the Chief Executive Officer, the Chief Operating Officer, the Chief Financial Officer or the Board of Directors.

ARTICLE VII.

CONTRACTS, LOANS, CHECKS AND DEPOSITS

Section 1. Contracts: The Board of Directors may authorize any officer or officers, agent or agents, to enter into any contract or execute and deliver any instrument in the name of and on behalf of the Corporation, and such authority may be general or confined to specific instances.

Section 2. Loans: No loans shall be contracted on behalf of the Corporation and no evidences of indebtedness shall be issued in its name unless authorized by a resolution of the Board of

Directors. Such authority may be general or confined to specific instances.

Section 3. Checks and Drafts: All checks, drafts or other orders for the payment of money, issued in the name of the Corporation, shall be signed by such officer or officers, agent or agents, of the Corporation and in such manner as shall from time to time be determined by resolution of the Board of Directors.

Section 4. Deposits: All funds of the Corporation not otherwise employed shall be deposited from time to time to the credit of the Corporation in such depositories as the Board of Directors may select.

ARTICLE VIII.

CERTIFICATES FOR SHARES AND THEIR TRANSFER

Section 1. Certificates for Shares: Certificates representing shares of the Corporation shall be in such form as shall be determined by the Board of Directors. The Corporation shall issue and deliver to each Shareholder certificates representing all fully paid shares owned by him. Certificates shall be signed by the President or a Vice President and by the Secretary or Treasurer or an Assistant Secretary or an Assistant Treasurer. All certificates for shares shall be consecutively numbered or otherwise identified. The name and address of the person to whom the shares represented thereby are issued, with the number and class of shares and the date of issue, shall be entered on the stock transfer books of the Corporation.

Section 2. Transfer of Shares: Transfer of shares of the Corporation shall be made only on the stock transfer books of the Corporation by the holder of record thereof or by his legal representative, who shall furnish proper evidence of authority to transfer, or by his attorney, thereunto authorized by power of attorney duly executed and filed with the Secretary, and on surrender for cancellation of the certificate for such shares.

Section 3. Lost Certificate: The Board of Directors may direct a new certificate to be issued in place of any certificate theretofore issued by the Corporation claimed to have been lost or destroyed, upon receipt of an Affidavit of such fact from the person claiming the certificate of stock to have been lost or destroyed. When authorizing such issue of a new certificate, the Board of Directors shall require that the owner of such lost or destroyed certificate, or his legal representative, give the

Corporation a bond in such sum as the Board may direct as indemnity against any claim that may be made against the Corporation with respect to the certificate claimed to have been lost or destroyed, except where the Board of Directors by resolution finds that in the judgment of the Directors the circumstances justify omission of a bond.

Section 4. Closing Transfer Books and Fixing Record Date: For the purpose of determining Shareholders entitled to notice of or to vote at any meeting of Shareholders or any adjournment thereof, or entitled to receive payment of any dividend, or in order to make a determination of Shareholders for any other proper purpose, the Board of Directors may provide that the stock transfer books shall be closed for a stated period but not to exceed, in any case, fifty (50) days. If the stock transfer books shall be closed for the purpose of determining Shareholders entitled to notice of or to vote at a meeting of Shareholders, such books shall be closed for at least ten (10) days immediately preceding such meeting.

In lieu of closing the stock transfer books, the Board of Directors may fix in advance a date as the record date for any such determination of Shareholders, such record date in any case to be not more than fifty (50) days and, in the case of a meeting of Shareholders, not less than ten (10) days immediately preceding the date on which the particular action, requiring such determination of Shareholders, is to be taken.

If the stock transfer books are not closed and no record date is fixed for the determination of Shareholders entitled to notice of or to vote at a meeting of Shareholders, or Shareholders entitled to receive payment of a dividend, the date on which notice of the meeting is mailed or the date on which the resolution of the Board of Directors declaring such dividend is adopted, as the case may be, shall be the record date for such determination of Shareholders.

When a determination of Shareholders entitled to vote at any meeting of Shareholders has been made as provided in this section, such determination shall apply to any adjournment thereof, except where the determination has been made through the closing of the stock transfer books and the stated period of closing has expired.

Section 5. Holder of Record: The Corporation may treat as absolute owner of shares the person in whose name the shares stand of record on its books just as if that person had full competency, capacity and authority to exercise all rights of ownership irrespective of any knowledge or notice to the contrary or any description indicating a representative, pledge or other fiduciary

relation or any reference to any other instrument or to the rights of any other person appearing upon its record or upon the share certificates, except that any person furnishing to the Corporation proof of his appointment as a fiduciary shall be treated as if he were a holder of record of its shares.

Section 6. Treasury Shares: Treasury shares of the Corporation shall consist of such shares as have been issued and thereafter acquired but not cancelled by the Corporation. Treasury shares shall not carry voting or dividend rights.

ARTICLE IX.

GENERAL PROVISIONS

Section 1. Dividends: The Board of Directors may from time to time declare, and the Corporation may pay, dividends on its outstanding shares in cash, property or its own shares pursuant to law and subject to the provisions of its Charter.

Section 2. Seal: The corporate seal of the Corporation shall consist of two concentric circles between which is the name of the Corporation and in the center of which is inscribed "SEAL"; and such seal, as impressed on the margin hereof, is hereby adopted as the corporate seal of the Corporation.

Section 3. Waiver of Notice: Whenever any notice is required to be given to any Shareholder or Director by law, by the Charter or by these By-Laws, a waiver thereof in writing signed by the person or persons entitled to such notice, whether before or after the time stated therein, shall be equivalent to the giving of such notice.

Section 4. Indemnification:

(a) The Corporation hereby agrees to indemnify, to the fullest extent permitted by law at the time of indemnity, any person who at any time serves or has served as a Director or Officer of the Corporation, or in any such capacity at the request of the Corporation for any other corporation, partnership, joint venture, trust or other enterprise, or as a trustee or an administrator under an employee benefit plan for the Corporation or any of its subsidiaries, against liability and litigation expense, including reasonable attorneys' fees, arising out of their status as such or their activities in any of the foregoing capacities; provided, however, that the Corporation does not agree to indemnify any such person against liability or litigation expense he may

incur on account of his activities which were at the time taken known or believed by him to be clearly in conflict with the best interests of the Corporation.

(b) It is specifically provided further, however, that nothing stated heretofore in this Section shall be construed to limit the allowable indemnification by the Corporation of Directors or Officers or of employees or agents of the Corporation to the fullest extent permitted by law at the time of any such indemnification, against: (i) reasonable costs and expenses, including attorneys' fees, actually and necessarily incurred by him in connection with any threatened, pending or completed action, suit or proceedings, whether civil, criminal, administrative or investigative, and whether or not brought by or on behalf of the Corporation, seeking to hold him liable by reason of the fact that he is or was acting in such capacity, and (ii) liability for any judgment, money decree, fine, penalty or settlement for which he may have become liable in any such action, suit or proceeding.

(c) In addition to the foregoing, any such Director of Officer may recover from the Corporation reasonable costs, expenses and attorneys' fees in connection with the enforcement of his rights to indemnification granted herein. Expenses incurred by a Director or Officer in defending an administrative, civil or criminal action, suit or proceeding may be paid by the Corporation in advance of the final disposition of such action, suit or proceeding, as authorized by the Board of Directors in the specific case, or as authorized or required under any Charter or By-Law provision or by any applicable resolution or contract, upon receipt of an undertaking by or on behalf of the Director or Officer to repay such amount unless it ultimately be determined that such person is entitled to be indemnified by the Corporation against such expenses. Expenses incurred by other employees and agents may be so paid upon such terms and conditions (if any) as the Board of Directors deems appropriate.

(d) The Board of Directors of the Corporation shall take all such action as may be necessary and appropriate to authorize the

Corporation to pay the indemnification required by this By-Law, including, without limitation, to the extent needed, making a good faith evaluation of the manner in which the claimant for indemnity acted and of the reasonable amount of indemnity due him and giving notice to, and obtaining approval by, the Shareholders of the Corporation.

(e) Any person who at any time after the adoption of this By-Law serves, or has served in any of the aforesaid capacities for or on behalf of the Corporation shall be deemed to be doing or to

have done so in reliance upon, and as consideration for, the rights of indemnification provided herein. Such rights shall inure to the benefit of the legal representatives of any such person and shall not be exclusive of any other rights to which such person may be entitled apart from the provisions of this By-Law.

(f) The indemnification provided by this Section shall not be deemed exclusive of any other rights to which those seeking indemnification may be entitled under any By-Law, agreement, vote of Shareholders of the Corporation or disinterested Directors or otherwise, both as to action in such person's official capacity and as to action in any other capacity while holding such office, and shall continue as to a person who has ceased to be a Director, Officer, employee or agent, and shall inure to the benefit of the estate, heirs, executors and administrators of such a person.

(g) The Corporation shall have the power to provide such other, further or additional indemnities of Directors, Officers, employees or agents as shall be permitted by the laws of the State of North Carolina, as amended from time to time.

(h) Anything in this Section to the contrary notwithstanding, the Corporation shall have power to purchase and maintain insurance on behalf of any person who is or was a Director, Officer, employee or agent of the Corporation, or is or was serving at the request of the Corporation as a Director, Officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, or as a trustee or administrator under an employee benefit plan governed either by State law or by an act of congress entitled "The Employee Retirement Income Security Act of 1974" ("ERISA"), as amended, against any liability asserted against him and incurred by him in any such capacity, or arising out of his status as such, whether or not the Corporation would have the power to indemnify him against such liability.

Section 5. Fiscal Year: The fiscal year of the corporation shall be fixed by the Board of Directors.

Section 6. Amendments: Except as otherwise provided herein, these By-Laws may be amended or repealed and new By-Laws may be adopted by the affirmative votes of a majority of the Directors

then holding office at any regular or special meeting of the Board of Directors.

The Board of Directors shall have no power to adopt a by-law: (1) requiring more than a majority of the voting shares for a quorum at a meeting of Shareholders or more than a majority of the votes cast to constitute action by the Shareholders, except

where higher percentages are required by law; (2) providing for the management of the Corporation otherwise than by the Board of Directors or its Executive Committees; (3) increasing or decreasing the number of Directors; (4) classifying and staggering the election of Directors.

No by-law adopted or amended by the Shareholders shall be altered or repealed by the Board of Directors, except to the extent that such by-law expressly authorizes its amendment or repeal by the Board of Directors. The fact that the Shareholders have adopted these By-Laws shall not limit the authority of the Board of Directors to amend them.

Section 7. Statutes Not Applicable: The provisions of Article 9 known as "The North Carolina Shareholder Protection Act" (North Carolina General Statutes (Section Mark) 55-9-01, et seq.) shall not be applicable to the Corporation. The provisions of Article 9A known as "The North Carolina Control Share Acquisition Act" (North Carolina General Statutes (Section Mark) 55-9A-01, et seq.) shall not be applicable to the Corporation.

STATE OF NORTH CAROLINA (NC SEAL) Department of The Secretary of State

To all whom these presents shall come, Greetings:

I, Rufus L. Edmisten, Secretary of State of the State of North Carolina, do hereby certify the following and hereto attached to be a true copy of

ARTICLES OF AMENDMENT
OF
BRENDLE'S INCORPORATED

the original of which was filed in this office on the 27th day of April, 1994.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal at the City of Raleigh, this 27th day of April, 1994.

(Seal)

(signature of Rufus L. Edmisten)
Secretary of State

ARTICLES OF AMENDMENT
TO
THE ARTICLES OF INCORPORATION
OF
BRENDLE'S INCORPORATED

The undersigned corporation hereby executes these Articles of Amendment for the purpose of amending its articles of incorporation.

1. The name of the corporation is Brendle's Incorporated.

2. The following amendment to the articles of incorporation of the corporation was adopted by its Board of Directors on the 20th day of April, 1994, pursuant to Section 55-14A-01 of the North Carolina General Statutes, and as required by Section 12.3 of the Corporation's First Amended Joint Plan of Reorganization dated November 10, 1993 and modified December 13, 1993, as filed with the United States Bankruptcy Court for the Middle District of North Carolina:

That the Articles of Incorporation of the Corporation be amended by adding the following new paragraph 11:

11. At all times prior to May 2, 1995, the Corporation shall be prohibited from issuance of non-voting equity securities.

3. These Articles of Amendment will become effective upon filing.

THIS the 26 day of April, 1994.

BRENDLE'S INCORPORATED
BY: (signature of Douglas D. Brendle)
President

STATE OF NORTH CAROLINA (NC SEAL) Department of The Secretary of State

To whom these presents shall come, Greetings:

I, Rufus L. Edmisten, Secretary of State of the State of North Carolina, do hereby certify the following and hereto attached to be a true copy of

ARTICLES OF MERGER
OF
BRENDLE'S STORES, INC.
INTO
BRENDLE'S INCORPORATED

the original of which was filed in this office on the 26th day of April, 1994.

(Seal)

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal at the City of Raleigh, this 26th day of April, 1994.

(signature of Rufus L. Edmisten)
Secretary of State

ARTICLES OF MERGER
OF
BRENDLE'S STORES, INC.,
a North Carolina corporation
into
BRENDLE'S INCORPORATED
a North Carolina corporation

BRENDLE'S INCORPORATED, a corporation organized under the laws of North Carolina ("Surviving Corporation"), submits these Articles of Merger for the purpose of merging BRENDLE'S STORES, INC., a corporation organized under the laws of North Carolina (the "Merging Corporation") into the Surviving Corporation.

I. The Plan of Merger attached as Exhibit A was duly approved by the Board of Directors of the Surviving Corporation in the manner prescribed by Sections 55-11-04 and 55-14A-01 of the North Carolina General Statutes. The Merging Corporation is at least ninety percent (90%) owned by the Surviving Corporation, and therefor, this merger is pursuant to the authorization of Section 55-11-04 of the North Carolina General Statutes. In addition, this merger is made under the authority of Section 55-14A-01 of the North Carolina General Statutes as it is pursuant to the Plan of Reorganization approval by the United States Bankruptcy Court for the Middle District of North Carolina in Case Nos.

B-9214519C-11W and B-9214520C-11W.

II. Shareholder approval of the Plan of Merger was not required because the Surviving Corporation was the owner of at least ninety percent (90%) of the outstanding shares of each class of the Merging Corporation and the Plan of Merger does not provide for any changes in the Articles of Incorporation of the Surviving Corporation that requires shareholder action.

III. These Articles of Merger shall become effective on April 29, 1994, at 2:00 p.m., E.D.T., and the merger herein provided shall become effective for all purposes as set forth in the attached Plan of Merger.

[SEE SEPARATE SIGNATURE PAGE ATTACHED HERETO]

THIS, the 25th day of April, 1994.

BRENDLE'S INCORPORATED
a North Carolina corporation
By: (signature of Douglas D. Brendle)
Douglas D. Brendle, President

EXHIBIT A

PLAN OF MERGER
FOR THE MERGER OF
BRENDLE'S STORES, INC.
into
BRENDLE'S INCORPORATED

THIS PLAN OF MERGER is adopted for the purpose of merging BRENDLE'S STORES, INC., a North Carolina corporation and wholly owned subsidiary of Brendle's Incorporated (the "Merging Corporation"), and BRENDLE'S INCORPORATED, a North Carolina corporation (the "Surviving Corporation"). Such corporations are hereinafter referred to collectively as the "Constituent Corporations."

The Constituent Corporations intend that, pursuant to the applicable statutes of the State of North Carolina, and subject to the terms and conditions herein set forth, the Merging Corporation shall be merged into the Surviving Corporation and the plan, terms and conditions of such merger shall be as follows:

1. Name. The name of the surviving corporation shall be Brendle's Incorporated.

2. Merger. Upon the effectiveness of this merger, the corporate existence of the Merging Corporation will cease, and the corporate existence of the Surviving Corporation will continue, and the Surviving Corporation shall be deemed to have assumed all of the obligations of the Merging

Corporation. The time when this merger becomes effective is hereinafter referred to as the "Effective Time."

3. Shareholder Approval Not Required. No shareholder approval of either of the Constituent Corporations is required because the Merging Corporation is at least ninety percent (90%) owned by the Surviving Corporation.

4. Conversion of Shares. The manner and basis of converting and exchanging the shares of the Constituent Corporations shall be as follows:

(a) Surviving Corporation. The issued and outstanding shares of the Surviving Corporation shall not be converted or altered in any manner as a result of the merger and shall remain outstanding as shares of the Surviving Corporation.

(b) Merging Corporation. Each share of the common stock of the Merging Corporation issued and outstanding as of the Effective Time was owned by the Surviving Corporation, with the exception of five hundred (500) shares of the Merging Corporation which was owned by the stockholder listed on Schedule 4(b) attached hereto and made a part hereof ("Store's Stockholder"). The Store's Stockholder will be exchanged one (1) share of the stock of the Surviving Corporation for each share of the stock of the Merging Corporation owned by said Store's Stockholder at the Effective Time. All remaining shares of the Merging Corporation owned by the Surviving Corporation shall be cancelled.

(c) Fractional Shares. In no event shall fractional shares of the Surviving Corporation be issued. Any shareholder of the Merging Corporation who would otherwise be entitled to receive five-tenths (.5) or more of a share of stock of the Surviving Corporation will instead receive an additional whole share, and any shareholder who would otherwise be entitled to less than five-tenths (.5) of a share will not receive any consideration for such fractional interest.

(d) Surrender of Certificates of Merging Corporation. Each holder of a certificate representing shares of the Merging Corporation shall surrender such certificate to the Merging Corporation on or before the Effective Time, and the Merging Corporation shall thereupon deliver such certificate to the Surviving Corporation for cancellation and, where permitted by this Plan of Merger, issuance of shares of the Surviving Corporation.

4. Qualification of Merger. This merger is intended to qualify and be recognized as a "reorganization," as such term is defined in Section 368(a)(1)(G) of the Internal Revenue Code of 1986, as amended.

5. Changes to Charter. No changes in the Articles of Incorporation of the Surviving Corporation shall be effected by this merger.

6. Conditions; Abandonment. This merger is conditioned upon approval of the Board of Directors of the Surviving Corporation, pursuant to, and as prescribed by, Sections 55-11-04 and 55-14A-01 of the North Carolina General Statutes,

and at any time prior to the Effective Time, the Board of Directors of the Surviving Corporation may, in its sole discretion, abandon this merger.

7. Effective Time. This merger shall become effective on Friday, April 29, 1994, at 2:00 p.m., E.D.T.

LEASE AGREEMENT

THIS LEASE Agreement (the "Lease"), made and entered into this day of January, 1994, by and between P. B. Realty, Inc., hereinafter called "LANDLORD," and Brendle's Stores, Inc., a North Carolina corporation, hereinafter called "TENANT."

W I T N E S S E T H:

In consideration of the mutual covenants, promises and agreements herein contained, the parties hereto do hereby covenant, promise and agree, each with the other, as follows:

1. GRANT: The LANDLORD does hereby lease and demise unto TENANT, to have and to hold, 224,000 square feet of the east section of the approximately 390,000 square foot building currently known as the Brendle's Distribution Center ("Distribution Center"), located in Elkin, Surry County, North Carolina. for the term hereinafter specified. Said 224,000 square foot portion of the Distribution Center is more particularly described in the diagram attached as Exhibit 1 and incorporated herein by reference (the "Premises"). The real property on which the Distribution Center is located is more particularly described on Exhibit 1(a) attached hereto and incorporated by reference. TENANT hereby agrees to take and lease from the LANDLORD said premises for the term hereafter specified.

Also granted to TENANT, its employees, agents and invitees is a non-exclusive right to use the common area and common facilities of the Distribution Center during the term of the Lease. TENANT'S intended use of the Premises is for a distribution operation for TENANT'S stores. Accordingly, LANDLORD acknowledges that TENANT'S non-exclusive right to use the common areas includes, without limitation, the right for trucks and other delivery vehicles to enter upon and exit the Premises 24 hours a day.

2. TERM: The term of the Lease shall begin upon

execution of the Lease by
both parties and shall end at the end of the ninth lease
year following the "Rent
Commencement Date" as hereinafter defined. For purposes of
the Lease, a "lease year"
shall mean February 1 through January 31. TENANT shall have
the option to extend the
term of the lease for three consecutive, independent option
periods of three years each (the
Renewal Term(s)) with the rental rate during each option
period to be based on a
Consumer Price Index ("CPI") increase at the end of the
preceding period. Such option
shall be exercised by written notice to LANDLORD of TENANT'S
election to exercise such
an option 365 days prior to the end of the then current
term of the Lease.

3. RENT COMMENCEMENT DATE AND DELIVERY OF
PREMISES: The
"Rent Commencement Date" of this lease shall be February 1,
1994. LANDLORD
acknowledges that LANDLORD's ownership interest in the
Distribution Center was
acquired from TENANT pursuant to that certain Purchase and
Sale Agreement between
Brendle's Stores, Inc. and P.B. Realty, Inc. dated January
____, 1994 (hereinafter the "Sale
Agreement"). Therefore, notwithstanding the fact that the
Rent Commencement Date does
not begin until February, 1994, LANDLORD acknowledges
TENANT'S right to be in possession of the

Premises during the period between from
the closing of the Sale
Agreement to the Rent Commencement Date.

4. RENTAL: The TENANT hereby agrees to pay to
the LANDLORD as Rent
for the Premises during the term of the Lease, including
renewals, the following amounts:

(a) Five Hundred Four Thousand Dollars
($504,000.00) per annum, payable in
equal monthly installments of Forty-Two
Thousand Dollars ($42,000.00) each,
beginning on the Rent Commencement Date and
continuing during years one

through three of the initial term of the Lease;

(b) Five Hundred Sixty Thousand Dollars ($560,000.00) per annum, payable in equal monthly installments of Forty-Six Thousand Six Hundred Sixty-Six and 67/100 Dollars ($46,666.67) each, during years four through six of the initial term of the Lease;

(c) Six Hundred Sixteen Thousand Dollars ($616,000.00) per annum, payable in equal monthly installments of Fifty-One Thousand Three Hundred Thirty-Three and 33/100 Dollars ($51,333.33) each, during years seven through nine of the initial term of the Lease;

(d) During each of the Renewal Terms, the Rent during each renewal period shall be determined by the percentage increase of the Consumer Price Index ("CPI") published by the U.S. Department of Commerce for the Southeastern United States for urban areas, from the first day of the preceding term of the Lease to the first day of the renewal term. However, in no event shall the Rent for any given year be less than for the immediately preceding year.

Each monthly installment of Rent shall be due and payable on the first day of each calendar month following the Rent Commencement Date and shall be past due if not paid on or before the tenth day of each month. If a monthly installment of Rent becomes past due, LANDLORD may provide written notice, via facsimile, to the TENANT of such past due Rent. If, after five business days from the date of the written notice, LANDLORD has not received the past due monthly Rent installment, then, in that event, a penalty of 1% of the past due monthly Rent installment shall become due and payable in addition to the past due monthly Rent installment.

5. OTHER CHARGES:

(a) TENANT: The TENANT hereby agrees to pay for the following items as

they are incurred, beginning on the Rent Commencement Date, by direct payment, with proof of such payment being provided to LANDLORD if requested:

(i) All routine maintenance of the leased Premises, as well as utilities attributable to the Premises and such other charges as are set forth in Paragraph 7.

(b) LANDLORD: The LANDLORD hereby agrees to pay for the following items as they are incurred, by direct payment, with proof of such payment being provided to TENANT if requested by TENANT:

(i) All city and county taxes and assessments, insurance and structural maintenance on the Premises and such other charges are set forth in Paragraph 7.

6. TENANT'S RESPONSIBILITIES: TENANT shall:

(a) Keep the interior of the Premises in good condition and repair, reasonable wear and tear excepted;

(b) Keep the Premises, entryways and delivery areas, if any, reasonably clean and free from rubbish and dirt;

(c) Not make or suffer any waste on the Premises or permit anything to be done in or upon the Premises creating a nuisance thereon;

(d) Permit the LANDLORD or its agents, at reasonable agreed upon times, to enter upon the Premises for purpose of examining or showing the same to prospective purchasers; and

(e) Comply with all lawful requirements of local, state or Federal authorities having jurisdiction respecting the manner in

which the Premises are used.

(f) Be responsible for the following common area maintenance services needed at the building:

(1) Snow removal;
(2) Repairs for parking lot lighting;
(3) Landscaping replacement needs; and
(4) Grass cutting.

TENANT shall have the right to contract, in the name of the LANDLORD, for the above common area maintenance services to be provided by a qualified contractor. LANDLORD shall have the right to approve any such contract, but LANDLORD's approval shall not be unreasonably withheld. Contracts for common area maintenance services shall be in the name of the LANDLORD, however, bills for common area maintenance services shall be sent by the

contractor directly to the TENANT, based pro-rata on the portion of the square footage of the Distribution Center leased to TENANT. Should TENANT fail to contract for said services, LANDLORD shall have the right to contract for the above common area maintenance services with a qualified contractor and TENANT shall be billed for its pro-rata portion, based on square footage leased, of the common area maintenance costs.

7. LANDLORD'S RESPONSIBILITIES: LANDLORD shall, at its cost and expense, keep and maintain the structure and parking lot of the Distribution Center, including without limitation, the roof, gutters, elevators, downspouts, exterior and structural walls, and foundation and shall make structural repairs as necessary for both the exterior and interior of the Distribution Center. If any portion of the common area (including any portion of the building which is the responsibility of the LANDLORD) shall at any time be in need of repair, LANDLORD will repair the same promptly upon receipt of written notice from TENANT to do so. Included without limitation, within the repair responsibilities of LANDLORD shall be the replacement of the heating, ventilation and air conditioning system ("HVAC") for the Premises or any of its major components. LANDLORD stipulates and agrees, that notwithstanding any of the provisions of this Lease agreement, if TENANT

notifies LANDLORD that the HVAC maintenance contractor has advised that the HVAC or one of its major components must be replaced, LANDLORD shall have five (5) business days from the date of such notice to commence replacement of the HVAC or its major components, and if LANDLORD has not commenced this replacement within five (5) business days after notice, TENANT may undertake to make the replacement to the HVAC or its major components and charge the reasonable cost to LANDLORD, including at TENANT'S option as an offset of future rent due under the Lease. TENANT agrees to provide a quarterly maintenance contract in the name of the LANDLORD, on the HVAC system currently installed at the Distribution Center, for services to be provided by a qualified HVAC contractor. This contract shall be subject to approval by the LANDLORD but LANDLORD's approval shall not be unreasonably withheld. Should TENANT fail to contract for said quarterly HVAC maintenance services, LANDLORD shall have the right to enter into a contract with a qualified HVAC contractor and send the bill for said quarterly maintenance services to TENANT for payment. This quarterly maintenance contract shall cover routine maintenance and service of the HVAC system but shall not include the replacement of major components such as motors and compressors. TENANT shall provide this maintenance contract only for so long as TENANT is the only occupant of the Distribution Center. If at any time another tenant occupies any portion of the Distribution Center, TENANT shall transfer the quarterly maintenance contract to the LANDLORD and TENANT shall only be responsible for a pro rata share of the quarterly maintenance contract costs based on square footage leased by TENANT.

If, in order to protect the TENANT'S property in the building, it shall be necessary that TENANT make emergency repairs to any portion thereof which is the responsibility of the LANDLORD to repair, or if the LANDLORD within sixty (60) days after notice from TENANT to do so, fails or neglects to make with all due diligence such other repairs to the building or

common areas (including parking areas) which are the responsibility of LANDLORD, TENANT shall have the right to make such repairs and to deduct from the rental installments then due or thereafter to become due, such sums as may be necessary to reimburse the TENANT for the money expended or expense incurred by it in making such repairs. PROVIDED, HOWEVER, if TENANT notifies LANDLORD that the roof of the Premises is leaking, it shall be TENANT's responsibility to contact the appropriate warranty party to commence repairs to the roof, and such repairs shall be undertaken at LANDLORD'S cost and expense. Notwithstanding anything to the contrary contained herein, TENANT does not waive any right or remedy available to TENANT at law or equity should TENANT suffer any damage

to its property.

In the event that LANDLORD fails to repair items which are LANDLORD'S responsibility within thirty (30) days after notice from TENANT to do so, TENANT shall have the right to make such repairs at a reasonable cost, and if LANDLORD does not reimburse TENANT for the reasonable cost of those repairs within thirty (30) days after presentation of an invoice therefor, to deduct from the rental installments then or thereafter due, such sums as may be necessary to reimburse the TENANT for monies expended by it in making such repairs.

LANDLORD covenants and agrees that during the term of the Lease, TENANT and its employees, agents, officers, customers, licensees and invitees shall have a license for the non-exclusive use for pedestrian and vehicular traffic, as the case may be, of the common areas and facilities of the Distribution Center, including, but not limited to parking areas, streets, sidewalks, roadways, public washrooms, public shelters, landscape areas and all other areas and facilities located in and about the Distribution Center, such use to be in common with the LANDLORD and all other to whom LANDLORD has or may hereafter grant rights to use the same. The common areas, shall, at all times, be subject to reasonable control and management of LANDLORD and such use by TENANT shall be subject to such reasonable rules and regulations as LANDLORD may, from time to time, adopt after consultation with TENANT, provided, however, that any such rules and regulations do not interfere with the distribution operations of the TENANT in the Premises.

8. SIGNS: TENANT may, at its own expense, place, erect and maintain exterior signs on the wall or any other place on or about the Premises, and on any "center pylon" or "center monument" with the prior written consent of the LANDLORD, which consent shall not be unreasonably withheld or delayed, and which signs shall remain the property of the TENANT and may be removed at any time during the term of the Lease, or any extension thereof, provided TENANT shall repair or reimburse LANDLORD for the costs of any damage to the Premises resulting from the installation or removal of such signs. In the event the LANDLORD shall fail to respond to a written request of TENANT to consent to a sign within thirty days of said written request, LANDLORD shall be deemed to have consented to such sign.

9. INTERIOR ALTERATIONS: The TENANT, at its own expense, may from time to time during the term of the Lease make any interior alterations,

additions and improvements in and to the Premises which it may deem necessary or desirable, and which do not adversely affect the structural integrity thereof, but it shall make them in a good, workmanlike manner and in accordance with all express requirements of governmental authorities. If TENANT desires to make material structural or material exterior changes

to the Premises, the prior written consent of the LANDLORD is required and such written consent shall not be unreasonably withheld. All permanent structural improvements shall belong to the LANDLORD and become a part of the Premises upon termination of this lease. Any temporary improvements shall belong to the TENANT and may be removed by the TENANT at any time during the term of the Lease, or at the expiration of the lease, but TENANT shall be required, at its own expense, to repair any damage to the Premises resulting from the installation or removal of such items.

10. FIRE, OTHER CASUALTIES AND INSURANCE: If the Premises, the appurtenances thereto, the common facilities or areas, or any other portion of the Distribution Center shall, during the term of the Lease, or any extensions thereof, be damaged or destroyed by fire or other casualty, or any cause whatsoever, either in whole or in part, LANDLORD shall forthwith remove any resulting debris and repair and/or rebuild the damaged or destroyed structures or other improvements, including any improvements made by LANDLORD or any of LANDLORD'S Tenant's, in accordance with the plan pursuant to which such property was most recently constructed. In the event LANDLORD fails or refuses to make the necessary repairs or reconstruction with reasonable expedition in order to minimize TENANT'S inconvenience and loss, TENANT shall have the option to make such necessary repairs to protect its interest and to restore the Premises to its former condition, and TENANT shall claim and be entitled to a credit against rentals now due or to become due hereafter for the monies expended to make such necessary repairs. In any event, until such time as the Premises, the appurtenances thereto, the common facilities or areas or any other portions of the Distribution Center are repaired, rebuilt and put in good and tenantable order, the TENANT shall be allowed a proportionate abatement in rent for the area rendered untenantable, and if the damage is to the Premises, there shall be an abatement of rent for an additional sixty (60) days from the date the repairs are completed for TENANT to refixture and restock.

It is expressly provided, however, that if the LANDLORD for any reason whatsoever fails to commence the repair and restoration work within thirty (30) days from the date that such damage or destruction occurred, or fails thereafter to proceed diligently to complete such repair or restoration, and should the TENANT not elect to undertake the repair or restoration itself, then and in that event, the TENANT in addition to such other rights and remedies as may be accorded the TENANT by law, shall have the right and option to terminate the Lease by giving LANDLORD written notice of the TENANT'S election so to do at any time prior to the completion of such repairs or rebuilding, provided the

LANDLORD shall not be actively undertaking such restoration and upon such notice being given, the term of the Lease shall automatically terminate and end retroactive to the date when the damage or destruction occurred.

Anything herein to the contrary notwithstanding, it is agreed that: (i) if the Premises

should be damaged or destroyed by fire or other cause to such an extent that the cost of restoration would exceed fifty percent (50%) of the amount it would cost to replace the Premises in its entirety at the time such damage or destruction took place; and (ii) if at the time of such damage or destruction the term or any renewal of the Lease is scheduled to expire within a period of two (2) years, then and in that event either the LANDLORD or TENANT shall have the right and option to terminate the term of the Lease by giving the other party to the Lease notice of such election within thirty (30) days after such damage or destruction shall have taken place, provided, however, that the TENANT shall have the right to nullify any such notice of termination given by the LANDLORD if at any time such notice is given an option herein granted the TENANT to extend the term of this lease for an additional period remains unexercised and the TENANT exercises such option within thirty (30) days after the receipt of such notice from the LANDLORD, in which event the LANDLORD'S notice of such termination shall be of no force or effect and the parties shall be remitted to their various rights under the Lease.

LANDLORD agrees to keep the Distribution Center of which the Premises is part of the whole insured against loss or damage by replacement cost property and casualty insurance with extended overage to the extent of at least eighty percent (80%) of the full insurable value thereof, including all improvements, alterations, additions and LANDLORD further agrees that all monies collected from such insurance shall be used toward the full compliance and obligations of the LANDLORD under this paragraph 10 and under the Lease. The LANDLORD, in furtherance of this obligation, agrees to furnish the TENANT a satisfactory certificate of insurance evidencing replacement costs property and casualty insurance with extended coverage in force and applicable to the Distribution Center and agrees to notify the TENANT immediately upon the lapse of any of the agreed upon insurance coverage during the term of the Lease. In addition thereto, LANDLORD will

provide the TENANT, upon request, with an exact copy of the applicable insurance policy or policies in order to permit the TENANT to procure such other and further or supplemental coverage as the TENANT may deem desirable.

11. EMINENT DOMAIN:

(a) CONDEMNATION AWARD: In the event the Distribution Center or any part thereof or the Premises or any part thereof shall be taken or condemned either permanently or temporarily for any public or quasi-public use or purpose by any authority in appropriate proceedings or by any right of eminent domain, the entire compensation award thereof, including but not limited to, all damages as compensation for diminution in value of the leasehold, reversion and fees shall belong to the LANDLORD without any deduction thereof for any present or future estate of TENANT, and TENANT acknowledges that it has no right, title or interest to such award. However, TENANT shall have the right to recover from the condemning authority but not from LANDLORD, such compensation as may be separately awarded to TENANT on account of interruption of TENANT'S

business and for moving and relocation expenses, including, but not limited to, recovery of TENANT'S cost to cure damages caused to its leasehold interests or estate. LANDLORD shall promptly, following any partial condemnation that does not result in a termination of the Lease, restore the demised Premises as nearly as possible to the condition as existed immediately prior to such taking but only to such extent of the net award received by LANDLORD and fixed minimum rent shall equitably abate during such restoration.

(b) TERMINATION BY TENANT:

(i) If thirty-five percent (35%) or more of the Premises shall be taken or condemned by any competent authority for any public or quasi-public use or purpose, then, and in that event, the TENANT shall have thirty (30) days in which to elect to terminate the Lease and if TENANT does elect to terminate the lease, the rent shall be apportioned from the date of such taking.

(ii) If any material portion of the common area or the Premises shall be taken or condemned by any competent authority for any public or quasi-public use or purpose and in a reasonably determination of TENANT, such taking will materially and detrimentally affect TENANT'S use of the Premises, then TENANT shall have the right to cancel and terminate the Lease by delivery of written notice of termination within thirty (30) days after such taking or conveyance of physical possession.

(c) TERMINATION BY LANDLORD: In the case of any taking or condemnation, then upon actual taking or conveyance of physical possession of any material part of the Premises, LANDLORD may cancel and terminate the Lease by giving notice to TENANT within forty-five (45) days after such taking or conveyance of physical possession. For the purpose of this paragraph a "material part" of the Distribution Center shall mean at least twenty-five percent (25%) of the Premises. This lease shall terminate on the date specified in such termination notice, provided that such date shall not be less than one hundred eighty (180) days after the date of such notice. If the Lease is not terminated following any actual takings or conveyances of any part of the Premises, the LANDLORD shall, at LANDLORD'S own expense, make such repairs to the Premises as are necessary to make the Premises

complete and tenantable space, and a proportional allowance shall be made in the rent and additional charges based on the ration of the square footage of the new Premises to the square footage of the original Premises.

12. INDEMNIFICATION: TENANT'S INSURANCE. TENANT shall indemnify LANDLORD and save it harmless from any default by TENANT in

the performance of any of the terms of the Lease agreement on TENANT'S part to be performed and all claims, suits, demands, actions, damages, liability and expense (including reasonable attorney's fees) in connection with the loss of life, bodily or personal injury or property damage (and each and all of them) arising from or out of any occurrence in, upon, at or from the Premises or occupancy or use by TENANT of said Premises or common area of the Distribution Center, or any part thereof, which is occasioned wholly or in part by any act or omission by TENANT, its agents, contractors, employees, servants, licensees, or concessionaires, and which are not a result of any act or omission of LANDLORD, its agents, contractors, employees, servants, licensees, or concessionaires. If any action or proceeding shall be brought against LANDLORD or LANDLORD'S agents, or its mortgagee based upon any such claim and if TENANT, upon notice from LANDLORD shall cause such action or proceeding to be defended at TENANT'S expense by counsel reasonably satisfactory to both parties, without any disclaimer of liability by TENANT in connection with such claim, TENANT shall not be required to indemnify LANDLORD for attorney fees and disbursements in connection with such action or proceeding.

TENANT shall, at all times during the term of the Lease agreement, maintain in full force and effect comprehensive general liability insurance on an occurrence basis with a minimum liability and a combined single limit of not less than $1,000,000 with an additional umbrella liability policy with combined single limit coverage of at least $5,000,000 which insurance shall contain contractual liability endorsement covering the matters set forth herein, and a personal injury endorsement including claims brought by employees, agents or

contractors of an insured.

All insurance policies required by this section shall be written as primary policies not contributing with, nor in excess of any coverage that LANDLORD may carry, and all insurance procured hereunder by TENANT shall name LANDLORD and at LANDLORD'S request, its mortgagee, as additional insureds, as their interests may appear, for the full amount of the insurance herein required with respect to the operations and activities of TENANT on or in connection with the Distribution Center. Each such policy shall contain an endorsement that the LANDLORD, although named as an insured, nevertheless shall be entitled to recovery under said policies for any loss or damage occasioned to it, its servants, agents, employees and contractors by reason of the negligence of the TENANT, its servants, agents, employees or contractors.

13. INDEMNIFICATION: LANDLORD'S INSURANCE. LANDLORD shall indemnify TENANT and save it harmless from any default by LANDLORD in the performance of any of the terms of the Lease on LANDLORD'S part to be performed and all claims, suits, demands, actions, damages, liability and expense (including reasonable attorney fees) in connection with the loss of life, bodily or personal injury, or personal damage (and each and all of them) arising from or out of any occurrence in, upon, at or from the Premises, the common areas, the Distribution Center or any part of the Distribution Center, which is occasioned wholly or in part

by any act or omission by LANDLORD, its agents, contractors, employees or servants, and which are not a result of any act or omission of TENANT, its agents, contractors, employees, servants, licensees, or concessionaires. If any action or proceeding shall be brought against TENANT or TENANT'S agents, or its mortgagee based upon any such claim and if LANDLORD, upon notice from TENANT shall cause such action or proceeding to be defended at LANDLORD'S expense by counsel reasonably satisfactory to

both parties, without any disclaimer of liability by LANDLORD in connection with such sale, LANDLORD shall not be required to indemnify TENANT for attorney fees and disbursements in connection with such action or proceeding.

LANDLORD shall, at all times during the term of this lease agreement maintain in full force and effect comprehensive general liability insurance on an occurrence basis with a minimum liability and a combined single limit of not less than 5,000,000, which insurance shall contain a contractual liability endorsement covering the matters set forth herein, and a personal injury endorsement including claims brought by employees, agents or contractors of an insured.

All insurance policies required by this section shall be written as primary policies not contributing with, not in excess of any coverage that TENANT may carry, and all insurance procured hereunder by LANDLORD shall name its mortgagee, as additional insured, as its interest may appear, for the full amount of the insurance herein required with respect to the operations and activities of LANDLORD on or in connection with the Distribution Center.

14. QUIET ENJOYMENT: The LANDLORD covenants, warrants and represents that LANDLORD has full right and power to execute the Lease, that LANDLORD has fee simple, marketable title to the Premises and the Distribution Center, and that the TENANT, on paying the rent and other charges herein reserved, and performing the covenants and agreements hereof, shall peaceably and quietly have, hold and enjoy the Premises and all rights, easements, appurtenances and privileges belonging or appertaining thereto, during the full term of the Lease and any extension hereof.

LANDLORD further covenants, warrants and represents that upon the Rent Commencement Date, the Distribution Center, including the Premises, will be free and clear of all liens and encumbrances superior to the leasehold hereby created, with the sole exception of certain permanent or long-term financing from LANDLORD'S lender (hereinafter "mortgagee"); that LANDLORD has provided TENANT with a non-disturbance agreement executed by said mortgagee which will allow TENANT to continue its quiet enjoyment of the Premises in the event of a foreclosure of said long-term financing. Should zoning or restrictions be in effect or adopted at any

time during the term of this lease, unreasonably preventing or restricting TENANT from conducting its business or using the common areas (including the parking areas) in conjunction therewith, the TENANT at its option may terminate the Lease and be released of and from all further liability hereunder.

15. TENANT'S DEFAULTS: If two consecutive monthlyrent payments specified

in this Lease shall remain unpaid for a period of twenty (20) days after written notice to TENANT of said unpaid rent, LANDLORD shall have the right to terminate this Lease Agreement with respect to the unexpired term, and accelerate the balance of the rent payments remaining under the then current term of the Lease, except in no event shall this acceleration provision be for an amount in excess of thirty-six (36) months of rent payments. This limitation on the right of acceleration, however, shall not limit the LANDLORD's right of recovery for TENANT's default under any other provision hereof, or as provided by law or equity. On termination, LANDLORD may recover from TENANT all damages resulting from TENANT's breach, including, but not limited to the cost of recovery of the Premises and placing them in satisfactory condition, and attorneys' fees, all of which sums shall be immediately payable to LANDLORD from TENANT. Any receipt of past due rent by LANDLORD will not constitute a waiver of the provisions of this paragraph with respect to subsequent past due rentals. TENANT shall be entitled to mitigation of the amount paid to LANDLORD as a result of the acceleration of rent payments due to default in an amount equal to rent payments received by LANDLORD from any subsequent tenant occupying the Premises during the unexpired term of TENANT, less all costs of reletting the Premises to such subsequent tenant. LANDLORD shall have a duty to make reasonable efforts to relet the Premises after default by the TENANT and shall reasonably consider any subsequent tenant offered by TENANT in mitigation of damages to LANDLORD.

16. LANDLORD'S DEFAULT: If the LANDLORD shall fail to perform any of the terms, provisions, covenants or conditions to be

performed or complied with by the
LANDLORD pursuant to the Lease, or if the LANDLORD should
fail to make any payment which the LANDLORD agrees to make, and if any such
failure shall, if it relates
to a matter which is not of an emergency nature, remain
uncured for a period of thirty (30)
days after the TENANT shall have served upon the LANDLORD
notice of such failure (or such shorter period as may be specified hereinabove
in this lease), or for a period of forty-
eight (48) hours after service of such notice if in the
TENANT'S judgment reasonably
exercised such failure relates to a matter which is of an
emergency nature, then TENANT
may, at TENANT'S option, perform any such terms, provisions,
covenants or conditions and
make any such payment, as LANDLORD'S agent, and in TENANT'S
sole reasonable discretion as to the necessity therefor, and the full amount
of the cost and expense entailed,
for the payment so made, shall immediately be owing by the
LANDLORD to TENANT and
TENANT shall have the right to deduct the amount thereof,
together with interest at twelve
percent (12%) per annum from the date of payment, without
liability or forfeiture, from
rents then due or thereafter coming due hereunder and
irrespective of who may own or have
an interest in the Premises at the time such deductions are
made. Any such deduction
made in good faith shall not constitute a default in the
payment of rent unless the TENANT
shall fail to pay the amount of such deduction to the
LANDLORD within thirty (30) days
after the final adjudication that such amount is owing to
the LANDLORD. The option
given in this paragraph is for the sole protection of the
TENANT and its existence shall not
release the LANDLORD from the obligation to perform the
terms, provisions and covenants
and conditions herein provided to be performed by the
LANDLORD, nor shall it deprive
the TENANT of any legal rights which it may have by reason of any such

default by LANDLORD.

17. NOTICES: All notices required to be given to
TENANT shall be in writing
and shall be deemed given three (3) days after being placed

in the United States mail,
postage prepaid, by either registered or certified mail,
return receipt requested, addressed to the TENANT, as follows:

Brendle's Stores, Inc.
1919 North Bridge Street
Elkin, North Carolina 28621
ATTN: Manager of Property Lease Management

with a copy to :

M. Joseph Allman, Esquire
Allman Spry Humphreys & Leggett, P.A.
PO Drawer 5129
Winston-Salem, North Carolina 27103-5129

or to such other address as TENANT may give to LANDLORD by
the notice required herein.

All notices required to be given to LANDLORD shall
be in writing and be deemed
given three days after being placed in the United States
mail, postage prepaid, by either
registered or certified mail, return receipt requested,
addressed to LANDLORD as follows:

P.B. Realty, Inc.
PO Box 500
Golfview Park
Lenoir, North Carolina 28645

with a copy to:

T. Paul Hendrick, Esquire
Hendrick, Zotian, Bennett & Blancato
PO Box 5276
Winston-Salem, North Carolina 27113

or to such other address as LANDLORD may give to TENANT by
the notice required herein. Unless otherwise requested, TENANT may make all
rental payments to LANDLORD at this address and the same shall be deemed made
upon the date of mailing.

18. END OF TENANCY: The TENANT will yield up the

Premises, and all additions thereto (except sign, equipment and trade fixtures installed by TENANT at its expense, which shall remain the property of TENANT), at the termination of the tenancy, in as good and tenantable condition as the same were at the beginning of TENANT'S occupancy, reasonable wear and tear, damage by fire and other casualties, and condemnation, appropriation by eminent domain excepted, and also excepting any damage, disrepair and other conditions that the LANDLORD is obligated hereunder to repair or correct. In the event the TENANT fails to yield up the Premises at the end of the term, with the acquiescence of LANDLORD but without the execution of a new lease, the tenancy shall be deemed to be month-to-month, and shall continue under the same terms and conditions as herein stated.

19. ASSIGNMENT AND SUBLETTING: The TENANT may not assign or sublet all or any portion of the Premises without the prior written consent of the Landlord which consent shall not be unreasonably withheld. Provided, no part of the Premises shall be assigned or sublet for a purpose which is unlawful, dangerous, noxious or offensive. No assignment or subletting by the TENANT shall affect the obligation of the TENANT to perform all of the covenants required to be performed by the TENANT under the terms of the Lease, unless and except LANDLORD shall expressly relieve TENANT of such obligation. Nothing in this Lease shall be construed to require continuous business operation by TENANT in the Premises. In the event TENANT should cease to operate the business in the Premises and "go dark" for a period in excess of ninety (90) days, then and in that event, LANDLORD shall have the option to terminate this Lease Agreement provided, upon such termination Tenant shall be relieved of all further obligations and liabilities under this Lease Agreement from and after the date of said termination. For the purpose of this paragraph "go dark" shall mean a cessation of business other than for the performance of repairs, maintenance, remodeling, or any closing caused by the negligence or at the request of LANDLORD. The ninety (90) day period shall begin to run from the first business day that TENANT is not open to the public, and no notice by LANDLORD is required to commence this ninety (90) day period. TENANT covenants and

agrees to give LANDLORD a notice of its intent to "go dark" before it ceases business. Upon notice to LANDLORD by TENANT of its intentions to "go dark", LANDLORD shall have the option: (1) to require that the TENANT continue to make timely rent payments under the Lease until completion of the term; or (2) to terminate the Lease immediately, however, LANDLORD shall grant TENANT another 120 days to vacate the premises and following the vacation of the premises by Tenant, Tenant shall be relived of all further obligations and liabilities under this Lease Agreement.

20. HAZARDOUS MATERIALS: LANDLORD covenants and agrees to indemnify, protect, defend and hold TENANT harmless (except from hazardous materials placed upon the Center by TENANT) from and against any and all claims, demands, losses, liabilities and penalties (including, without limitation, reasonable attorney's fees at all trial and appellate levels, whether or not suit is brought) arising directly or indirectly from or out of or in any way connected with:

(a) The presence of any hazardous materials on the real property or within the leased Premises or within the Distribution Center placed there by LANDLORD, its agents and employees; or

(b) Any violation or alleged violation of any local, state or federal environmental law, regulation, ordinance or administrative or judicial order relating to any hazardous materials placed there by LANDLORD, its agents or employees.

Likewise, TENANT covenants and agrees to indemnify, protect, defend and hold LANDLORD harmless (except from hazardous materials placed upon the Premises, Distribution Center, or real property, by LANDLORD) from and against all claims, demands, losses, liabilities and penalties, including without limitation, reasonable attorney fees at all trial and appellate levels, whether or not suit is brought) arising from:

(a) The presence of any hazardous materials within the leased Premises or the Center brought upon the leased Premises by TENANT, its agents and employees; or

(b) Any violation or alleged violation of any

local, state or federal environmental law, regulation, ordinance or administrative or judicial order relating to any hazardous materials attributable to events occurring before or during the TENANT'S occupancy of the leased Premises caused by the acts of the TENANT, its agent or employees.

21. SUBORDINATION, ATTORNMENT AND NON-DISTURBANCE: TENANT does stipulate and agree that within a reasonable period of time after request, but in no event more than twenty (20) days after receipt of the request, TENANT will execute, acknowledge and deliver to LANDLORD, at any time and from time to time, upon demand by LANDLORD, such documents as may be requested by LANDLORD to subordinate the Lease to any ground

lease, underlying lease, mortgage, deed of trust or other lien, encumbrance or indenture held by any institution or mortgagee, together with any renewals, extensions, modifications, consolidations and replacements thereof to effect such subordination. Provided, however, such instrument of subordination must provide that any successor in interest to the LANDLORD will not disturb TENANT in its use, possession and occupancy of the leased Premises in accordance with the Lease. If any holder of any instrument described in the preceding paragraph succeeds to LANDLORD'S interest in the Premises, TENANT will pay to it all sums subsequently due and payable under the provisions of the Lease. TENANT will, upon request of any one so succeeding to the interest of LANDLORD, automatically become the TENANT of and attorn to such successor in interest without changing the Lease. Upon request by such successor in interest and without cost to LANDLORD or such successor in interest, TENANT will execute, acknowledge and deliver any instrument or instruments confirming this attornment; provided, however, that such instruments must provide that such successor in interest will not disturb TENANT in its use, possession and occupancy of the Premises in accordance with the Lease.

22. ESTOPPEL INSTRUMENTS: At LANDLORD'S request,

from time to time, the TENANT agrees, within a reasonable period of time after request, but in no event more than twenty (20) days after receipt of the request, to execute, acknowledge and deliver to LANDLORD a certificate which acknowledges tenancy and possession of the Premises and recites such other facts concerning any provision of the Lease or payment made under the Lease which the mortgagee or prospective mortgagee or a purchaser or prospective purchaser of LANDLORD under an underlying lease or prospective lessor of any premises which includes the Premises may reasonably request. Such certification shall include but shall not be limited to acknowledgments that the TENANT has accepted possession of the Premises in the condition that it exists as of the date of such certificate, statements that there are no defaults by LANDLORD or TENANT existing under the Lease as of the date of such certificate, statements that neither the Lease, nor the validity, obligation or construction thereof is in arbitration or litigation as of the date of such certificate, and that TENANT, as of the date of such certificate has no charge, lien or claim of offset under this lease or otherwise against rent or other charges due or to become due under the Lease.

23. BENEFIT: The Lease and all of the covenants and provisions thereof shall inure to the benefit of and be binding upon the heirs, legal representatives, successors and assigns of the parties hereto. Each provision hereby shall be deemed both a covenant and a condition and shall run with the land.

24. HEADINGS: The paragraph headings appearing in the Lease are for reference only and shall not be considered a part of the lease or in any way to modify, amend or affect the provisions thereof.

25. COMPLETE AGREEMENT: This written Lease contains the complete agreement of the parties with reference to the leasing of the Premises. No

waiver of any breach of covenant herein shall be construed as a waiver of the covenant itself or any subsequent breach thereof.

28. RIGHT TO TERMINATE LEASE FOR STRUCTURAL DEFECTS: Notwithstanding any provisions of the Lease to the contrary, in the event that any governmental or other authorized agency or any structural

engineer licensed in the state where the Premises are located declares the Premises as structurally unfit for occupancy, and such condition is not the fault of TENANT arising on or after February 1, 1994, TENANT shall have the unconditional right to immediately declare the Lease null and void. Provided, however, that TENANT stipulates and agrees to give LANDLORD notice of any such structural defects within five (5) days after discovery by TENANT or notice to TENANT from any governmental agency or structural engineer and LANDLORD shall have twenty (20) business days to commence repairs.

29. TRANSFER OF LANDLORD'S INTEREST: In the event of the sale, assignment or transfer by LANDLORD of its interest in the Distribution Center or in the Lease (other than a collateral assignment to secure a debt to LANDLORD) to a successor in interest who expressly assumes the obligations of LANDLORD under this lease, LANDLORD shall thereupon be released and discharged from all of its covenants and obligations under this lease, except those obligations that have accrued prior to such sale, assignment or transfer; and TENANT agrees to look solely to the successor in interest of LANDLORD for the performance of those obligations. LANDLORD'S assignment of the Lease, or any or all of its rights in the Lease, shall not affect TENANT'S obligations hereunder, and TENANT shall attorn and look to the assignee as LANDLORD, provided TENANT has first received written notice of the assignment of LANDLORD'S interest.

31. RECORDATION OF LEASE: This lease shall not be recorded. However, after the Rent Commencement Date, the parties agree upon request to execute a short form "Memorandum of Lease" in statutory form, which shall include the Rent Commencement Date and the expiration dates of this lease. Either party may record the Memorandum of Lease at it own expense.

32. GOVERNING LAW: This lease and the rights of the parties thereto shall be governed by and construed in accordance with the laws of the State of North Carolina.

33. SEVERABILITY: If any provision of the Lease shall be invalid or unenforceable, the rest and remainder of this lease shall not be effected thereby and each term and provision of this lease shall be valid and be enforced to the full extent permitted by law.

34. TIME IS OF THE ESSENCE: The time and performance of all the covenants, conditions and agreements of this lease is of the essence of this agreement; it being agreed that this provision shall in no event be

construed as vitiating any of the cure.
For compliance set forth by virtue of the terms and
provisions of this lease.

35. RELATIONSHIP OF PARTIES: Nothing herein shall be construed so as to constitute a joint venture or partnership between LANDLORD and TENANT.

36. SUBMISSION OF LEASE: Submission of this Lease for examination does not constitute an offer to lease or a reservation of or option for the Premises, and this lease shall be effected only upon execution and delivery thereof by LANDLORD and TENANT. IN WITNESS WHEREOF, the parties hereby have caused this lease to be executed the day and year first above written or on the date given below.

This the _____ day of _____, 19__.
.

LANDLORD:

P.B. Realty, Inc.

By: _____

Its: _____

TENANT:

Brendle's Stores, Inc.

By: _____

Its: Chief Executive Officer and President

LOAN AND SECURITY AGREEMENT

by and between

BRENDLE'S INCORPORATED

and

FOOTHILL CAPITAL CORPORATION

Dated as of April 21, 1994

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SCHEDULES

LOAN AND SECURITY AGREEMENT

This LOAN AND SECURITY AGREEMENT, is entered into as of April 21, 1994, between FOOTHILL CAPITAL CORPORATION, a California corporation ("Foothill"), with a place of business located at 11111 Santa Monica Boulevard, Suite 1500, Los Angeles, California 90025-3333, and BRENDLE'S INCORPORATED, a North Carolina corporation ("Borrower"), with its chief executive office located at 1919 North Bridge Street, Elkin, North Carolina 28621.

The parties agree as follows:

1. DEFINITIONS AND CONSTRUCTION.

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

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

"Accounts" means all currently existing and hereafter arising accounts, contract rights, and all other forms of obligations owing to Borrower arising out of the sale or lease of goods or the rendition of services by Borrower, irrespective of whether earned by performance, and any and all guaranties, or security therefor, together with monies due from Monogram pursuant to that certain Credit Card Program Agreement between Borrower and Monogram dated as of March 20, 1989, as the same may be amended from time to time.

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

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

"Authorized Officer" means the Chief Executive Officer or Chief Financial Officer of Borrower.

"Average Unused Portion of Maximum Amount" means (a) the Maximum Amount; less (b) the sum of: (i) the average Daily Balance of advances made by Foothill under Section 2.1 that were outstanding during the immediately preceding month; plus (ii) the average Daily Balance of the undrawn L/Cs and L/C Guarantees issued by Foothill under Section 2.2 that were outstanding during the immediately preceding month.

"Bankruptcy Case" means Borrower's bankruptcy case number B-92-14519C-11W filed by Borrower under Chapter 11 of the Bankruptcy

Code on November 22, 1992.

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

"Bankruptcy Court" has the meaning set forth in Section 5.2.

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

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

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

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

"Change of Control" shall be deemed to have occurred at such time as a "person" or "group" (within the meaning of Sections 13(d) and 14(d)(2) of the Securities Exchange Act of 1934) becomes the "beneficial owner" (as defined in Rule 13d-3 under the Securities Exchange Act of 1934), directly or indirectly, of more than 10% of the total voting power of all classes of stock then outstanding of Borrower normally entitled to vote in the election of directors.

"Closing Date" means the date of the initial advance or the date of the initial issuance of an L/C or an L/C Guaranty, whichever occurs first.

"Code" means the California Uniform Commercial Code.

"Collateral" means each of the

following: the Accounts; Borrower's Books; the Equipment; the General Intangibles; the Inventory; the Negotiable Collateral; any money, or other assets of Borrower which now or hereafter come into the possession, custody, or control of Foothill; and the proceeds and products, whether tangible or

intangible, of any of the foregoing including proceeds of insurance covering any or all of the Collateral, and any and all Accounts, Borrower's Books, Equipment, General Intangibles, Inventory, Negotiable Collateral, money, deposit accounts, or other tangible or intangible property resulting from the sale, exchange, collection, or other disposition of any of the foregoing, or any portion thereof or interest therein, and the proceeds thereof.

"Consolidated Current Assets" means, as of any date of determination, the aggregate amount of all current assets of Borrower and its subsidiaries calculated on a consolidated basis that would, in accordance with GAAP, be classified on a balance sheet as current assets.

"Consolidated Current Liabilities" means, as of any date of determination, the aggregate amount of all current liabilities of Borrower and its subsidiaries, calculated on a consolidated basis that would, in accordance with GAAP, be classified on a balance sheet as current liabilities. For purposes of this definition, all advances outstanding under this Agreement shall be deemed to be current liabilities without regard to whether they would be deemed to be so under GAAP.

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

"Early Termination Premium" has the meaning set forth in Section 3.5.

"Eligible Inventory" means Inventory consisting of first quality finished goods held for sale in the ordinary course of Borrower's business, that are located at Borrower's

premises identified on Schedule E-1, are acceptable to Foothill in all respects, and strictly comply with all of Borrower's representations and warranties to Foothill. Eligible Inventory shall not include any of the following categories of Inventory: (a) health and beauty (Department No. 90), domestics (Department No. 91), (c) in-out promotions (Department No. 92), (d) food items/sauce cookies (Department No. 97), (e) cigarettes/lighters (Department 98), (f) miscellaneous clearing (Department 99), (g) slow moving or obsolete items which have been discontinued from Borrower's current inventory selection for more than one (1) year and are categorized by Borrower as C or D Inventory, (h) restrictive or custom items, (i) packaging and shipping materials, (j) supplies used or consumed in Borrower's business, (k) Inventory subject to a security interest or lien in favor of any third Person, (l) bill and hold goods, (m) Inventory that is not subject to Foothill's perfected security interests, (n) returned or defective goods, (o) "seconds," and (p) Inventory acquired on consignment. Eligible Inventory shall be valued at the lower of Borrower's cost or market value.

"Equipment" means all of Borrower's present and hereafter acquired machinery, machine tools, motors, equipment, furniture, furnishings, fixtures, vehicles (including motor vehicles and trailers), tools, parts, dies, jigs, goods (other than consumer goods, farm products, or Inventory), wherever located, and any interest of Borrower in any

of the foregoing, and all attachments, accessories, accessions, replacements, substitutions, additions, and improvements to any of the foregoing, wherever located.

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

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

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

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

"FEIN" means Federal Employer Identification Number.

"Financing Order" means a final, non-appealable order of the Bankruptcy Court approving financing pursuant to this Agreement.

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

"Foothill Expenses" means all: costs or expenses (including taxes, photocopying, notarization, telecommunication and insurance premiums) required to be paid

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

is brought.

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

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

"Hazardous Materials" means all or any of the following: (a) substances that are defined or listed in, or otherwise classified pursuant to, any applicable laws or regulations as "hazardous substances," "hazardous materials," "hazardous wastes," "toxic substances," or any other formulation intended to define, list, or classify substances by reason of deleterious properties such as ignitability, corrosivity, reactivity, carcinogenicity, reproductive toxicity, or "EP toxicity"; (b) oil, petroleum, or petroleum derived substances, natural gas, natural gas liquids, synthetic gas, drilling fluids, produced waters, and other wastes associated with the exploration, development, or production of crude oil, natural gas, or geothermal resources; (c) any flammable substances or explosives or any radioactive materials; and (d) asbestos in any form or electrical equipment which contains any oil or dielectric fluid containing levels of polychlorinated biphenyls in excess of fifty (50) parts per million.

"Indebtedness" means: (a) all obligations of Borrower

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

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

"Inventory" means all present and future inventory in which Borrower has any interest, including, but not limited to, jewelry, housewares, toys, consumer electronics, hardgoods and gifts, and packing and shipping materials, wherever located, and any documents of title representing any of the above.

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

"L/C" has the meaning set forth in Section 2.2(a).

"L/C Guaranty" has the meaning set forth in Section 2.2(a).

"Loan Documents" means this Agreement, the Lock Box Agreement, any note or notes executed by Borrower and payable to Foothill,

and any other agreement
entered into in connection with this Agreement.

"Lock Box" means the Foothill Account,
as defined in the Lock Box
Agreement.

"Lock Box Agreement" means that
certain Depository Account Agreement,
in form and substance satisfactory to Foothill, which is
among Borrower, Foothill, and the
Lock Box Bank.

"Lock Box Bank" means First Union
National Bank of North Carolina.

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

"Maximum Foothill Amount" means that portion of the
Maximum Amount for which Foothill shall be responsible, exclusive of any
participations with Participants,
which amount is Thirty Five Million Dollars ($35,000,000).

"Monogram" means Monogram Credit Card
Bank of Georgia, a Georgia banking corporation.

"Multiemployer Plan" means a
multiemployer plan as defined in Sections
3(37) or 4001(a)(3) of ERISA or Section 414 of the IRC in
which employees of Borrower
or an ERISA Affiliate participate or to which Borrower or
any ERISA Affiliate contribute
or are required to contribute.

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

"Obligations" means all loans,
advances, debts, principal, interest (including
any interest that, but for the provisions of the Bankruptcy
Code, would have accrued),

contingent reimbursement obligations owing to Foothill under any outstanding L/Cs or L/C Guarantees, premiums, liabilities (including all amounts charged to Borrower's loan account pursuant to any agreement authorizing Foothill to charge Borrower's loan account), obligations, fees (including Early Termination Premiums), lease payments, guaranties, covenants, and duties owing by Borrower to Foothill of any kind and description (whether pursuant to or evidenced by the Loan Documents, by any note or other instrument, or pursuant to any other agreement between Foothill and Borrower, and irrespective of whether for the payment of money), whether direct or indirect, absolute or contingent, due or to become due, now existing or hereafter arising, and including any debt, liability, or obligation owing from Borrower to others that Foothill may have obtained by assignment or otherwise, and further including all interest not paid when due and all Foothill Expenses that Borrower is required to pay or reimburse by the Loan Documents, by law, or otherwise.

"Old Lender" means CIT Group/Business Credit, Inc.

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

"Participant" means any Person, other than Foothill, that has committed to provide a portion of the financing contemplated herein.

"Pay-Off Letter" means a letter, in form and substance reasonably satisfactory to Foothill, from Old Lender respecting the amount necessary to repay in full all of the obligations of Borrower owing to Old Lender and obtain a

termination or release of all of

the security interests or liens existing in favor of Old Lender in and to the properties or assets of Borrower.

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

"Permitted Liens" means: (a) liens and security interests held by Foothill; (b) liens for unpaid taxes that are not yet due and payable; (c) liens and security interests set forth on Schedule P-1 attached hereto; (d) purchase money security interests and liens of lessors under capitalized leases to the extent that the acquisition or lease of the underlying asset was permitted under Section 7.10, and so long as the security interest or lien only secures the purchase price of the asset; (e) easements, rights of way, reservations, covenants, conditions, restrictions, zoning variances, and other similar encumbrances that do not materially interfere with the use or value of the property subject thereto; (f) obligations and duties as lessee under any lease existing on the date of this Agreement; and (g) mechanics', materialmen's, warehousemen's, or similar liens.

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

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

"Plan of Reorganization" means that certain First Amended Joint Plan of Reorganization filed on November 10, 1993 by Borrower and Brendle's Stores, Inc., as modified and confirmed on December 20, 1993.

"Prohibited Transaction" means any transaction described in Section 406 of ERISA which is not exempt by reason of Section 408 of ERISA, and any transaction

described in Section 4975(c) of the IRC which is not exempt by reason of Section 4975(c) of the IRC.

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

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

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

"Solvent" means, with respect to any Person on a particular date, that on such date (a) at fair valuations, all of the properties and assets of such Person are greater than the sum of the debts, including contingent liabilities, of such Person, (b) the present fair salable value of the properties and assets of such Person is not less than the amount that will be required to pay the probable liability of such Person on its debts as they become absolute and matured, (c) such Person is able to realize upon its properties and assets and pay its debts and other liabilities, contingent obligations and other commitments as they mature in the normal course of business, (d) such Person does not intend to, and does not believe that it will, incur debts beyond such Person's ability to pay as

such debts mature, and (e) such Person is not engaged in business or a transaction, and is not about to engage in business or a transaction, for which such Person's properties and assets would constitute unreasonably small capital after giving due consideration to the prevailing practices in the industry in which such Person is engaged. In computing the amount of contingent liabilities at any time, it is intended that such liabilities will be computed at the amount that, in light of all the facts and circumstances existing at such time, represents the amount that reasonably can be expected to become an actual or matured liability.

"Syndicated Amount" means that portion of the Maximum Amount, if any, equal to the aggregate financing commitments (to the extent not breached or terminated) of all Participants.

"Tangible Net Worth" means, as of the date any determination thereof is to be made, the difference of: (a) Borrower's total stockholder's equity; minus (b) the sum of: (i) all intangible assets of Borrower; (ii) all of Borrower's prepaid expenses except for prepaid Inventory; and (iii) all amounts due to Borrower from Affiliates, calculated on a consolidated basis.

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

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

1.2 Accounting Terms. All accounting terms not specifically defined herein shall be construed in accordance with GAAP. When used herein, the term "financial statements" shall include the notes and schedules thereto.

Whenever the term "Borrower" is used in respect of a financial covenant or a related definition, it shall be understood to mean Borrower on a consolidated basis unless the context clearly requires otherwise.

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

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

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

2. LOAN AND TERMS OF PAYMENT.

2.1 Revolving Advances. (a) Subject to the terms and conditions of this Agreement, Foothill agrees to make revolving advances to Borrower in an amount not to exceed the Borrowing Base. For purposes of this Agreement, "Borrowing Base" shall mean an amount equal to fifty-five percent (55%) of the amount of Eligible Inventory net of reserves during the period of December 15th through July 31st of each year and sixty-five

(65%) of the amount of Eligible Inventory net of reserves during the period of August 1st through December 14th of each year. Foothill shall establish reasonable reserves against Eligible Inventory for price protection, volume rebates and for Inventory, if any, that is subject to landlord liens that are not subordinate to Foothill's security interests in Inventory.

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

(c) Foothill shall have no obligation to make advances hereunder to the extent they would cause the outstanding Obligations to exceed the lesser of: (i) Forty Five Million Dollars ($45,000,000) ("Maximum Amount"), or (ii) the Maximum Foothill Amount plus the Syndicated Amount.

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

2.2 Letters of Credit and Letter of Credit Guarantees.

(a) Subject to the terms and conditions of this Agreement, Foothill agrees to issue commercial or standby letters of credit for the account of Borrower (each, an "L/C") or to issue standby letters of credit or guarantees of payment (each such letter of credit or guaranty, an "L/C Guaranty") with respect to commercial or standby letters of credit issued by another Person for the account of Borrower in an aggregate face amount not to exceed the lesser of: (i) the Borrowing Base less the amount of advances outstanding pursuant to Section 2.1, and (ii) Ten Million Dollars ($10,000,000). Borrower expressly understands and agrees that Foothill shall have no obligation to arrange for the issuance by other financial institutions of letters of credit that are to be the subject of L/C Guarantees. Borrower and Foothill acknowledge and agree that certain of the letters of credit that are to be the subject of L/C Guarantees may be outstanding on the Closing Date. Each such L/C (including those that are the subject of L/C Guarantees) shall have an expiry date no later than sixty (60) days prior to the date on which this Agreement is scheduled to terminate under Section 3.3 (without regard to any potential renewal term) and all such L/Cs and L/C Guarantees shall be in form and substance acceptable to Foothill in its sole discretion. Foothill shall not have any obligation to issue L/Cs or L/C Guarantees to the extent that the face amount of all outstanding L/Cs and L/C Guarantees, plus the amount of advances outstanding pursuant to Section 2.1, would exceed the lesser of: (y) the Maximum Amount, or (z) the Maximum Foothill Amount plus the Syndicated Amount. The L/Cs and the L/C Guarantees issued under this Section 2.2 shall be used by Borrower, consistent with this Agreement, for its general working capital purposes or to support its obligations with respect to workers' compensation premiums or other similar obligations. If Foothill is obligated to advance funds under an L/C or L/C Guaranty, the amount so advanced immediately shall be deemed to be an advance made

by Foothill to Borrower pursuant to Section 2.1 and, thereafter, shall bear interest at the rates then applicable under Section 2.5.

(b) Borrower hereby agrees to indemnify, save, defend, and hold Foothill harmless from any loss, cost, expense, or liability, including payments made by Foothill, expenses, and reasonable attorneys fees incurred by Foothill arising out of or in connection with any L/Cs or L/C Guarantees. Borrower agrees to be bound by the issuing bank's regulations and interpretations of any letters of credit guarantied by Foothill and opened to or for Borrower's account or by Foothill's interpretations of any L/C issued by Foothill to or for Borrower's account, even though this interpretation may be different from Borrower's own, and Borrower understands and agrees that Foothill shall not be liable for any error, negligence, or mistakes, whether of omission or commission, in following Borrower's instructions or those contained in the L/Cs or any modifications, amendments, or supplements thereto. Borrower understands that the L/C Guarantees may require Foothill to indemnify the issuing bank for certain costs or liabilities arising out of claims by Borrower against such issuing bank. Borrower hereby agrees to indemnify, save, defend, and hold Foothill harmless with respect to any loss, cost, expense (including attorneys fees), or liability incurred by Foothill under any L/C Guaranty as a result of Foothill's indemnification of any such issuing bank.

(c) Borrower hereby authorizes and directs any bank that issues a letter of credit guaranteed by Foothill to deliver to Foothill all instruments, documents, and other writings and property received by the issuing bank pursuant to the letter of credit, and to accept and rely upon Foothill's instructions and agreements with respect to all matters arising in connection with the letter of credit and the related application. Borrower may or may not be the "applicant" or "account party" with respect

to such letter of credit.

(d) Any and all service charges, commissions, fees, and costs incurred by Foothill relating to the L/Cs guaranteed by Foothill shall be considered Foothill Expenses for purposes of this Agreement and immediately shall be reimbursable by Borrower to Foothill. On the first day of each month, Borrower will pay Foothill a fee equal to two and one-half percent (2.50%) per annum times the average Daily Balance of the undrawn L/Cs and L/C Guarantees that were outstanding during the immediately preceding month. Service charges, commissions, fees, and costs may be charged to Borrower's loan account at the time the service is rendered or the cost is incurred.

(e) Immediately upon the termination of this Agreement, Borrower agrees to either: (i) provide cash collateral to be held by Foothill in an amount equal to the maximum amount of Foothill's obligations under L/Cs plus the maximum amount of Foothill's obligations to any Person under outstanding L/C Guarantees, or (ii) cause to be delivered to Foothill releases of all of Foothill's obligations under its outstanding L/Cs and L/C Guarantees. At Foothill's discretion, any proceeds of Collateral received by Foothill after the occurrence and during the continuation of an Event of Default may be held as the cash collateral required by this Section 2.2(e).

2.3 Intentionally omitted.

2.4 Overadvances. If, at any time or for any reason, the amount of Obligations owed by Borrower to Foothill pursuant to Sections 2.1 and 2.2 is greater than either the dollar or percentage limitations set forth in Sections 2.1 or 2.2 (an "Overadvance"), Borrower immediately shall pay to Foothill, in cash, the amount of such excess to be used by Foothill first, to repay non-contingent Obligations and, thereafter, to be held by Foothill as cash collateral to secure Borrower's obligation to repay Foothill for

all amounts paid pursuant to L/Cs or L/C Guarantees.

2.5 Interest: Rates, Payments, and Calculations.

(a) Interest Rate. All Obligations, except for undrawn L/Cs and L/C Guarantees, shall bear interest, on the average Daily Balance, at a per annum rate of one and forty-four one hundredths (1.44) percentage points above the Reference Rate.

(b) Default Rate. All Obligations, except for undrawn L/Cs and L/C Guarantees, shall bear interest, from and after the occurrence and during the continuance of an Event of Default, at a per annum rate equal to four and forty-four one hundredths (4.44) percentage points above the Reference Rate. From and after the occurrence and during the continuance of an Event of Default, the fee provided in Section 2.2(d) shall be increased to a fee equal to five and one half percent (5.50%) per annum times the average Daily Balance of the undrawn L/Cs and L/C Guarantees that were outstanding during the immediately preceding month.

(c) Minimum Interest. In no event shall the rate of interest chargeable hereunder be less than seven percent (7%) per annum.

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

(e) Computation.

The Reference Rate as of this date is six and three quarters percent (6.75%) per annum. In the event the Reference Rate is changed from time to time hereafter, the applicable rate of interest hereunder automatically and immediately shall be increased or decreased by an amount equal to such change in the Reference Rate. The rates of interest charged hereunder shall be based upon the average Reference Rate in effect during the month. All interest and fees chargeable under the Loan Documents shall be computed on the basis of a three hundred sixty (360) day year for the actual number of days elapsed.

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

2.6 Crediting Payments; Application of Collections. The receipt of any wire transfer of funds, check, or other item of payment by Foothill (whether from transfers to Foothill by the Lock Box Banks pursuant to the Lock Box Agreements or otherwise) immediately shall be applied to provisionally reduce the Obligations, but shall not be

considered a payment on account unless such wire transfer is of immediately available federal funds and is made to the appropriate deposit account of Foothill or unless and until such check or other item of payment is honored when presented for payment. From and after the Closing Date, Foothill shall be entitled to charge Borrower for three (3) Business Days of `clearance' at the applicable rates set forth in Sections 2.5(a) and 2.5(b) (applicable to advances under Section 2.1) on all collections, checks, wire transfers, or other items of payment that are received by Foothill (regardless of whether forwarded by the Lock Box Banks to Foothill, whether provisionally applied to reduce the Obligations, or otherwise). This across-the-board three (3) Business Day clearance charge on all receipts is acknowledged by the parties to constitute an integral aspect of the pricing of Foothill's facility to Borrower, and shall apply irrespective of the characterization of whether receipts are owned by Borrower or Foothill, and irrespective of the level of Borrower's Obligations to Foothill. Should any check or item of payment not be honored when presented for payment, then Borrower shall be deemed not to have made such payment, and interest shall be recalculated accordingly. Anything to the contrary contained herein notwithstanding, any wire transfer, check, or other item of payment shall be deemed received by Foothill only if it is received into Foothill's Operating Account (as such account is identified in the Lock Box Agreements) on or before 11:00 a.m. Los Angeles time. If any wire transfer, check, or other item of payment is received into Foothill's Operating Account (as such account is identified in the Lock Box Agreements) after 11:00 a.m. Los Angeles time it shall be deemed to have been received by Foothill as of the opening of business on the immediately following Business Day.

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

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

2.8 Fees. Borrower shall pay to Foothill the following fees:

(a) Commitment Fee. A one time commitment fee of Four Hundred Fifty Thousand Dollars ($450,000) which is earned, in full, upon approval of the financing contemplated by this Agreement by the Bankruptcy Court and is due and payable by Borrower to Foothill in connection with this Agreement concurrently with such approval;

(b) Unused Line Fee. On the first day of each month during the term of this Agreement, a fee in an amount equal to one half of one percent (.50%) per annum times the Average Unused Portion of the Maximum Amount;

(c) Annual Facility Fee. On the Closing Date and on each anniversary of the Closing Date, a fee in an amount equal to one half of one percent (.50%) of the Maximum Amount, such fee to be fully earned on each such date;

(d) Financial Examination, Documentation, and Appraisal Fees. Foothill's customary fee of Six Hundred Dollars ($600) per day per examiner, plus out-of-pocket expenses for each financial analysis and examination of Borrower performed by Foothill or its agents; Foothill's customary appraisal fee of One Thousand Dollars ($1,000) per day per appraiser, plus out-of-pocket expenses for each appraisal of the Collateral performed by Foothill or its agents; and, on each anniversary of the Closing Date, Foothill's customary fee of One Thousand Dollars ($1,000) per year for

its loan documentation review; and

(e) Servicing Fee. On the first day of each month during the term of this Agreement, and thereafter so long as any Obligations are outstanding, a servicing fee in an amount equal to Three Thousand Five Hundred Dollars ($3,500) per month.

3. CONDITIONS; TERM OF AGREEMENT.

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

(a) the Closing Date shall occur on or before April 30, 1994;

(b) Foothill shall have received a certificate from an Authorized Officer, and such other evidence as Foothill shall reasonably require, to the effect that all conditions to the substantial consummation of the Plan of Reorganization and the satisfaction or release of all liens and security interests in the Collateral (other than Permitted Liens) shall have been satisfied (other than the funding of the obligations under the Plan of Reorganization from the initial advances hereunder);

(c) The Financing Order shall have been entered and shall remain in full force and effect;

(d) Foothill shall have received searches reflecting the filing of its financing statements;

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

i) the Lock Box Agreement; and

ii) a security agreement from BFS, Inc. on the trademarks owned by such corporation;

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

(g) Foothill shall have received copies of Borrower's By-laws and Articles of Incorporation, as amended, modified, or supplemented to the Closing Date, certified by the Secretary of Borrower;

(h) Foothill shall have received a certificate of corporate status with respect to Borrower, dated within ten (10) days of the Closing Date, by the Secretary of State of the state of incorporation of Borrower, which certificate shall indicate that Borrower is in good standing in such state;

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

(j) Foothill shall have received the certified copies of the policies of insurance, together with the endorsements thereto, as are required by Section 6.10 hereof, the form and substance of which shall be satisfactory to Foothill and its counsel;

(k) Foothill shall have received duly executed certificates of title with respect to that portion of the Collateral that is

subject to certificates of title and is not subject to Permitted Liens;

(l) Foothill shall have received landlord waivers from Brenco, as to all properties leased by Brenco to Borrower, and from the lessor of Borrower's distribution center;

(m) Foothill shall have completed its appraisal of Borrower's Inventory and the results of such appraisal shall be reasonably satisfactory to Foothill;

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

(o) Foothill shall have received evidence that Brendle's Stores, Inc. has merged into Borrower;

(p) Borrower and Brenco shall have agreed to renewals and modifications of the real property leases between them on terms and conditions satisfactory to Foothill; and

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

3.2 Conditions Precedent to All Advances, L/Cs, or L/C Guarantees. The following shall be conditions precedent to all advances, L/Cs, or L/C Guarantees hereunder:

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

(b) no Event of

Default or event which with the giving of notice or passage of time would constitute an Event of Default shall have occurred and be continuing on the date of such advance, L/C, or L/C Guaranty, nor shall either result from the making of the advance; and

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

3.3 Term. This Agreement shall become effective upon the execution and delivery hereof by Borrower and Foothill and shall continue in full force and effect for a term ending on the date (the "Maturity Date") that is five (5) years from the Closing Date, unless sooner terminated pursuant to the terms hereof. The foregoing notwithstanding, Foothill shall have the right to terminate its obligations under this Agreement immediately and without notice upon the occurrence and during the continuation of an Event of Default.

3.4 Effect of Termination. On the date of termination, all Obligations (including contingent reimbursement obligations under any outstanding L/Cs or L/C Guarantees) immediately shall become due and payable without notice or demand. No termination of this Agreement, however, shall relieve or discharge Borrower of Borrower's duties, Obligations, or covenants hereunder, and Foothill's continuing security interests in the Collateral shall remain in effect until all Obligations have been fully and finally discharged and Foothill's obligation to provide advances hereunder is terminated. If Borrower has sent a notice of termination pursuant to the provisions of Section 3.3, but fails to pay all Obligations on the date set forth in said notice, then Foothill may, but shall not be required to, renew this Agreement for an additional term of one (1) year.

3.5 Early Termination by Borrower. The provisions of Section 3.3 that allow termination of this Agreement only on the Maturity Date notwithstanding, Borrower has the option, at any time upon ninety (90) days prior written notice to Foothill, to terminate this Agreement by paying to Foothill, in cash, the Obligations (including an amount equal to the full amount of the L/Cs or L/C Guarantees), together with a premium (the "Early Termination Premium") equal to the greater of: (a) an amount equal to one-half of the total interest and L/C and L/C Guaranty fees for the immediately preceding twelve (12) months; and (b) Three Hundred Thousand Dollars ($300,000).

3.6 Termination Upon Event of Default. If Foothill terminates this Agreement upon the occurrence of an Event of Default, in view of the impracticability and extreme difficulty of ascertaining actual damages and by mutual agreement of the parties as to a reasonable calculation of Foothill's lost profits as a result thereof, Borrower shall pay to Foothill upon the effective date of such termination, a premium in an amount equal to the Early Termination Premium. The Early Termination Premium shall be presumed to be the amount of damages sustained by Foothill as the result of the early termination and Borrower agrees that it is reasonable under the circumstances currently existing. The Early Termination Premium provided for in this Section 3.6 shall be deemed included in the Obligations.

4. CREATION OF SECURITY INTEREST.

4.1 Grant of Security Interest. Borrower hereby grants to Foothill a continuing security interest in all currently existing and hereafter acquired or arising Collateral in order to secure prompt repayment of any and all Obligations and in order to secure prompt performance by Borrower of each of its covenants and duties under the Loan Documents. Foothill's security interests in the Collateral

shall attach to all Collateral without further act on the part of Foothill or Borrower. Anything contained in this Agreement or any other Loan Document to the contrary notwithstanding, and other than sales of Inventory to buyers in the ordinary course of business and sales of surplus Equipment in individual transactions not exceeding Twenty Thousand Dollars ($20,000) each and in aggregate transactions not exceeding Two Hundred Thousand Dollars ($200,000) in any fiscal year, Borrower has no authority, express or implied, to dispose of any item or portion of the Collateral. The security interest of Foothill in monies due from Monogram to Borrower will be subordinate only to the Permitted Lien on monies due from Monogram to Borrower, as described in Schedule P-1, to secure any claims that Monogram might have against the Borrower directly related to its processing of Borrower's credit card sales and arising under the Monogram Credit Card Bank of Georgia Program Agreement dated as of March 20, 1989, as subsequently amended.

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

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

and Negotiable Collateral directly and charge the collection costs and expenses to Borrower's loan account. Borrower agrees that it will hold in trust for Foothill, as Foothill's trustee, any cash receipts, checks, and other items of payment (including, insurance proceeds, proceeds of cash sales, rental proceeds, and tax refunds) that it receives and immediately will deliver said cash receipts, checks, and other items of payment to Foothill in their original form as received by Borrower.

4.4 Delivery of Additional Documentation Required. At any time upon the request of Foothill, Borrower shall execute and deliver to Foothill all financing statements, continuation financing statements, fixture filings, security agreements, chattel

mortgages, pledges, assignments, endorsements of certificates of title, applications for title, affidavits, reports, notices, schedules of accounts, letters of authority, and all other documents that Foothill may reasonably request, in form satisfactory to Foothill, to perfect and continue perfected Foothill's security interests in the Collateral and in order to fully consummate all of the transactions contemplated hereby and under the other the Loan Documents.

4.5 Power of Attorney. Borrower hereby irrevocably makes, constitutes, and appoints Foothill (and any of Foothill's officers, employees, or agents designated by Foothill) as Borrower's true and lawful attorney, with power to: (a) if Borrower refuses to, or fails timely to execute and deliver any of the documents described in Section 4.4, sign the name of Borrower on any of the documents described in Section 4.4; (b) at any time that an Event of Default has occurred and is continuing or Foothill deems itself insecure (in accordance with Section 1208 of the Code), sign Borrower's name on any invoice or bill of lading relating to any Account, drafts against Account Debtors, schedules and assignments of Accounts, verifications of Accounts, and

notices to Account Debtors; (c) send requests for verification of Accounts; (d) endorse Borrower's name on any checks, notices, acceptances, money orders, drafts, or other item of payment or security that may come into Foothill's possession; (e) at any time that an Event of Default has occurred and is continuing or Foothill deems itself insecure (in accordance with Section 1208 of the Code), notify the post office authorities to change the address for delivery of Borrower's mail to an address designated by Foothill, to receive and open all mail addressed to Borrower, and to retain all mail relating to the Collateral and forward all other mail to Borrower; (f) at any time that an Event of Default has occurred and is continuing or Foothill deems itself insecure (in accordance with Section 1208 of the Code), make, settle, and adjust all claims under Borrower's policies of insurance and make all determinations and decisions with respect to such policies of insurance; and (g) at any time that an Event of Default has occurred and is continuing or Foothill deems itself insecure (in accordance with Section 1208 of the Code), settle and adjust disputes and claims respecting the Accounts directly with Account Debtors, for amounts and upon terms which Foothill determines to be reasonable, and Foothill may cause to be executed and delivered any documents and releases which Foothill determines to be necessary. The appointment of Foothill as Borrower's attorney, and each and every one of Foothill's rights and powers, being coupled with an interest, is irrevocable until all of the Obligations have been fully and finally repaid and performed and Foothill's obligation to extend credit hereunder is terminated.

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

5. REPRESENTATIONS AND WARRANTIES.

Borrower represents and warrants to Foothill as follows:

5.1 No Prior Encumbrances. Upon consummation of the Plan of Reorganization, Borrower shall have good and indefeasible title to the Collateral, free and clear of liens, claims, security interests, or encumbrances, except for Permitted Liens.

5.2 Plan of Reorganization. An order confirming Borrower's Plan of Reorganization was entered by the United States Bankruptcy Court for the Middle District of North Carolina (the "Bankruptcy Court") on December 20, 1993.

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

5.4 Location of Inventory and Equipment. The Inventory and Equipment are not stored with a bailee, warehouseman, or similar party (without Foothill's prior written consent) and are located only at the locations identified on Schedule 6.13 or otherwise permitted by Section 6.13.

5.5 Inventory Records. Borrower now keeps, and hereafter at all times shall keep, correct and accurate records itemizing and describing the kind, type, quality, and quantity of the Inventory, and Borrower's cost therefor. In the ordinary course of Borrower's business, Borrower regularly and timely marks down the cost and retail value of its Inventory so as to accurately reflect current values at all times.

5.6 Location of Chief Executive Office; FEIN. The chief executive office of Borrower is located at the address indicated in the preamble to this Agreement and Borrower's FEIN is 56-0497852.

5.7 Due Organization and Qualification, and Subsidiaries. Borrower

is duly organized and existing and in good standing under the laws of the state of its incorporation and qualified and licensed to do business in, and in good standing in, any state where the failure to be so licensed or qualified could reasonably be expected to have a material adverse effect on the business, operations, condition (financial or otherwise), finances, or prospects of Borrower or on the value of the Collateral to Foothill. Borrower has the following wholly-owned subsidiaries: Brendle's Acceptance Corporation, a Delaware corporation, The Electronic Sports Collection USA, Inc., a New York corporation, Brendle Transport, Inc., a North Carolina corporation, BFS, Inc., a Delaware corporation, BIC, Inc., a North Carolina corporation and Alexander's/Brendle's, Inc., a South Carolina corporation. BFS, Inc. merely owns certain trademarks that are used by Borrower. Brendle Transport, Inc. contracts with third parties to provide transportation for Borrower; Borrower pays for such transportation without Brendle Transport, Inc. receiving any markup or profit. None of the other subsidiaries is engaged in business, and none of such corporations has any assets.

5.8 Due Authorization; No Conflict. The execution, delivery, and performance of the Loan Documents are within Borrower's corporate powers, have been

duly authorized, and are not in conflict with nor constitute a breach of any provision contained in Borrower's Articles of Incorporation, or By-laws, nor will they constitute an event of default under any material agreement to which Borrower is a party or by which its properties or assets may be bound.

5.9 Litigation. There are no actions or proceedings pending by or against Borrower before any court or administrative agency and Borrower does not have knowledge or belief of any pending, threatened, or imminent litigation, governmental investigations, or claims, complaints, actions, or prosecutions involving Borrower or any guarantor of the

Obligations, except for: (a) ongoing collection matters in which Borrower is the plaintiff; (b) matters disclosed on Schedule 5.9; (c) the Bankruptcy Case; and (d) matters arising after the date hereof that, if decided adversely to Borrower, would not materially impair the prospect of repayment of the Obligations or materially impair the value or priority of Foothill's security interests in the Collateral. Except for the appeal disclosed on Schedule 5.9, there are no appeals, stays, injunctions or other legal proceedings or other legal, equitable, or administrative actions in respect of the Bankruptcy Case, the Plan of Reorganization, the Financing Order, or otherwise, that would materially and adversely affect the consummation of the financing contemplated hereby on the terms set forth herein.

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

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

5.12 Employee Benefits. Except as set forth on Schedule 5.12, each Plan is in compliance in all material respects with the applicable provisions of ERISA and the IRC. Each Qualified Plan and Multiemployer Plan has been determined by the Internal Revenue Service to qualify under Section 401 of the IRC, and the trusts created thereunder have been determined to be exempt from tax under Section 501

of the IRC, and, to the best knowledge of Borrower, nothing has occurred that would cause the loss of such qualification or tax-exempt status. There are no outstanding liabilities under Title IV of ERISA with respect to any Plan maintained or sponsored by Borrower or any ERISA Affiliate, nor with respect to any Plan to which Borrower or any ERISA Affiliate contributes or is obligated to contribute which could reasonably be expected to have a material adverse effect on the financial condition of Borrower. No Plan subject to Title IV of ERISA has any Unfunded Benefit Liability which could reasonably be expected to have a material adverse effect on

the financial condition of Borrower. Neither Borrower nor any ERISA Affiliate has transferred any Unfunded Benefit Liability to a person other than Borrower or an ERISA Affiliate or has otherwise engaged in a transaction that could be subject to Sections 4069 or 4212(c) of ERISA which could reasonably be expected to have a material adverse effect on the financial condition of Borrower. Neither Borrower nor any ERISA Affiliate has incurred nor reasonably expects to incur (x) any liability (and no event has occurred which, with the giving of notice under Section 4219 of ERISA, would result in such liability) under Sections 4201 or 4243 of ERISA with respect to a Multiemployer Plan, or (y) any liability under Title IV of ERISA (other than premiums due but not delinquent under Section 4007 of ERISA) with respect to a Plan, which could, in either event, reasonably be expected to have a material adverse effect on the financial condition of Borrower. No application for a funding waiver or an extension of any amortization period pursuant to Section 412 of the IRC has been made with respect to any Plan. Except as set forth on Schedule 5.12, no ERISA Event has occurred or is reasonably expected to occur with respect to any Plan which could reasonably be expected to have a material adverse effect on the financial condition of Borrower. Borrower and each ERISA Affiliate have complied in all material respects with the notice and continuation coverage

requirements of Section 4980B of the IRC.

5.13 Environmental Condition. None of Borrower's properties or assets has ever been used by Borrower or, to the best of Borrower's knowledge, by previous owners or operators in the disposal of, or to produce, store, handle, treat, release, or transport, any Hazardous Materials. None of Borrower's properties or assets has ever been designated or identified in any manner pursuant to any environmental protection statute as a Hazardous Materials disposal site, or a candidate for closure pursuant to any environmental protection statute. No lien arising under any environmental protection statute has attached to any revenues or to any real or personal property owned or operated by Borrower. Borrower has not received a summons, citation, notice, or directive from the Environmental Protection Agency or any other federal or state governmental agency concerning any action or omission by Borrower resulting in the releasing or disposing of Hazardous Materials into the environment.

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

6. AFFIRMATIVE COVENANTS.

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

following:

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

6.2 Collateral Reports. Borrower shall deliver to Foothill, no later than the tenth (10th) Business Day after the end of each of Borrower's monthly accounting periods during the term of this Agreement, a detailed aging, by total, of the Accounts, a reconciliation statement, and a summary aging, by vendor, of all accounts payable and any book overdraft. Borrower shall deliver to Foothill, as Foothill may from time to time require, collection reports and sales journals. Absent such a request by Foothill, copies of all such documentation shall be held by Borrower as custodian for Foothill.

6.3 Financial Statements, Reports, Certificates. Borrower agrees to deliver to Foothill: (a) as soon as available, but in any event within thirty (30) days after the end of each month during each of Borrower's fiscal years, a company prepared balance sheet, income statement, and cash flow statement covering Borrower's operations during such period; and (b) as soon as available, but in any event within ninety (90) days after the end of each of Borrower's fiscal years, financial statements of Borrower for each such fiscal year, audited by independent certified public accountants reasonably acceptable to Foothill and certified, without any qualifications, by such accountants to have been prepared in accordance with GAAP, together with a certificate of such accountants addressed to Foothill stating that such accountants do not have knowledge of the existence of any event or condition constituting an Event of Default, or that would, with the passage of time or the giving of notice, constitute an Event of Default. Such

audited financial statements shall include a balance sheet, profit and loss statement, and cash flow statement, and, if prepared, such accountants' letter to management. Borrower agrees to deliver financial statements prepared on a consolidating basis so as to present Borrower and Parent on a consolidated basis.

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

Each month, together with the financial statements provided pursuant to Section 6.3(a), Borrower shall deliver to Foothill a certificate signed by its chief financial officer to the effect that: (i) all reports, statements, or computer prepared information of any kind or nature delivered or caused to be delivered to Foothill hereunder have been prepared in accordance with GAAP and fairly present the financial condition of Borrower; (ii) Borrower is in timely compliance with all of its covenants and agreements hereunder; (iii) the representations and warranties of Borrower contained in this Agreement and the other Loan Documents are true and correct in all material respects on and as of the date of such certificate, as though made on and as of such date (except to the extent that such representations and warranties relate solely to an earlier date); and (iv) on the date of delivery of such certificate to Foothill there does not exist any condition or event that constitutes an Event of Default (or, in each case, to the extent of any non-compliance, describing such non-compliance as to which he or she may have knowledge and what action Borrower has taken, is taking, or proposes to take with respect thereto).

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

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

6.5 Designation of Inventory. Borrower shall now and from time to time hereafter, but not less frequently than weekly, execute and deliver to Foothill a designation of Inventory specifying Borrower's cost and the retail value of Borrower's Inventory, and further specifying such other information as Foothill may reasonably request.

6.6 Returns. Returns and allowances, if any, as between Borrower and its Account Debtors shall be on the same basis and in accordance with the usual customary practices of Borrower, as they exist at the time of the execution and delivery of this Agreement. If, at a time, any customer returns any Inventory to Borrower, Borrower promptly shall determine the reason for such return and, if Borrower accepts such return, issue a credit memorandum in the appropriate amount to such Account Debtor.

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

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

6.9 Taxes. All assessments and taxes, whether real, personal, or otherwise, due or payable by, or imposed, levied, or assessed against Borrower or any of its property have been paid, and shall hereafter be paid in full, before delinquency or before the expiration of any extension period or in a manner consistent with the Plan of Reorganization. Borrower shall make due and timely payment or deposit of all federal, state, and local taxes, assessments, or contributions required of it by law, and will execute and deliver to Foothill, on demand, appropriate certificates attesting to the payment thereof or deposit with respect thereto. Borrower will make timely payment or deposit of all tax payments and withholding taxes required of it by applicable laws, including those laws concerning F.I.C.A., F.U.T.A., state disability, and local, state, and federal income taxes, and will, upon request, furnish Foothill with proof satisfactory to Foothill indicating that Borrower has made such payments or deposits.

6.10 Insurance.

(a) Borrower, at its expense, shall keep the Collateral insured against loss or damage by fire, theft, explosion, sprinklers, and all other hazards and risks, and in such amounts, as are ordinarily insured against by other owners in similar businesses. Borrower also shall maintain business interruption, public liability, product liability, and property damage insurance relating to Borrower's ownership

and use of the Collateral, as well as insurance against larceny, embezzlement, and criminal misappropriation.

(b) All such policies of insurance shall be in such form, with such companies, and in such amounts as may be reasonably satisfactory to Foothill. All such policies of insurance (except those of public liability and property damage) shall contain a 438BFU lender's loss payable endorsement, or an equivalent endorsement in a form satisfactory to Foothill, showing Foothill as sole loss payee thereof, and shall contain a waiver of warranties, and shall specify that the insurer must give at least ten (10) days prior written notice to Foothill before canceling its policy for any reason. Borrower shall deliver to Foothill certified copies of such policies of insurance and evidence of the payment of all premiums therefor. All proceeds payable under any such policy shall be payable to Foothill to be applied on account of the Obligations.

6.11 Financial Covenants. Borrower shall maintain:

(a) Current Ratio. A ratio of Consolidated Current Assets divided by Consolidated Current Liabilities of at least one and forty-five one hundredths to one (1.45:1.0), measured on a fiscal quarter-end basis; and

(b) Total Liabilities to Tangible Net Worth Ratio. A ratio of Borrower's total liabilities divided by Tangible Net Worth of not more than two and one tenth to one (2.1:1.0), measured on a fiscal quarter-end basis.

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

6.13 Location of Inventory and Equipment. Borrower shall keep the

Inventory and Equipment only at the locations identified on Schedule 6.13; provided, however, that Borrower may amend Schedule 6.13 so long as such amendment occurs by written notice to Foothill not less than thirty (30) days prior to the date on which the Inventory or Equipment is moved to such new location, so long as such new location is within the continental United States, and so long as, at the time of such written notification, Borrower provides any financing statements or fixture filings necessary to perfect and continue perfected Foothill's security interests in such assets and also provides to Foothill a landlord's waiver in form and substance satisfactory to Foothill.

6.14 Compliance with Laws. Borrower shall comply with the requirements of all applicable laws, rules, regulations, and orders of any governmental authority, including the Fair Labor Standards Act and the Americans With Disabilities Act, other than laws, rules, regulations, and orders the non-compliance with which, individually or in the aggregate, would not have and could not reasonably be expected to have a material adverse effect on the business, operations, condition (financial or otherwise), finances, or prospects of Borrower or on the value of the Collateral to Foothill.

6.15 Employee Benefits.

(a) Unless already disclosed on Schedule 5.12, Borrower shall deliver to Foothill a written statement by the chief financial officer of Borrower specifying the nature of any of the following events and the actions which Borrower proposes to take with respect thereto promptly, and in any event within ten (10) days of becoming aware of any of them, and when known, any action taken or threatened by the Internal Revenue Service, PBGC, Department of Labor, or other party with respect thereto: (i) an ERISA Event with respect to any Plan; (ii) the incurrence of an obligation to pay additional premium to the PBGC under Section 4006(a)(3)(E) of ERISA with respect to any Plan; and (iii) any lien on the assets of Borrower arising in

connection with any Plan.

(b) Borrower shall also promptly furnish to Foothill copies prepared or received by Borrower or an ERISA Affiliate of: (i) at the request of Foothill, each annual report (Internal Revenue Service Form 5500 series) and all accompanying schedules, actuarial reports, financial information concerning the financial status of each Plan, and schedules showing the amounts contributed to each Plan by or on behalf of Borrower or its ERISA Affiliates for the most recent three (3) plan years; (ii) all notices of intent to terminate or to have a trustee appointed to administer any Plan; (iii) all written demands by the PBGC under Subtitle D of Title IV of ERISA; (iv) all notices required to be sent to employees or to the PBGC under Section 302 of ERISA or Section 412 of the IRC; (v) all written notices received with respect to a Multiemployer Plan concerning (x) the imposition or amount of withdrawal liability pursuant to Section 4202 of ERISA, (y) a termination described in Section 4041A of ERISA, or (z) a reorganization or insolvency described in Subtitle E of Title IV of ERISA; (vi) the adoption of any new Plan that is subject to Title IV of ERISA or Section 412 of the IRC by Borrower or any ERISA Affiliate; (vii) the adoption of any amendment to any Plan that is subject to Title IV of ERISA or Section 412 of the IRC, if such amendment results in a material increase in benefits or Unfunded Benefit Liability; or (viii) the commencement of contributions by Borrower or any ERISA Affiliate to any Plan that is subject to Title IV of ERISA or Section 412 of the IRC.

6.16 Store Openings and Closings. Borrower shall give Foothill reasonable prior notice of new store openings and closing of its stores.

6.17 Inventory Audits. Borrower shall continue to take physical counts of its Inventory at least once in each fiscal year. Such physical inventory taking will be observed by Borrower's independent certified public

accountants.

6.18 Real Property Leases. Borrower shall make timely payment of all rents and other monies payable on real property leases where Borrower is lessee unless such payments are contested in good faith by Borrower and the failure to pay such monies could not reasonably be expected to materially and adversely affect Borrower or the Collateral. Borrower shall also make timely payments to consignors of Inventory, if any, and in the event that Borrower does not make the such payments, Foothill may, in its discretion establish reasonable reserves for delinquent payments.

6.19 Landlord Waivers. Borrower shall use its best efforts to obtain landlord waivers from the lessors of its stores to the extent that such waivers are not otherwise required on or before the Closing Date.

7. NEGATIVE COVENANTS.

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

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

(a) Indebtedness evidenced by this Agreement;

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

(c) Indebtedness secured by Permitted Liens; and

(d) refinancings, renewals, or extensions of Indebtedness permitted under clauses (b) and (c) of this Section 7.1 (and continuance or renewal of any Permitted Liens associated therewith) so long as: (i) the terms and conditions of such refinancings, renewals, or extensions do not materially impair the

prospects of repayment of the Obligations by Borrower, (ii) the net cash proceeds of such refinancings, renewals, or extensions do not result in an increase in the aggregate principal amount of the Indebtedness so refinanced, renewed, or extended, (iii) such refinancings, renewals, refundings, or extensions do not result in a shortening of the average weighted maturity of the Indebtedness so refinanced, renewed, or extended, and (iv) to the extent that Indebtedness that is refinanced was subordinated in right of payment to the Obligations, then the subordination terms and conditions of the refinancing Indebtedness must be at least as favorable to Foothill as those applicable to the refinanced Indebtedness.

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

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

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

of any of Borrower's properties or assets (other than sales of Inventory to buyers in the ordinary course of Borrower's business as currently conducted).

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

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

7.7 Restructure. Make any change in Borrower's financial structure, the principal nature of Borrower's business operations, or the date of its fiscal year.

7.8 Prepayments. Except in connection with a refinancing permitted by Section 7.1(d), prepay any Indebtedness owing to any third Person.

7.9 Change of Control. Except for the issuance of shares by Borrower pursuant to the Plan of Reorganization, cause, permit, or suffer, directly or indirectly, any Change of Control.

7.10 Capital Expenditures. Make any capital expenditure in excess of Two Hundred Fifty Thousand Dollars ($250,000) for any individual transaction or where the aggregate amount of such capital expenditures, made or in the fiscal year ending January 31, 1995 is in excess of One Million Dollars ($1,000,000) or in excess of Three Million Dollars ($3,000,000) in any subsequent fiscal year.

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

7.12 Accounting Methods. Modify or change its method of accounting

or enter into, modify, or terminate any agreement currently existing, or at any time hereafter entered into with any third party accounting firm or service bureau for the preparation or storage of Borrower's accounting records without said accounting firm or service bureau agreeing to provide Foothill information regarding the Collateral or Borrower's financial condition. Borrower waives the right to assert a confidential relationship, if any, it may have with any accounting firm or service bureau in connection with any information requested by Foothill pursuant to or in accordance with this Agreement, and agrees that Foothill may contact directly any such accounting firm or service bureau in order to obtain such information.

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

7.14 Transactions with Affiliates. Directly or indirectly enter into or permit to exist any material transaction with any Affiliate of Borrower except for transactions set forth on Schedule 7.14.

7.15 Suspension. Suspend or go out of a substantial portion of its business.

7.16 Compensation. Increase the annual fee or per-meeting fees paid to directors during any year by more than fifteen percent (15%) over the prior year; pay or accrue total cash compensation, during any year, to officers and senior management employees in an aggregate amount in excess of one hundred fifteen percent (115%) of that paid or accrued in the prior year. In addition, Borrower may pay performance bonuses to officers and senior management employees with the approval of Foothill, which approval will not be unreasonably withheld.

7.17 Use of Proceeds. Use the proceeds of the advances made hereunder for any purpose other than: (a) to pay that portion of Borrower's obligations under the Plan

that is not funded with other monies held by Borrower; (b) to pay transactional fees, costs and expenses incurred in connection with this Agreement; and (c) thereafter, consistent with the terms and conditions hereof, for its lawful and permitted corporate purposes.

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

8. EVENTS OF DEFAULT.

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

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

8.2 If Borrower fails or neglects to perform, keep, or observe any term, provision, condition, covenant, or agreement contained in this Agreement, in any of the

Loan Documents, or in any other present or future agreement between Borrower and Foothill;

8.3 If there is a material impairment of the prospect of repayment of any portion of the Obligations owing to Foothill or a material impairment of the value or priority of Foothill's security interests in the Collateral;

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

8.5 If an Insolvency Proceeding is commenced by Borrower;

8.6 If an Insolvency Proceeding is commenced against Borrower and any of the following events occur: (a) Borrower consents to the institution of the Insolvency Proceeding against it; (b) the petition commencing the Insolvency Proceeding is not timely controverted; (c) the petition commencing the Insolvency Proceeding is not dismissed within forty-five (45) calendar days of the date of the filing thereof; provided, however, that, during the pendency of such period, Foothill shall be relieved of its obligation to make additional advances or issue additional L/Cs or L/C Guarantees hereunder; (d) an interim trustee is appointed to take possession of all or a substantial portion of the properties or assets of, or to operate all or any substantial portion of the business of, Borrower; or (e) an order for relief shall have been issued or entered therein;

8.7 If Borrower is enjoined, restrained, or in any way prevented by court order from continuing to conduct all or any material part of its business affairs;

8.8 If a notice of lien, levy, or assessment is filed of record with respect to any of Borrower's properties or assets by the United States Government, or any department, agency, or instrumentality thereof, or by any state, county, municipal, or governmental agency, or if any taxes or debts owing at any time hereafter to any one or more of such entities becomes a lien, whether choate or otherwise, upon any of Borrower's

properties or assets and the same is not paid on the payment date thereof;

8.9 If a judgment or other claim becomes a lien or encumbrance upon any material portion of Borrower's properties or assets;

8.10 If there is a default in any material agreement to which Borrower is a party with one or more third Persons resulting in a right by such third Persons, irrespective of whether exercised, to accelerate the maturity of Borrower's obligations thereunder;

8.11 If Borrower makes any payment on account of Indebtedness that has been contractually subordinated in right of payment to the payment of the Obligations,

except to the extent such payment is permitted by the terms of the subordination provisions applicable to such Indebtedness;

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

8.13 If the obligation of any third Person under any Loan Document is limited or terminated by operation of law or by such third Person thereunder, or any such third Person becomes the subject of an Insolvency Proceeding;

8.14 If (a) with respect to any Plan, there shall occur any of the following which could reasonably be expected to have a material adverse effect on the financial condition of Borrower: (i) the violation of any of the provisions of ERISA; (ii) the loss by a Plan intended to be a Qualified Plan of its qualification under Section 401(a) of the IRC; (iii) the incurrence of liability under Title IV of ERISA; (iv) a failure to make full payment

when due of all amounts which, under the provisions of any Plan or applicable law, Borrower or any ERISA Affiliate is required to make; (v) the filing of a notice of intent to terminate a Plan under Sections 4041 or 4041A of ERISA; (vi) a complete or partial withdrawal of Borrower or an ERISA Affiliate from any Plan; (vii) the receipt of a notice by the plan administrator of a Plan that the PBGC has instituted proceedings to terminate such Plan or appoint a trustee to administer such Plan; (viii) a commencement or increase of contributions to, or the adoption of or the amendment of, a Plan; and (ix) the assessment against Borrower or any ERISA Affiliate of a tax under Section 4980B of the IRC; or (b) the Unfunded Benefit Liability of all of the Plans of Borrower and its ERISA Affiliates shall, in the aggregate, exceed Eight Hundred Thousand Dollars ($800,000); or

8.15 If there shall occur an "Event of Default" as defined in Section 3.1 of the Financing Order.

9. FOOTHILL'S RIGHTS AND REMEDIES.

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

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

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

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

(d) Settle or adjust disputes and claims directly with Account

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

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

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

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

(h) Hold, as cash collateral, any and all balances and deposits of

Borrower held by Foothill, and any amounts received in the Lock Box, to secure the full and final repayment of all of the Obligations;

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

the Collateral, in completing production of, advertising for sale, and selling any Collateral and Borrower's rights under all licenses and all franchise agreements shall inure to Foothill's benefit;

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

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

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

(2) The notice shall be personally delivered or mailed, postage prepaid, to Borrower as provided in Section 12, at least five (5) days before the date fixed for the sale, or at least five (5) days before the date on or after which the private sale or other disposition is to be made; no notice needs to be given prior to the disposition of

any portion of the Collateral that is perishable or threatens to decline speedily in value or that is of a type customarily sold on a recognized market. Notice to Persons other than Borrower claiming an interest in the Collateral shall be sent to such addresses as they have furnished to Foothill;

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

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

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

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

10. TAXES AND EXPENSES REGARDING THE COLLATERAL.

If Borrower fails to pay any monies (whether taxes, rents, assessments, insurance premiums, or otherwise) due to third Persons, or fails to make any deposits or furnish any required proof of payment or deposit, all as required under the terms of this Agreement, then, to the extent that Foothill determines that

such failure by Borrower could have a material adverse effect on Foothill's interests in the Collateral, in its discretion and without prior notice to Borrower, Foothill may do any or all of the following: (a) make payment of the same or any part thereof; (b) set up such reserves in Borrower's loan account as Foothill deems necessary to protect Foothill from the exposure created by such failure; or (c) obtain and maintain insurance policies of the type described in Section 6.10, and take any action with respect to such policies as Foothill deems prudent. Any such amounts paid by Foothill shall constitute Foothill Expenses. Any such payments made by Foothill shall not constitute an agreement by Foothill to make similar payments in the future or a waiver by Foothill of any Event of Default under this Agreement. Foothill need not inquire as to, or contest the validity of, any such expense, tax, security interest, encumbrance, or lien and the receipt of the usual official notice for the payment thereof shall be conclusive evidence that the same was validly due and owing.

11. WAIVERS; INDEMNIFICATION.

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

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

11.3 Indemnification. Borrower agrees to defend, indemnify, save, and hold Foothill and its officers, employees, and agents harmless against: (a) all obligations, demands, claims, and liabilities claimed or asserted by any other Person arising out of or relating to the transactions contemplated by this Agreement or any other Loan Document, and (b) all losses (including attorneys fees and disbursements) in any way suffered, incurred, or paid by Foothill as a result of or in any way arising out of, following, or consequential to the transactions contemplated by this Agreement or any other Loan Document. This provision shall survive the termination of this Agreement.

12. NOTICES.

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

If to Borrower: BRENDLE'S INCORPORATED
1919 North Bridge Street
Elkin, North Carolina 28621
Attn.: David E. Renegar,
Chief Financial Officer
Telefacsimile No. (910) 526-6632

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

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

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

THE VALIDITY OF THIS AGREEMENT, ITS CONSTRUCTION, INTERPRETATION, AND ENFORCEMENT, AND THE RIGHTS OF THE PARTIES HERETO WITH RESPECT TO ALL MATTERS ARISING HEREUNDER OR RELATED HERETO SHALL BE DETERMINED UNDER, GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF CALIFORNIA, WITHOUT GIVING EFFECT TO ITS CONFLICT OF LAWS PRINCIPLES. THE PARTIES AGREE THAT ALL ACTIONS OR PROCEEDINGS ARISING IN CONNECTION WITH THIS AGREEMENT SHALL BE TRIED AND

LITIGATED ONLY IN THE STATE AND FEDERAL COURTS LOCATED IN THE COUNTY OF LOS ANGELES, STATE OF CALIFORNIA OR, AT THE SOLE OPTION OF FOOTHILL, IN ANY OTHER COURT IN WHICH FOOTHILL SHALL INITIATE LEGAL OR EQUITABLE PROCEEDINGS AND WHICH HAS SUBJECT MATTER JURISDICTION OVER THE MATTER IN CONTROVERSY. EACH OF BORROWER AND FOOTHILL WAIVES, TO THE EXTENT PERMITTED UNDER APPLICABLE LAW, ANY RIGHT EACH MAY HAVE TO ASSERT THE DOCTRINE OF FORUM NON CONVENIENS OR TO OBJECT TO VENUE TO THE EXTENT ANY PROCEEDING IS BROUGHT IN ACCORDANCE WITH THIS SECTION 13. BORROWER AND FOOTHILL HEREBY WAIVE THEIR RESPECTIVE RIGHTS TO A JURY TRIAL OF ANY CLAIM OR CAUSE OF ACTION BASED UPON OR ARISING OUT OF ANY OF THE LOAN DOCUMENTS OR ANY OF THE TRANSACTIONS CONTEMPLATED THEREIN, INCLUDING CONTRACT CLAIMS, TORT CLAIMS, BREACH OF DUTY CLAIMS, AND ALL OTHER COMMON LAW OR STATUTORY CLAIMS. BORROWER AND FOOTHILL REPRESENT THAT EACH HAS REVIEWED THIS WAIVER AND EACH KNOWINGLY AND VOLUNTARILY WAIVES ITS JURY TRIAL RIGHTS FOLLOWING CONSULTATION WITH LEGAL COUNSEL. IN THE EVENT OF LITIGATION, A COPY OF THIS AGREEMENT MAY BE FILED AS A WRITTEN CONSENT TO A TRIAL BY THE COURT.

14. DESTRUCTION OF BORROWER'S DOCUMENTS.

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

15. GENERAL PROVISIONS.

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

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

or hereafter may have relating to Borrower or Borrower's business. To the extent that Foothill assigns its rights and obligations hereunder to a third Person, Foothill shall thereafter be released from such assigned obligations to Borrower and such assignment shall effect a novation between Borrower and such third Person.

15.3 Section Headings. Headings and numbers have been set forth herein for convenience only. Unless the contrary is compelled by

the context, everything contained in each section applies equally to this entire Agreement.

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

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

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

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

15.8 Revival and Reinstatement of Obligations. If the incurrence or payment of the Obligations by Borrower or any guarantor of the Obligations or the transfer by either or both of such parties to Foothill of any property of either or both of such parties should for any reason subsequently be declared to be void or voidable under any state or

federal law relating to creditors' rights, including provisions of the Bankruptcy Code relating to fraudulent conveyances, preferences, and other voidable or recoverable payments of money or transfers of property (collectively, a "Voidable Transfer"), and if Foothill is required to repay or restore, in whole or in part, any such Voidable Transfer, or elects to do so upon the reasonable advice of its counsel, then, as to any such Voidable Transfer, or the amount thereof that Foothill is required or elects to repay or restore, and as to all reasonable costs, expenses, and attorneys fees of Foothill related thereto, the liability of

Borrower or such guarantor automatically shall be revived, reinstated, and restored and shall exist as though such Voidable Transfer had never been made.

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

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

FOOTHILL CAPITAL CORPORATION,
a California corporation

By_____

Title:_____

BRENDLE'S INCORPORATED,
a North Carolina corporation

By_____

Title:_____

SCHEDULE 5.9
TO THE LOAN AND SECURITY AGREEMENT
BY AND BETWEEN
BRENDLE'S INCORPORATED AND FOOTHILL CAPITAL CORPORATION
DATED AS OF APRIL 21, 1994

LITIGATION

1. Objections to claims filed or to be filed in the Bankruptcy Case consistent with the terms of the Plan of Reorganization.

2. Claims resulting from an investigation by the United States Department of Labor. An agreement between the Borrower and the United States Department of Labor has been reached whereby the Borrower will pay certain employees an aggregate of 18,007.20 as cost of administration claims and an aggregate of $31,903.20 as priority wage claims. Additionally, an aggregate total of $216,367.00 will be treated as allowed general unsecured claims, subject to treatment under Class 9 of the Plan of Reorganization. A motion seeking approval of this compromise will be filed in the Bankruptcy Case.

3. The issue of whether the Class 8 claimants identified in the Plan of Reorganization are entitled to any adequate assurance of future performance is subject to Bankruptcy Court determination.

4. RODNEY ROCKETT V. BRENDLE'S STORES, INC., Case Number 2:93-CV-339 (E.D.Tenn.) involves a post-petition action brought by a terminated employee seeking reinstatement, back pay, and attorneys' fees. This action is being actively defended by the Borrower.

SCHEDULE 6.13
TO THE LOAN AND SECURITY AGREEMENT
BY AND BETWEEN
BRENDLE'S INCORPORATED AND FOOTHILL CAPITAL CORPORATION
DATED AS OF APRIL 21, 1994

LOCATION OF INVENTORY AND EQUIPMENT

No.	Location	Address
1	Elkin	1925 North Bridge Street

		Elkin, NC 28621
2	Winston-Salem	2610 Peters Creek Parkway Winston-Salem, NC 27107
3	Hickory	Route 3, Box 1502 Hwy 64-70 Newton, NC 28658
4	Greensboro	3726 Battleground Avenue Greensboro, NC 27404
5	Chapel Hill	1801 Chapel/Durham Blvd. Chapel Hill, NC 27514
6	Asheville	Innsbrook Mall Asheville, NC 28805
7	Kingsport, TN	1505 East Stone Drive Kingsport, TN 37660
9	Concord	210 Cloverleaf Plaza Concord, NC 287025
10	Raleigh	4440 Creedmoor Road Raleigh, NC 27612
11	Winston-Salem	2890 Reynolda Manor Shp Ctr Winston-Salem, NC 27106
13	Burlington	Edgewood Village Shp Ctr 3010 S. Church Burlington, NC 27215
14	Wilson	2101 South Tarboro Street Wilson, NC 27893
15	Myrtle Beach	3454 Hwy 501 West Myrtle Beach, SC 29577
16	Raleigh	3219 South Wilmington St. Raleigh, NC 27603
17	Greensboro	3020 High Point Road Greensboro, NC 27403
18	Jacksonville	1291 Hargett Street Jacksonville, NC 28540
19	Roanoke, VA	4208 Electric Rd Roanoke, VA 24014
23	Boone	300 Greenway Road Boone 28607
24	Kinston	601 Plaza Blvd. Kinston, NC 28501
25	Roanoke-Rapids	Hwy 158 & T Ave. Roanoke Rapids, NC 27870
26	Salisbury	1811 East Innes Street Salisbury, NC 28144
29	Anderson, SC	3719 Clemson Blvd. Anderson, SC 29621
30	Spartanburg	1185 Ashville Highway Spartanburg, SC 29303
31	Florence	2853 David J. McLeod Blvd.

		Florence, SC 29501
34	Enka	901 Smoky Pk Hwy West Ridge Market Place Enka, NC 2828
38	Wilmington	127 S. College Road, Suite 50 Wilmington, NC 28403
42	Greenville, NC	3700 S. Memorial Drive Greenville, NC 27834
46	Christiansburg	2505 Market Street Christiansburg, VA 24073
50	New Bern	3003 Clarendon Blvd. Ste 13 New Bern, NC 28562
52	Fayetteville	505 Cross Creek Mall Morganton Road Fayetteville, NC 28303
	Distribution Center	Highway 21, Poplar Springs Road Elkin, NC 28621
95	Corporate Headquarters	1919 North Bridge Street Elkin, NC 28621

SCHEDULE E-1
TO THE LOAN AND SECURITY AGREEMENT
BY AND BETWEEN
BRENDLE'S INCORPORATED AND FOOTHILL CAPITAL CORPORATION
DATED AS OF APRIL 21, 1994

LOCATION OF ELIGIBLE INVENTORY

See Schedule 6.13

SCHEDULE P-1
TO THE LOAN AND SECURITY AGREEMENT
BY AND BETWEEN
BRENDLE'S INCORPORATED AND FOOTHILL CAPITAL CORPORATION
DATED AS OF APRIL 21, 1994

PERMITTED LIENS

1. The first priority lien and security interest of Monogram Credit Card Bank (Monogram) arising from monies due from Monogram to Borrower with respect to any claims of Monogram against Borrower directly related to its processing of

Borrower's credit card sales arising under the Monogram Credit Card Bank of Georgia Program Agreement dated as of March 20, 1989, as subsequently amended.

2. The lien of Hyster Credit Company, 222 S.W. Columbia, Suite 800, Portland, Oregon 97201 on 8 Hyster Lift Trucks.

3. The lien of Litton Systems, Inc., Airtron Division, Diamonair Products Group, 200 East Hanover Avenue, Morris Plains, NJ 07950 on all 14-carat gold jewelry, rings, pendants, earrings, all cubic zirconia or other related items with the "Li" symbol stamped in gold jewelry.

4. The Borrower from time to time enters into consignment relationships, primarily with reference to jewelry. The only consignment relationship currently existing is with Diamonair Products Group and there is currently in consigned inventory items of a cost of $266.25. Consigned inventory is specially coded and is itemized separately from the Borrower's general inventory.

SCHEDULE 7.14
TO THE LOAN AND SECURITY AGREEMENT
BY AND BETWEEN
BRENDLE'S INCORPORATED AND FOOTHILL CAPITAL CORPORATION
DATED AS OF APRIL 21, 1994

TRANSACTIONS WITH AFFILIATES

1. SHAREHOLDERS' AGREEMENTS:

In April of 1986, prior to the initial public offering of the Company's Common Stock, all of the then shareholders of the Company (including Douglas D. Brendle, S. Floyd Brendle, Patty Brendle Redway, and William F. Cosby) entered into a Shareholders' Agreement with the Company. Therein, the shareholders agreed, among other things, to restrict the transfer of their Common Stock to any unrelated party (as defined) without the written consent of all remaining shareholders who are parties to the Agreement unless the transferring shareholder gives a right of first refusal to related parties (as defined) of the transferring shareholder and to the remaining shareholders who are parties to the Agreement, and such right of first refusal is not exercised. In addition,

the Shareholders' Agreement gives the right, exercisable within nine months of death, to the personal representative of certain deceased shareholders who were parties to the Agreement, to cause the Company to redeem from the deceased shareholder's estate up to that number of shares of Common Stock of the Company owned by the deceased shareholder at his death valued at the average of the closing prices for the 20 trading days prior to the date of death, not to exceed the life insurance proceeds received the Company as a result of such death. The Company has purchased life insurance in the face amounts set forth at a net aggregate cost (premiums less dividends and increase in cash surrender value) for the fiscal year ended January 30, 1993 of approximately $294,926: Douglas D. Brendle, $5,000,000; S. Floyd Brendle, $5,250,000; William F. Crosby, $3,070,000; and Patty Brendle Redway, $3,000,000. The Company has borrowed $1,983,000, in the aggregate, against these policies.

2. SPLIT DOLLAR INSURANCE AGREEMENTS:

The Company has entered into split dollar life insurance agreements for the benefit of six of its executive officers and/or directors or their spouses and families. Upon the death of any such officer or director, the Company will receive not less than the net premiums paid, and the insured's beneficiary will receive the balance of the insurance proceeds. Pursuant to the agreements, life insurance coverage, the premiums for which are paid by the Company, has been purchased on the following persons in the following aggregate policy amounts: Douglas D. Brendle, $3,000,000; S, Floyd Brendle, $2,000,000; Aubrey L. Miller, $153,097; W. Steven Day, $132,785; Steven W. Luka, $123,758 and David R. Renegar, $113,220. The Company's net aggregate cost (premiums less dividends and increase in cash surrender value) for such insurance for the fiscal year ended January 30, 1993 was approximately $103,994.00. Borrower may allow the insureds to buy the respective policies for an amount equal to the cash surrender value of the respective policy; however, if the Borrower retains an interest in the policies, Foothill shall be designated as a beneficiary of the policies in place of the Borrower and these policies will be deemed

additional Collateral.

SCHEDULE 7.14
Page 2

3. LEASES:

Brenco, a partnership consisting of Douglas D. Brendle, S. Floyd Brendle, William F. Cosby, and two Trusts under an Agreement with J. Harold Brendle, dated October 20, 1982 ("Brenco"), leases 13 stores and the Borrower's corporate office building and contiguous warehouse to the Borrower. These leases will be the subject of a motion made in the Borrower's Bankruptcy Case to assume the leases with modifications as are more particularly set forth in a document entitled "Terms of Proposed Master Amendment to Brenco Leases" which was furnished to Foothill on April 29, 1994.

Brenco is the owner and franchisee of the Holiday Inn located in Elkin, North Carolina in which the Borrower holds various meetings and corporate functions. The Borrower is charged standard corporate rates for these services.

4. TRANSPORTATION ACTIVITIES:

The Borrower occasionally uses an airplane owned by Sky-Lease, Inc., the voting securities of which are owned by Douglas D. Brendle, S. Floyd Brendle, William F. Cosby, and a Trust under an Agreement dated October 20, 1982 with J. Harold Brendle. In fiscal year ending January 30, 1993 Sky-Lease, Inc. was paid an aggregate of $35,820 in rent charges for such airplanes. For so long as Foothill remains obligated to make advances under the loan, its transactions with Sky-Lease shall be on fair and reasonable terms no less favorable to Borrower than would obtain in a comparable arm's length transaction with an unaffiliated third party and, in any event, the amount paid to Sky-Lease, Inc. in any fiscal year shall not exceed Fifty Thousand Dollars ($50,000).

5. BRENDLE'S TRANSPORT, INC.

Brendle's Transport, Inc. (BTI) is a wholly owned subsidiary of the Borrower which will be merged into the Borrower on or before June 30, 1994. BTI arranges

for the
transportation of the Borrower's inventory from the Borrower's distribution center to the
Borrower's stores. BTI owns trailers and hires contract haulers. The Borrower pays BTI
on the average of $50,000 per month for these services.

6. BFS, INC.:

BFS, Inc., is a wholly owned subsidiary of the Borrower which will be merged into the
Borrower on or before June 30, 1994. BFS, Inc. owns certain trademarks used by the
Borrower in the operation of its business. The Borrower is charged a royalty for the use of
the trademarks based on .0075% of sales. This royalty is reflected by journal entries made
on the Borrowers books; however, no payments are actually made by the Borrower to BFS,
Inc. and no payments will be made by the Borrower to BFS, Inc. at any time prior to the
merger of BFS, Inc. into the Borrower.

7. CONTRACTS WITH OFFICERS AND/OR DIRECTORS:

(a) S. Floyd Brendle has a retirement agreement with the Borrower, which provides,
inter alia, for a salary continuation through June 16, 1995 at an annual rate of $125,000.

(b) The Borrower has employment agreements dated November 17, 1992 with
Messers Renegar, Luka, Miller, Stegall and Day which provide for a one year term of

employment, automatically renewable on January 1 of each year, and automatically extended
by one additional quarter successively on the first day of each calendar quarter.

(c) The Borrower has a Tandem Stock Option Grant and Agreement with William
V. Grady dated December 21, 1992. Mr. Grady also has an employment contract with the
Borrower dated December 9, 1992.

(d) In addition to the standard provisions in the by-laws of the Borrower relating to
indemnity for individuals serving on the board of directors, the Borrower is a party to

agreements with Thomas H. Davis, James B. Edwards and John D. Gray, non-employee directors of the Borrower, to hold each harmless, subject to certain limitations under applicable law, from liabilities arising from service as a director of the Borrower. The agreements contain certain assurances that the provisions of the Borrower's by-laws relating to indemnification of directors will not be changed. It is anticipated that any non-employee director who may be elected or designated to serve on the board in the future will require the same contractual protection.

SUBSIDIARIES
OF
BRENDLE'S INCORPORATED

Alexander's/Brendle's, Inc.

BFS, Inc.

BIC, Inc.

Brendle Transport, Inc.

Brendle's Acceptance Corporation

The Electronic Sports Collection USA, Inc.

EXHIBIT 24

Exhibit 24

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statement on Form S-8 (#33-13622) of Brendle's Incorporated of our report dated March 30, 1994, except for Notes 1 and 13, which is as of April 29, 1994, appearing on pages F-1 and F-2 of this Form 10-K. We also consent to the incorporation by reference of our report on the Financial Statement Schedules, which appears on page F-22 on this Form 10-K.

Signature appears here for Price Waterhouse
Price Waterhouse
Winston-Salem, North Carolina
May 12, 1994

EXHIBIT 25

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that the person whose signatures appears below constitutes and appoints David R. Renegar his true and lawful attorney-in-fact and agent, with full power of substitution and resubstitution, for him in his name, place and stead, in any and all capacities, to sign the Annual Report on Form 10-K of Brendle's Incorporated and any or all amendments to such Annual Report on Form 10-K, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission and with the National Association of Securities Dealers, granting unto said attorney-in-fact and agent, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully and to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorney-in-fact and agent, or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.[qp]

Date: May 10, 1994

Signature:

Signature of John D. Gray appears here

John D. Gray

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that the person whose signature appears below constitutes and appoints David R. Renegar his true and lawful attorney-in-fact and agent, with full power of substitution and resubstitution, for him in his name, place and stead, in any and all capacities, to sign the Annual Report on Form 10-K of Brendle's Incorporated and any or all amendments to such Annual Report on For, 10-K, and to file the same,

with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission and with the National Association of Securities Dealers, granting unto said attorney-in-fact and agent, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully and to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorney-in-fact and agent, or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Date: May 10, 1994

Signature:

Signature of Thomas H. Davis appears here

Thomas H. Davis

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that the person whose signature appears below constitutes and appoints David R. Renegar his true and lawful attorney-in-fact and agent, with full power of substitution and resubstitution, for him in his name, place and stead, in any and all capacities, to sign the Annual Report on Form 10-K of Brendle's Incorporated and any or all amendments to such Annual Report on Form 10-K, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission and with the National Association of Securities Dealers, granting undo said attorney-in-fact and agent, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully and to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorney-in-fact and agent, or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Date: May 11, 1994

Signature:

Signature of James B. Edwards goes here

James B. Edwards