

# SECURITIES AND EXCHANGE COMMISSION

## FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **2003-11-06** | Period of Report: **2003-09-27**  
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### FILER

#### **HAMPSHIRE GROUP LTD**

CIK: **887150** | IRS No.: **060967107** | State of Incorpor.: **DE** | Fiscal Year End: **1231**  
Type: **10-Q** | Act: **34** | File No.: **000-20201** | Film No.: **03982724**  
SIC: **2253** Knit outerwear mills

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D. C. 20549

FORM 10-Q

Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. For the quarterly period ended September 27, 2003.

or

Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. For the transition period from \_\_\_\_\_ to \_\_\_\_\_.

Commission File No. 000-20201

HAMPSHIRE GROUP, LIMITED  
(Exact Name of Registrant as Specified in its Charter)

DELAWARE

06-0967107

-----  
(State of Incorporation)

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

215 COMMERCE BOULEVARD  
ANDERSON, SOUTH CAROLINA 29625  
(Address, Including Zip Code, of Registrant's Principal Executive Offices)

(Registrant's Telephone Number, Including Area Code) (864) 225-6232

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 and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes  No

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

Title of Each Class of Securities	Number of Shares Outstanding as of November 4, 2003
----- Common Stock, \$0.10 Par Value	----- 4,062,721

HAMPSHIRE GROUP, LIMITED  
INDEX TO FORM 10-Q

## Item 1-Financial Statements

Unaudited Condensed Consolidated Balance Sheets as of  
September 27, 2003, September 28, 2002 and December 31, 2002 3

Unaudited Condensed Consolidated Statements of Operations  
for the Nine-Month and Three-Month Periods Ended  
September 27, 2003 and September 28, 2002 4

Unaudited Condensed Consolidated Statements of Cash Flows  
for the Nine-Month Periods Ended September 27, 2003 and  
September 28, 2002 5

Notes to Unaudited Condensed Consolidated Financial Statements 6

Item 2-Management's Discussion and Analysis of Financial Condition  
and Results of Operations 10

Item 3-Quantitative and Qualitative Disclosures About Market Risk 15

Item 4-Controls and Procedures 15

## PART II - OTHER INFORMATION

Item 1-Legal Proceedings 16

Item 6-Exhibits and Reports on Form 8-K 16

Signatures 17

- 2 -

## PART I - FINANCIAL INFORMATION

## Item 1-Financial Statements

<TABLE>

<CAPTION>

HAMPSHIRE GROUP, LIMITED  
UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS  
(in thousands)

	Sept. 27, 2003	Sept. 28, 2002	Dec. 31, 2002*
	-----	-----	-----
<S>	<C>	<C>	<C>
ASSETS			
-----			
Current assets:			
Cash and cash equivalents	\$ 2,007	\$ 357	\$ 66,893
Accounts receivable trade-net	72,683	80,579	27,474
Notes and other accounts receivable-net	738	431	1,619
Inventories	54,809	54,343	14,732
Assets of discontinued operations-net	32,273	37,854	35,786

Other current assets	7,040	4,945	7,228
	-----	-----	-----
Total current assets	169,550	178,509	153,732
Property, plant and equipment-net	1,785	1,586	1,679
Goodwill	8,020	8,020	8,020
Other assets	2,019	3,731	2,514
	-----	-----	-----
Total assets	\$181,374	\$191,846	\$165,945
	=====	=====	=====
LIABILITIES			
-----			
Current liabilities:			
Current portion of long-term debt	\$ 1,930	\$ 2,547	\$ 1,930
Borrowings under line of credit	22,679	34,431	-
Accounts payable	12,958	13,248	6,172
Accrued expenses and other liabilities	13,710	15,721	27,318
Liabilities of discontinued operations	13,946	12,462	11,912
	-----	-----	-----
Total current liabilities	65,223	78,409	47,332
Long-term debt	6,605	10,224	7,583
Deferred compensation	2,352	2,209	2,575
	-----	-----	-----
Total liabilities	74,180	90,842	57,490
	-----	-----	-----
STOCKHOLDERS' EQUITY			
-----			
Common stock	476	472	472
Additional paid-in capital	32,004	31,350	31,484
Retained earnings	74,768	69,183	76,526
Treasury stock	(54)	(1)	(27)
	-----	-----	-----
Total stockholders' equity	107,194	101,004	108,455
	-----	-----	-----
Total liabilities and stockholders' equity	\$181,374	\$191,846	\$165,945
	=====	=====	=====

<FN>

\*Derived from the December 31, 2002 audited consolidated balance sheet.

(The accompanying notes are an integral part of these unaudited financial statements.)

</FN>

</TABLE>

- 3 -

<TABLE>

HAMPSHIRE GROUP, LIMITED  
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
(in thousands, except per share data)

<CAPTION>

Nine-Month Periods Ended	Three-Month Periods Ended
-----------------------------	------------------------------

-----

	Sept. 27, 2003	Sept. 28, 2002	Sept. 27, 2003	Sept. 28, 2002
<S>	<C>	<C>	<C>	<C>
Net sales	\$180,164	\$183,529	\$97,036	\$109,134
Cost of goods sold	135,722	132,082	72,668	79,044
Gross profit	44,442	51,447	24,368	30,090
Selling, general and administrative expenses	37,062	35,319	16,377	15,377
Income from operations	7,380	16,128	7,991	14,713
Other income (expense):				
Interest expense	(645)	(970)	(245)	(386)
Interest income	623	344	85	34
Other	95	(296)	11	(154)
Income before taxes from continuing operations	7,453	15,206	7,842	14,207
Provision for income taxes	2,825	5,753	2,977	5,384
Income from continuing operations	4,628	9,453	4,865	8,823
Discontinued operations:				
Income from discontinued operations, net of tax of \$313, \$47, \$71 and \$76	558	153	171	210
Loss from disposal of discontinued operations, net of tax of \$121	(5,901)	-	(5,901)	-
(Loss) income from discontinued operations	(5,343)	153	(5,730)	210
Net income (loss)	(\$715)	\$9,606	(\$865)	\$9,033
Basic income per share -				
Income from continuing operations	\$0.98	\$2.01	\$1.02	\$1.87
(Loss) income from discontinued operations	(1.13)	0.03	(1.21)	0.04
Net (loss) income	(\$0.15)	\$2.04	(\$0.18)	\$1.92
Diluted income per share -				
Income from continuing operations	\$0.95	\$1.96	\$1.00	\$1.82
(Loss) income from discontinued operations	(1.10)	0.03	(1.18)	0.04
Net (loss) income	(\$0.15)	\$1.99	(\$0.18)	\$1.86
Weighted average number of shares outstanding -	Basic			
	4,724	4,709	4,751	4,716

<FN>  
(The accompanying notes are an integral part of these unaudited  
financial statements.)

</FN>  
</TABLE>

- 4 -

<TABLE>

HAMPSHIRE GROUP, LIMITED  
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(in thousands)

<CAPTION>

	Nine-Month Periods Ended	
	Sept. 27, 2003	Sept. 28, 2002
	<C>	<C>
<b>Cash flows from operating activities:</b>		
Net income (loss)	\$ (715)	\$ 9,606
Loss (income) from discontinued operations	5,343	(153)
	4,628	9,453
Income from continuing operations		
Adjustments to reconcile income from continuing operations to net cash (used in) provided by operating activities:		
Depreciation and amortization	586	523
Provision for bad debts and uncollectible notes	-	195
(Gain) loss on disposal of property	(1)	108
Net deferred compensation costs	162	423
Net change in operating assets and liabilities:		
Receivables	(44,245)	(45,822)
Inventories	(40,077)	(27,604)
Other assets	27	56
Accounts payable, accrued expenses and other liabilities	(6,822)	8,249
	(85,742)	(54,419)
<b>Cash flows from investing activities:</b>		
Capital expenditures	(721)	(633)
Proceeds from sale of property, plant and equipment	30	-
Proceeds from loans	188	188
	(503)	(445)
<b>Cash flows from financing activities:</b>		
Net borrowings under line of credit	22,679	34,431
Proceeds from issuance of long-term debt	-	168
Repayment of long-term debt	(978)	(3,447)
Proceeds from issuance of common stock	524	122
Proceeds from issuance of treasury stock	185	123
Purchases of treasury stock	(1,255)	-

Net cash provided by financing activities	21,155	31,397
Discontinued operations:		
Net cash provided by (used in) discontinued operations	204	(4,327)
Net decrease in cash and cash equivalents	(64,886)	(27,794)
Cash and cash equivalents - beginning of period	66,893	28,151
Cash and cash equivalents - end of period	\$ 2,007	\$ 357
-----		
Supplementary disclosure of cash flow information:		
Cash paid during the period for:		
Interest	\$ 946	\$1,216
Income taxes	5,721	7,311

<FN>

Interest and income taxes paid include amounts related to discontinued operations.

(The accompanying notes are an integral part of these unaudited financial statements.)

</FN>

</TABLE>

- 5 -

HAMPSHIRE GROUP, LIMITED  
NOTES TO UNAUDITED CONDENSED CONSOLIDATED  
FINANCIAL STATEMENTS

NOTE 1. BASIS OF PRESENTATION

The consolidated financial statements are unaudited and include the accounts of Hampshire Group, Limited and its subsidiaries, substantially all of which are wholly-owned (the "Company"). All significant intercompany accounts and transactions have been eliminated in consolidation. These financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and the instructions of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by such generally accepted accounting principles for complete financial statements.

In the opinion of the management of the Company, the unaudited condensed consolidated financial statements contain all adjustments, consisting only of normal recurring adjustments, considered necessary for a fair statement of the results of operations for the interim periods presented, with no material retroactive adjustments. The results of operations for interim periods are not indicative of the results that may be expected for a full year due to the seasonality of the business. These interim unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto for the year ended December 31, 2002, included in the Company's Annual Report on Form 10-K.

Certain reclassifications have been made to data from the previous year to conform with the presentation of the current year. As discussed in Note 4, "Discontinued Operations", in October 2003, the Company concluded to dispose of

its Investment segment and accordingly, the net assets and net liabilities related to that segment are shown as held for sale in the accompanying balance sheets, and the results of operations of the Investment segment have been classified as discontinued operations for all periods presented.

## NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

The Company's significant accounting policies are the same as those applied at December 31, 2002 and disclosed in the Company's audited consolidated financial statements and notes thereto for the year ended December 31, 2002, included in the Company's Annual Report on Form 10-K.

### Stock Based Compensation

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In December 2002, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure". SFAS 148 amends SFAS 123, "Accounting for Stock-Based Compensation", to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS 148 amends the disclosure requirements of SFAS 123 to require more prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The additional disclosure requirements of SFAS 148 were effective for fiscal years ending after December 15, 2002. The Company has elected to continue to follow the intrinsic value method of accounting as prescribed by Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25"), to account for employee stock options. Under APB 25, no compensation expense is recognized unless the exercise price of the Company's employee stock options is less than the market price of the underlying stock on the date

- 6 -

of grant. The Company has not recorded compensation expense in the periods presented because stock options were granted at the fair market value of the underlying stock on the date of grant.

The following information regarding net income and earnings per share prepared in accordance with SFAS 123 has been determined as if the Company had accounted for its employee stock options under the fair value method prescribed by SFAS 123. The resulting effect on net income and earnings per share pursuant to SFAS 123 is not likely to be representative of the effects on net income and earnings per share pursuant to SFAS 123 in future periods, due to subsequent periods including additional grants and periods of vesting. The fair value of options was estimated at the date of grant using a Black-Scholes option valuation model with the following weighted-average assumptions for the nine-month period ended September 27, 2003: risk-free interest rates of 4.1%; dividend yield of 0%; expected volatility of 39.7%; expected life of 4.2 years; and a weighted-average fair value of options granted of \$7.02. During the nine-month period ended September 27, 2003, 1,000 options were granted and no options were granted during the three-month period ended September 27, 2003. There were no options granted during the nine-month and three-month periods ended September 28, 2002.

For purposes of disclosures pursuant to SFAS 123 as amended by SFAS 148, the estimated fair value of options is amortized to expense over the options'



vesting period.

The following table illustrates the effect on reported net income (loss) and earnings (loss) per share had the Company applied the fair value recognition provisions of SFAS 123 to stock-based employee compensation (in thousands, except per share amounts):

<TABLE>

		Nine-Month Periods Ended		Three-Month Periods Ended	
		Sept. 27, 2003	Sept. 28, 2002	Sept. 27, 2003	Sept. 28, 2002
<S>	<C>	<C>	<C>	<C>	<C>
Net income (loss)	As reported	(\$715)	\$9,606	(\$865)	\$9,033
	Less - Compensation cost, net of tax	37	56	11	10
	Pro forma	(\$752)	\$9,550	(\$876)	\$9,023
Basic earnings (loss) per share:	As reported	(\$0.15)	\$2.04	(\$0.18)	\$1.92
	Pro forma	(\$0.16)	\$2.03	(\$0.18)	\$1.91
Diluted earnings (loss) per share:	As reported	(\$0.15)	\$1.99	(\$0.18)	\$1.86
	Pro forma	(\$0.16)	\$1.98	(\$0.18)	\$1.86

</TABLE>

<TABLE>

NOTE 3. INVENTORIES

<CAPTION>

A summary of inventories by component is as follows:

		(in thousands)		
		Sept. 27, 2003	Sept. 28, 2002	Dec. 31, 2002
<S>	<C>	<C>	<C>	<C>
Finished goods		\$54,204	\$52,710	\$13,246
Work-in-progress		132	392	205
Raw materials and supplies		710	1,337	1,518
		55,046	54,439	14,969
Less - Excess of current cost over LIFO carrying value		(237)	(96)	(237)
Total		\$54,809	\$54,343	\$14,732

</TABLE>

- 7 -

NOTE 4. DISCONTINUED OPERATIONS

In August 2003, the Company announced that the Board of Directors had appointed a special committee to consider the possible disposition of Hampshire Investments, Limited ("HIL"), a subsidiary of the Company, which had previously been reported as a separate operating segment. The special committee, consisting of independent directors, was appointed because Ludwig Kuttner, Chairman and Chief Executive Officer, had indicated to the Board that he and other members of management of the Company, might participate as possible purchasers of HIL. HIL made investments both domestically and internationally, principally in real property, and earned rental revenues on many of these properties.

On October 8, 2003, the Company completed the disposition of HIL. Certain HIL assets were sold to K Holdings, L.L.C., a company controlled by Ludwig Kuttner, for a purchase price of 250,000 shares of the Company's common stock. Immediately after this sale, the Company sold all of the outstanding shares of HIL's capital stock to an investor group including Mr. Kuttner, Peter Woodworth, a Director of the Company, and Charles Clayton, Treasurer of the Company, for a purchase price of 450,000 shares of the Company's common stock.

The fair market value of the Company's common stock received in the two transactions was \$23,905,000 using a price of \$34.15 per share, as reported by NASDAQ at the market close on October 7, 2003, the trading day prior to the date on which the transactions were consummated. The transactions resulted in a loss from disposal of approximately \$5,901,000, net of the related tax benefit. The \$5,901,000 impairment of HIL, including estimated costs to sell, was recognized as a loss from disposal of discontinued operations in the consolidated statement of operations for the three-month and nine-month periods ended September 27, 2003. Substantially the entire amount of the loss from the disposition of HIL is classified as a capital loss and, since the benefit of the Company's future utilization of the capital loss is deemed unlikely, minimal tax benefit from the disposition has been recognized in the financial statements.

Due to the Company's announced intention in August 2003 to dispose of HIL, it has been accounted for as a discontinued operation and, accordingly, the financial information for all prior periods presented has been reclassified to report HIL as a discontinued operation.

The major classes of discontinued assets and liabilities included in the consolidated balance sheets are summarized as follows (in thousands):

<TABLE>

<CAPTION>

	Sept. 27, 2003	Sept. 28, 2002	Dec. 31, 2002
	-----	-----	-----
<S>	<C>	<C>	<C>
Current assets	\$ 1,698	\$ 1,879	\$ 3,167
Real property investments - net	30,907	30,792	27,668
Long-term investments - net	3,788	4,537	4,315
Impairment on disposal of investments	(4,830)	-	-
Other assets	710	646	636
	-----	-----	-----
Total assets	\$32,273	\$37,854	\$35,786
	=====	=====	=====
Current liabilities	\$ 2,971	\$ 1,654	\$ 2,193
Long-term liabilities	10,975	10,808	9,719

Total liabilities	----- \$13,946 =====	----- \$12,462 =====	----- \$11,912 =====
-------------------	----------------------------	----------------------------	----------------------------

</TABLE>

- 8 -

The rental revenue and pretax income for HIL which are included in the income from discontinued operation activities in the consolidated statements of operations are summarized as follows (in thousands):

	Nine-Month Periods Ended		Three-Month Periods Ended	
	Sept. 27, 2003	Sept. 28, 2002	Sept. 27, 2003	Sept. 28, 2002
Rental Revenue	\$2,596	\$2,298	\$885	\$819
Pre-tax income	871	200	242	286

NOTE 5. RECENT ACCOUNTING PRONOUNCEMENTS

In January 2003, the FASB issued Financial Accounting Standards Board Interpretation No. 46, "Consolidation of Variable Interest Entities" ("FIN 46"). FIN 46 requires that if an entity has a controlling financial interest in a variable interest entity, the assets, liabilities and results of activities of the variable interest entity should be included in the consolidated financial statements of the entity. FIN 46 requires that its provisions are effective for fiscal years beginning after December 15, 2003 for variable interest entities acquired before February 1, 2003 and effective immediately for variable interest entities created after January 31, 2003. The Company does not believe that the adoption of FIN 46 will have any impact on the Company's operating results or financial position, since the Company had not entered into such arrangements.

NOTE 6. REVOLVING CREDIT FACILITY

On August 15, 2003, the Company entered into a new Revolving Credit Facility ("facility") with six participating commercial banks, with HSBC Bank USA as agent. The facility, which matures on April 30, 2007, provides a secured credit facility up to \$100,000,000 in revolving line of credit borrowings and letters of credit. Advances under the line of credit are limited to the lesser of: (1) \$100,000,000 less outstanding letters of credit; or (2) the sum of 85% of eligible accounts receivable, 50% of eligible inventory (subject to seasonal limits) of the Company's Restricted Subsidiaries (defined as Hampshire Designers and Item-Eyes), and 50% of outstanding eligible letters of credit issued through this credit facility, plus seasonal overadvances.

Advances under the facility bear interest at either the bank's prime rate minus .25% or, at the option of the Company, a fixed rate of LIBOR plus 1.80%, for a fixed term. The loan is collateralized, pari passu with the Senior Notes, principally by the trade accounts receivable and inventories of the Company's Restricted Subsidiaries and a pledge of the Common Stock of all subsidiaries. At September 27, 2003 there were \$24,175,000 million outstanding letters of credit and \$22,679,000 outstanding borrowings under the line of credit, which resulted in availability for borrowing of approximately \$47,600,000 million under the facility at September 27, 2003.

Both the Revolving Credit Facility and the Senior Notes contain covenants which require certain financial performance and restrict certain payments by the Company. The financial performance covenants require, among other things, that the Company maintain specified levels of consolidated net worth, not exceed a specified consolidated leverage ratio, achieve a specified fixed charge ratio and limit capital expenditures to a specified maximum amount. The Company was in compliance with the financial performance covenants and restrictions at September 27, 2003.

- 9 -

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

### FACTORS THAT MAY AFFECT FUTURE RESULTS

This quarterly report on Form 10-Q contains forward-looking information and statements that involve risks and uncertainties. Such forward-looking statements include, but are not limited to, statements regarding the results of operations. The Company's actual results, performance or achievements could differ materially from the results expressed in, or implied by these forward-looking statements, which are made only as of the date hereof.

Substantially all the Company's products are purchased from independent foreign suppliers. The failure of these suppliers to ship products to the Company in a timely manner or to meet required standards could cause the Company to miss delivery date requirements from its customers. The failure to make timely deliveries could expose the Company to liability from its customers or cause customers to cancel orders, refuse to accept delivery of products or demand reduced prices.

### SEASONALITY

The Company's apparel business is highly seasonal with the majority of sales occurring in the third and fourth quarters of the year.

### DISCONTINUED OPERATIONS

In August 2003, the Company announced that the Board of Directors had appointed a special committee to consider the possible disposition of Hampshire Investments, Limited ("HIL"), a subsidiary of the Company, which had previously been reported as a separate operating segment. The special committee, consisting of independent directors, was appointed because Ludwig Kuttner, Chairman and Chief Executive Officer, had indicated to the Board that he and other members of management of the Company, might participate as possible purchasers of HIL. HIL made investments both domestically and internationally, principally in real property, and earned rental revenues on many of these properties.

On October 8, 2003, the Company completed the disposition of HIL. Certain HIL assets were sold to K Holdings, L.L.C., a company controlled by Ludwig Kuttner, for a purchase price of 250,000 shares of the Company's common stock. Immediately after this sale, the Company sold all of the outstanding shares of HIL's capital stock to an investor group including Mr. Kuttner, Peter Woodworth, a Director of the Company, and Charles Clayton, Treasurer of the Company, for a purchase price of 450,000 shares of the Company's common stock.

The fair market value of the Company's common stock received in the two transactions was \$23,905,000 using a price of \$34.15 per share, as reported by NASDAQ at the market close on October 7, 2003, the trading day prior to the date on which the transactions were consummated. The transactions resulted in a loss from disposal of approximately \$5,901,000, net of the related tax benefit. The \$5,901,000 impairment of HIL, including estimated costs to sell, was recognized as a loss from disposal of discontinued operations in the consolidated statement of operations for the three-month and nine-month periods ended September 27, 2003. Substantially the entire amount of the loss from the disposition of HIL is classified as a capital loss and, since the benefit of the Company's future utilization of the capital loss is deemed unlikely, minimal tax benefit from the disposition has been recognized in the financial statements.

- 10 -

Due to the Company's announced intention in August 2003 to dispose of HIL, it has been accounted for as a discontinued operation and, accordingly, the financial information for all prior periods presented has been reclassified to report HIL as a discontinued operation.

#### Income (Loss) from Discontinued Operations

-----

The operations of the Company's Investment Subsidiary, Hampshire Investments, Limited, are classified as a discontinued operation as previously discussed. Income from discontinued operations for the nine-month period ended September 27, 2003 was \$558,000, net of a provision for income tax of \$313,000, compared to \$153,000, net of a provision for income tax of \$47,000, for the same period last year, an increase of \$405,000.

Income from discontinued operations for the three-month period ended September 27, 2003 was \$171,000, net of a provision for income tax of \$71,000, compared to \$210,000, net of a provision for income tax of \$76,000, for the same period last year, a decrease of \$39,000.

The loss from disposal of \$5,901,000 (net of tax), as previously discussed, resulted from the charge to reduce the Investment segment (classified as held for sale) to its fair market value, less costs to sell. The sale of the Investment segment was consummated on October 8, 2003.

#### RESULTS OF CONTINUING OPERATIONS

Nine-month Periods Ended September 27, 2003 and September 28, 2002

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#### Net Sales

-----

Net sales for the nine-month period ended September 27, 2003 were \$180,164,000, compared to \$183,529,000 for the same period last year, a decrease of \$3,365,000 or 1.8%. The decrease was primarily from reduced sales of men's sweaters and women's related separates, offset by increases in sales of women's sweaters. Units shipped in the nine-month period ended September 27, 2003 exceeded units shipped during the same period last year by approximately 64,000 dozen, or 4.1%. The average net sales price per unit declined 5.7% primarily due to higher allowances granted to customers in a highly competitive retail market and a

shift in product mix.

#### Gross Profit

-----

Gross profit for the nine-month period ended September 27, 2003 was \$44,442,000, compared to \$51,447,000 for the same period last year, a decrease of \$7,005,000 or 13.6%. As a percentage of net sales, gross profit margins were 24.7% for the nine-month period of 2003, compared with 28.0% for the same period last year. The decrease in gross profit margins primarily resulted from higher allowances granted to customers in a highly competitive retail market.

#### Selling, General and Administrative Expenses

-----

Selling, general and administrative ("SG&A") expenses were \$37,062,000 for the nine-month period ended September 27, 2003, compared to \$35,319,000 for the same period last year, an increase of \$1,743,000 or 4.9%. As a percentage of net sales, SG&A expenses were 20.6% for the nine-month period of 2003, compared with 19.2% for the same period last year. The increase primarily resulted from additional marketing, designing, shipping and related expenses caused by the increased unit volume in the nine-month period ended September 27, 2003, costs related to the development of two new product lines launched in the fall of 2003, and approximately \$1,300,000 of non-recurring costs associated with settling a vendor royalty audit and a contractual obligation.

- 11 -

#### Interest Expense

-----

Interest expense for the nine-month period ended September 27, 2003 was \$645,000, compared to \$970,000 for the same period last year, a decrease of \$325,000 or 33.5%. The decrease primarily resulted from lower average borrowings and lower interest rates on the credit facility borrowings during the period ended September 27, 2003. Average borrowings during the nine-month period ended September 27, 2003 were \$12,629,000, compared to \$18,324,000 for the same period last year.

#### Interest Income

-----

Interest income for the nine-month period ended September 27, 2003 was \$623,000, compared to \$344,000 for the same period last year, an increase of \$279,000 or 81.1%. The increase primarily resulted from higher cash balances during the period ended September 27, 2003.

#### Income Taxes

-----

The Company's income tax provision for the nine-month period ended September 27, 2003 was \$2,825,000, compared to \$5,753,000 for the same period last year. The effective income tax rate was 37.9% for the nine-month period ended September 27, 2003, compared to 37.8% for the same period last year.

#### Income from Continuing Operations

-----

For the reasons stated herein, net income from continuing operations for the nine-month period ended September 27, 2003 was \$4,628,000, or \$0.95 per diluted share, compared to \$9,453,000, or \$1.96 per diluted share, for the same period

last year, a decrease of \$4,825,000.

Three-Month Periods Ended September 27, 2003 and September 28, 2002  
-----

Net Sales  
-----

Net sales for the three-month period ended September 27, 2003 were \$97,036,000, compared to \$109,134,000 for the same period last year, a decrease of \$12,098,000 or 11.1%. Units shipped in the three-month period ended September 27, 2003 decreased from units shipped during the same period last year by approximately 57,000 dozen, or 6.4%. The decrease primarily resulted from a highly competitive retail market causing a reduction in sales and the postponed shipment of some orders to the fourth quarter. The average net sales price per unit declined 5.0% primarily due to higher allowances granted to customers in a highly competitive retail market and a shift in product mix.

Gross Profit  
-----

Gross profit for the three-month period ended September 27, 2003 was \$24,368,000, compared to \$30,090,000 for the same period last year, a decrease of \$5,722,000 or 19.0%. As a percentage of net sales, gross profit margins were 25.1% for the three-month period of 2003, compared with 27.6% for the same period last year. The decrease in gross profit margins primarily resulted from lower net sales and higher allowances granted to customers in a highly competitive retail market.

Selling, General and Administrative Expenses  
-----

SG&A expenses were \$16,377,000 for the three-month period ended September 27, 2003, compared to \$15,377,000 for the same period last year, an increase of \$1,000,000 or 6.5%. As a percentage of net sales, SG&A expenses were 16.9% for the three-month period of 2003, compared with 14.1% for the same period last year. The increase resulted primarily from expenses related to the launching of new lines for the men's sweater business and the women's related separate business during the three-month period ended September 27, 2003, and approximately \$1,300,000 of non-recurring costs associated with settling a vendor royalty audit and a contractual obligation.

- 12 -

Interest Expense  
-----

Interest expense for the three-month period ended September 27, 2003 was \$245,000, compared to \$386,000 for the same period last year, a decrease of \$141,000 or 36.5%. The decrease primarily resulted from lower average borrowings and lower interest rates on the credit facility borrowings during the period ended September 27, 2003. Average borrowings during the three-month period ended September 27, 2003 were \$17,320,000, compared to \$23,435,000 for the same period last year.

Interest Income  
-----

Interest income for the three-month period ended September 27, 2003 was \$85,000, compared to \$34,000 for the same period last year, an increase of \$51,000 or



150.0%. The increase primarily resulted from higher cash balances during the three-month period ended September 27, 2003.

#### Income Taxes

-----  
The Company's income tax provision for the three-month period ended September 27, 2003 was \$2,977,000, compared to \$5,384,000 for the same period last year. The effective income tax rate was 38.0% for the three-month period ended September 27, 2003, compared to 37.9% for the same period last year.

#### Income from Continuing Operations

-----  
For the reasons stated herein, net income from continuing operations for the three-month period ended September 27, 2003 was \$4,865,000, or \$1.00 per diluted share, compared to \$8,823,000, or \$1.82 per diluted share, for the same period last year, a decrease of \$3,958,000.

#### LIQUIDITY AND CAPITAL RESOURCES

The primary liquidity and capital requirements of the Company are to fund working capital for current operations, consisting of funding the buildup in inventories and accounts receivable (which historically reach their maximum requirements in the third quarter), servicing long-term debt and funding capital expenditures. The primary sources to meet the liquidity and capital requirements include funds generated from operations, borrowings under revolving credit lines and long-term debt.

Net cash used in operating activities was \$85,742,000 for the nine-month period ended September 27, 2003, as compared to net cash used in operating activities of \$54,419,000 in the same period last year. Net cash used in operating activities during the nine-month period ended September 27, 2003 resulted primarily from an increase in inventory of \$44,245,000 and accounts receivable of \$40,077,000 and a reduction of accounts payable, accrued expenses and other liabilities of \$6,822,000, offset by the cash provided by income from continuing operations of \$4,628,000. The reduction of accounts payable, accrued expenses and other liabilities included, among other things, the payment of the 2002 incentive bonus compensation and income taxes. These changes are fully consistent with the seasonal nature of the Company's business. Net cash used in operating activities during the nine-month period ended September 28, 2002 resulted primarily from an increase in inventory of \$45,822,000 and accounts receivable of \$27,064,000, offset by an increase in accounts payable, accrued expenses and other liabilities of \$8,249,000 and income from continuing operations of \$9,453,000.

Net cash used in investing activities was \$503,000 for the nine-month period ended September 27, 2003, as compared to net cash used in investing activities of \$445,000 for the same period last year. During the nine-month periods ended September 27, 2003 and September 28, 2002, the Company used \$721,000 and \$633,000, respectively, for capital expenditures.

- 13 -

Net cash provided by financing activities was \$21,155,000 for the nine-month period ended September 27, 2003, as compared to \$31,397,000 for the same period last year. At September 27, 2003 and September 28, 2002, the Company had net



borrowings under the credit facilities of \$22,679,000 and \$34,431,000, respectively, primarily for working capital requirements. During the nine-month periods ended September 27, 2003 and September 28, 2002, the Company used \$978,000 and \$3,447,000, respectively, for the repayment of long-term debt. Additionally during the nine-month period ended September 27, 2003, the Company used \$1,255,000 to purchase its common stock.

On August 15, 2003, the Company entered into a new Revolving Credit Facility ("facility") with six participating commercial banks, with HSBC Bank USA as agent. The facility, which matures on April 30, 2007, provides a secured credit facility up to \$100,000,000 in revolving line of credit borrowings and letters of credit. Advances under the line of credit are limited to the lesser of: (1) \$100,000,000 less outstanding letters of credit; or (2) the sum of 85% of eligible accounts receivable, 50% of eligible inventory (subject to seasonal limits) of the Company's Restricted Subsidiaries (defined as Hampshire Designers and Item-Eyes), and 50% of outstanding eligible letters of credit issued through this credit facility, plus seasonal overadvances.

Advances under the facility bear interest at either the bank's prime rate minus .25% or, at the option of the Company, a fixed rate of LIBOR plus 1.80%, for a fixed term. The loan is collateralized, pari passu with the Senior Notes, principally by the trade accounts receivable and inventories of the Company's Restricted Subsidiaries and a pledge of the Common Stock of all subsidiaries. At September 27, 2003 there were \$24,175,000 million outstanding letters of credit and \$22,679,000 outstanding borrowings under the line of credit, which resulted in availability for borrowing of approximately \$47,600,000 million under the facility at September 27, 2003.

Both the Revolving Credit Facility and the Senior Notes contain covenants which require certain financial performance and restrict certain payments by the Company. The financial performance covenants require, among other things, that the Company maintain specified levels of consolidated net worth, not exceed a specified consolidated leverage ratio, achieve a specified fixed charge ratio and limit capital expenditures to a specified maximum amount. The Company was in compliance with the financial performance covenants and restrictions at September 27, 2003.

#### RECENT ACCOUNTING PRONOUNCEMENTS

In December 2002, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure". SFAS 148 amends SFAS 123, "Accounting for Stock-Based Compensation", to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS 148 amends the disclosure requirements of SFAS 123 to require more prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The additional disclosure requirements of SFAS 148 were effective for fiscal years ending after December 15, 2002. The Company has elected to continue to follow the intrinsic value method of accounting as prescribed by Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25"), to account for employee stock options. Under APB 25, no compensation expense is recognized unless the exercise price of the Company's employee stock options is less than the market price of the underlying stock on the date of

grant. The Company has not recorded compensation expense in the periods presented because stock options were granted at the fair market value of the underlying stock on the date of grant. See Note 2, "Significant Accounting Policies", in the Notes to Unaudited Condensed Consolidated Financial Statements in Part I, Item I of the Form 10-Q for the required disclosures under SFAS 148.

In January 2003, the FASB issued Financial Accounting Standards Board Interpretation No. 46, "Consolidation of Variable Interest Entities" ("FIN 46"). FIN 46 requires that if an entity has a controlling financial interest in a variable interest entity, the assets, liabilities and results of activities of the variable interest entity should be included in the consolidated financial statements of the entity. FIN 46 requires that its provisions are effective for fiscal years beginning after December 15, 2003 for variable interest entities acquired before February 1, 2003 and effective immediately for variable interest entities created after January 31, 2003. The Company does not believe that the adoption of FIN 46 will have any impact on the Company's operating results or financial position, since the Company had not entered into such arrangements.

### Item 3 - Quantitative and Qualitative Disclosures About Market Risk

Market risk represents the risk of loss that may impact the financial position, results of operations or cash flows of the Company due to adverse changes in financial and product market prices and rates. The Company is exposed to market risk in the areas of changing interest rates and fluctuations of currency exchange rates. The Company is also exposed to market risk due to changes in costs for raw materials for the Company's products.

Substantially all of the long-term debt of the Company is at fixed interest rates, which were at market when the debt was issued, but are primarily above market on September 27, 2003. The short-term debt of the Company has variable rates based on the prime interest rate of the lending institutions, or at the option of the Company, a fixed rate based on LIBOR for a fixed term on the Revolving Credit Facility.

In purchasing apparel from foreign manufacturers, the Company uses letters of credit that require the payment of U.S. dollars upon receipt of bills of lading for the products. Prices are fixed in U.S. dollars at the time the letters of credit are issued.

### Item 4 - Controls and Procedures

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Company's reports filed pursuant to the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules, regulations and related forms, and that such information is accumulated and communicated to the Company's Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Within the 90 days prior to the filing date of this quarterly report, the Company carried out an evaluation, under the supervision and with the

participation of the Company's management, including the Company's Chief Executive Officer and the Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based on this evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective.

- 15 -

There have been no significant changes in the Company's internal controls or in other factors that could significantly affect these controls and procedures subsequent to the date the Company completed its evaluation. Therefore, no corrective actions were required to be taken.

## PART II - OTHER INFORMATION

### Item 1 - Legal Proceedings

The Company is from time to time involved in litigation incidental to the conduct of its business. The Company believes that no currently pending litigation to which it is a party will have a material adverse effect on its consolidated financial condition, results of operations, or cash flow.

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

#### a) Exhibits

Exhibit No.	Description
10.6	Credit Agreement among HSBC Bank USA as agent, the Banks named therein and Hampshire Group, Limited, dated August 15, 2003.
10.7	Amendment No. 3, dated August 19, 2003, to the Note Purchase Agreement, dated May 15, 1998, among the Company, the Guarantors named therein, Phoenix Life Insurance Company and the Ohio National Life Insurance Company.
31.1	Certification of the Chief Executive Officer of Hampshire Group, Limited pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of the Chief Financial Officer of Hampshire Group, Limited pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32	Certification of the Chief Executive Officer and the Chief Financial Officer of Hampshire Group, Limited pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

#### b) Reports on Form 8-K filed during the quarter

1. On August 14, 2003, the Company filed a current report on Form 8-K reporting an Item 9 Regulation FD disclosure regarding the release of the Company's financial results for the quarter ended June 28, 2003.

2. On October 23, 2003, the Company filed a current report on Form 8-K reporting an Item 2, Acquisition and Disposition of Assets, regarding the October 8, 2003 sale of certain assets and all of the outstanding shares of capital stock of Hampshire Investments, Limited, a subsidiary of Hampshire Group, Limited.

- 16 -

SIGNATURES

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

HAMPSHIRE GROUP, LIMITED  
(Registrant)

Date November 6, 2003  
-----

/s/ Ludwig Kuttner  
-----

Ludwig Kuttner  
Chairman of the Board of Directors  
President and Chief Executive Officer  
(Principal Executive Officer)

Date November 6, 2003  
-----

/s/ William W. Hodge  
-----

William W. Hodge  
Vice President and Chief Financial Officer  
(Principal Financial and Accounting Officer)

- 17 -

EXHIBIT INDEX

Exhibit No.  
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Description  
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10.6

Credit Agreement among HSBC Bank USA as agent, the Banks named therein and Hampshire Group, Limited, dated August 15, 2003.

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- 31.2 Certification of the Chief Financial Officer of Hampshire Group, Limited pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32 Certification of the Chief Executive Officer and the Chief Financial Officer of Hampshire Group, Limited pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

EXHIBIT 10.6

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CREDIT AGREEMENT AND GUARANTY

dated as of

August 15, 2003

among

HAMPSHIRE GROUP, LIMITED,

as Borrower,

HAMPSHIRE Group, LIMITED,  
HAMPSHIRE DESIGNERS, INC.,

and

ITEM-EYES, INC.

as Letter of Credit Account Parties,

HAMPSHIRE DESIGNERS, INC.,  
HAMPSHIRE INVESTMENTS, LIMITED,  
GLAMOURETTE FASHION MILLS, INC.,

and

ITEM-EYES, INC.

as Guarantors,

and

HSBC BANK USA,  
JPMORGAN CHASE BANK,  
THE CIT GROUP/COMMERCIAL SERVICES, INC.,  
FLEET NATIONAL BANK,  
ISRAEL DISCOUNT BANK OF NEW YORK

and

BANK OF AMERICA, N.A.

as Banks,

and

HSBC BANK USA,

as Agent

TABLE OF CONTENTS

Page

ARTICLE I	DEFINITIONS, ACCOUNTING TERMS AND RULES OF CONSTRUCTION.....	1
Section 1.01	Definitions.....	1
Section 1.02	Accounting Terms.....	21
Section 1.03	Computation of Time Periods.....	22
Section 1.04	Rules of Construction.....	22
ARTICLE II	REVOLVING CREDIT LOANS.....	22
Section 2.01	Revolving Credit.....	22
Section 2.02	Notice and Manner of Borrowing.....	22
Section 2.03	Conversions.....	23
Section 2.04	Non-Receipt of Funds by Agent.....	23
Section 2.05	Interest.....	23
Section 2.06	Notes.....	24
Section 2.07	Optional and Mandatory Prepayments.....	24
Section 2.08	Method of Payment.....	25
Section 2.09	Use of Proceeds.....	26
Section 2.10	Minimum Amounts.....	26
Section 2.11	Establishment of Loan Account; Collection of Accounts.....	26
Section 2.12	Closing Fee.....	26
Section 2.13	Commitment Fee.....	26
ARTICLE III	LETTERS OF CREDIT.....	27
Section 3.01	Trade Letters of Credit; Cash Collateral for Letters of Credit Expiring After Termination Date.....	27
Section 3.02	Reimbursement Obligation.....	27
Section 3.03	Payment of Commissions, Expenses and Interest.....	28
Section 3.04	Proper Drawing; Letter of Credit Issuing Bank's Honoring..	28
Section 3.05	Standby Letters of Credit.....	29
Section 3.06	Amendment; Change; Modification; No Waiver.....	29
Section 3.07	U.C.P. and I.S.P.; Agreements and Acknowledgments; Indemnification.....	29
Section 3.08	Licenses; Insurance; Regulations.....	31
Section 3.09	Airway and Steamship Guaranties.....	31
Section 3.10	Additional Security.....	31
Section 3.11	Continuing Rights and Obligations.....	31
Section 3.12	Instructions; No Liability.....	32
Section 3.13	Steamship Guaranty.....	32
Section 3.14	Letter of Credit Application and Agreement.....	32
Section 3.15	Existing Letters of Credit; Use of Term "Letter of Credit Issuing Bank".....	33
Section 3.16	Borrower's Obligations Under Letters of Credit.....	33
ARTICLE IV	PARTICIPATION.....	33
Section 4.01	Participating Banks' Pro Rata Shares.....	33
Section 4.02	Sale and Purchase of Participation.....	33
Section 4.03	Participation in Fees and Collateral; Relationship.....	34
Section 4.04	Procedures.....	34
Section 4.05	Collections and Remittances.....	34
Section 4.06	Sharing of Setoffs and Collections.....	35
Section 4.07	Indemnification; Costs and Expense.....	35

Section 4.08	Administration; Standard of Care.....	36
Section 4.09	Independent Investigation by the Participating Banks.....	37
Section 4.10	Participating Banks' Ownership of Interests in the Participation; Repurchases by the Letter of Credit Issuing Banks.....	37
ARTICLE V	GUARANTY.....	38
Section 5.01	Guaranty.....	38
Section 5.02	Guarantor's Guaranty Obligations Unconditional.....	38
Section 5.03	Waivers.....	39
Section 5.04	Subrogation.....	39
Section 5.05	Limitation of Liability.....	39
ARTICLE VI	CONDITIONS PRECEDENT.....	39
Section 6.01	Conditions Precedent to Initial Use of a Credit Facility on and after the Effective Date.....	39
Section 6.02	Conditions Precedent to All Credit Facilities.....	42
Section 6.03	Deemed Representation.....	42
ARTICLE VII	REPRESENTATIONS AND WARRANTIES.....	43
Section 7.01	Incorporation.....	43
Section 7.02	Corporate Power and Authority; No Conflicts.....	43
Section 7.03	Legally Enforceable Agreements.....	43
Section 7.04	Litigation.....	43
Section 7.05	Financial Statements.....	43
Section 7.06	Ownership and Liens.....	44
Section 7.07	Taxes.....	44
Section 7.08	ERISA.....	44
Section 7.09	Subsidiaries; Ownership of Guarantors; Investments.....	44
Section 7.10	Operation of Business.....	45
Section 7.11	No Default on Outstanding Judgments or Orders.....	45
Section 7.12	No Defaults on Other Agreements.....	45
Section 7.13	Labor Disputes and Acts of God.....	45
Section 7.14	Governmental Regulation.....	45
Section 7.15	Partnerships.....	45
Section 7.16	Environmental Protection.....	45
Section 7.17	Solvency.....	46
Section 7.18	Properties; Priority of Liens.....	46
ARTICLE VIII	AFFIRMATIVE COVENANTS.....	46
Section 8.01	Maintenance of Existence.....	46
Section 8.02	Conduct of Business.....	46
Section 8.03	Maintenance of Properties.....	46
Section 8.04	Maintenance of Records.....	46
Section 8.05	Maintenance of Insurance.....	46
Section 8.06	Compliance with Laws.....	46
Section 8.07	Right of Inspection.....	47
Section 8.08	Reporting Requirements.....	47
Section 8.09	Compliance With Environmental Laws.....	49
ARTICLE IX	NEGATIVE COVENANTS.....	49
Section 9.01	Debt.....	50
Section 9.02	Guaranties.....	50



Section 9.03	Liens.....	51
Section 9.04	Sale of Assets.....	52
Section 9.05	Transactions with Affiliates.....	52
Section 9.06	Investments; Acquisitions.....	53
Section 9.07	Mergers.....	54
Section 9.08	Leases.....	54
Section 9.09	Dividends.....	54
Section 9.10	Restricted Payments.....	54
Section 9.11	Fiscal Year.....	54
Section 9.12	Changes, Amendments or Modifications.....	54
Section 9.13	Nature of Business.....	55
Section 9.14	Double Negative Pledge.....	55
Section 9.15	Senior Secured Debt.....	55
Section 9.16	Insurance Company Provisions.....	55
Section 9.17	Factoring Agreements.....	55
ARTICLE X	FINANCIAL COVENANTS.....	55
Section 10.01	Consolidated Tangible Net Worth.....	55
Section 10.02	Consolidated Fixed Charge Coverage Ratio.....	55
Section 10.03	Consolidated Average Current Ratio.....	55
Section 10.04	Consolidated Capital Expenditures.....	56
Section 10.05	Revolving Credit Loan and Insurance Loan Coverage.....	56
ARTICLE XI	EVENTS OF DEFAULT.....	56
Section 11.01	Events of Default.....	56
Section 11.02	Remedies.....	58
ARTICLE XII	THE AGENT AND COLLATERAL MONITOR.....	59
Section 12.01	Appointment, Powers and Immunities of Agent.....	59
Section 12.02	Reliance by Agent.....	59
Section 12.03	Defaults.....	59
Section 12.04	Rights of Agent as a Bank.....	60
Section 12.05	Indemnification of Agent.....	60
Section 12.06	Documents.....	60
Section 12.07	Non-Reliance on Agent and Other Banks.....	60
Section 12.08	Failure of Agent to Act.....	61
Section 12.09	Resignation or Removal of Agent.....	61
Section 12.10	Amendments Concerning Agency Function.....	61
Section 12.11	Liability of Agent.....	61
Section 12.12	Transfer of Agency Function.....	61
Section 12.13	Withholding Taxes.....	62
Section 12.14	Collateral Monitor.....	62
ARTICLE XIII	YIELD PROTECTION.....	63
Section 13.01	Additional Costs.....	63
Section 13.02	Illegality.....	64
Section 13.03	Certain Compensation.....	64
ARTICLE XIV	MISCELLANEOUS.....	64
Section 14.01	Amendments and Waivers.....	64
Section 14.02	Usury.....	65
Section 14.03	Expenses; Indemnification.....	65
Section 14.04	Assignment; Participation; Additional Bank.....	66

Section 14.05	Notices.....	67
Section 14.06	Setoff; Sharing.....	67
Section 14.07	Jurisdiction; Immunities.....	68
Section 14.08	Governing Law.....	68
Section 14.09	Counterparts.....	68
Section 14.10	Exhibits and Schedules.....	69
Section 14.11	Table of Contents; Headings.....	69
Section 14.12	Severability.....	69
Section 14.13	Integration.....	69
Section 14.14	Jury Trial Waiver.....	69
Section 14.15	Spin-off of HIL.....	69
Section 14.16	HSBC.....	70

EXHIBITS AND SCHEDULES

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Exhibits

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- Exhibit A.....Form of Pledge Agreement
- Exhibit B.....Form of Security Agreement
- Exhibit C.....Form of Trademark Security Agreement
- Exhibit D.....Form of Borrowing Notice
- Exhibit E.....Form of Borrowing Base Certificate
- Exhibit F.....Form of Note
- Exhibit G.....Form of Assignment and Acceptance
- Exhibit H.....Form of Intercompany Demand Note

Schedules

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- Schedule 1.01(a)..Eligible Inventory Locations
- Schedule 1.01(b)..Eligible Trade Letter of Credit Locations
- Schedule 1A.01....Existing Letters of Credit
- Schedule 7.04.....Litigation
- Schedule 7.06.....Trademarks
- Schedule 7.08.....ERISA Matters
- Schedule 7.09.....Direct and Indirect Subsidiaries; Ownership of Guarantors,  
Investments
- Schedule 7.13.....Labor Disputes and Acts of God
- Schedule 9.03.....Permitted Liens

CREDIT AGREEMENT AND GUARANTY dated as of August 15, 2003, among HAMPSHIRE GROUP, LIMITED, ("Borrower"), HAMPSHIRE DESIGNERS, INC., ("Designers"), HAMPSHIRE INVESTMENTS, LIMITED ("HIL"), GLAMOURETTE FASHION MILLS, INC., ("Glamourette"), ITEM-EYES, INC. ("Item-Eyes"), HSBC BANK USA ("HSBC"), JPMORGAN CHASE BANK ("Chase"), THE CIT GROUP/COMMERCIAL SERVICES, INC. ("CIT"), FLEET NATIONAL BANK, ("Fleet"), ISRAEL DISCOUNT BANK OF NEW YORK ("IDB") and BANK OF AMERICA, N.A. ("BOA") (HSBC, Chase, CIT, Fleet, IDB and BOA individually a "Bank" and collectively the "Banks"), HSBC BANK USA as Letter of Credit Issuing Bank for all Letters of Credit other than Existing Letters of Credit, JPMORGAN CHASE BANK as Letter of Credit Issuing Bank for the Existing Letters of Credit and HSBC BANK USA, as Agent for the Banks (in such capacity, together with any successors in such capacity, the "Agent").

The parties hereto agree as follows:

#### ARTICLE I

##### DEFINITIONS, ACCOUNTING TERMS AND RULES OF CONSTRUCTION

Section 1.01 Definitions. As used in this Agreement, the following terms have the following meanings (terms defined in the singular to have a correlative meaning when used in the plural and vice versa):

"Accounts" means all of the accounts receivable as defined in the Borrower Security Agreement and the Guarantor Security Agreements.

"Affiliate" means, as to any Person, any other Person: (a) which directly or indirectly controls, or is controlled by, or is under common control with such Person; (b) which directly or indirectly beneficially owns or holds five percent (5%) or more of any class of voting stock of the such Person; or (c) five percent (5%) or more of the voting stock of which is directly or indirectly beneficially owned or held by such Person. The term "control" means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities, by contract, or otherwise. The term "Affiliate" shall include, without limitation, HIL.

"Agent" means HSBC, when acting in its capacity as Agent under any of the Loan Documents, and any successor thereto.

"Agent's Office" means the address of HSBC as set forth on the signature

page of this Agreement, or such other address as HSBC may designate by written notice to Borrower, the Guarantors and the Banks.

"Agreement" means this Credit Agreement and Guaranty.

"Airway Guaranty" has the meaning specified in Section 3.09 hereof.

"Applicable Margin" means with respect to a Eurodollar Loan, one and eight tenths (1.80%) percent.

"Application" means the application by a Letter of Credit Party for a Letter of Credit.

-1-

"Assignment and Acceptance" means an Assignment and Acceptance substantially in the form of Exhibit G hereto.

"Assignment of Proceeds Agreement" means Assignment of Factored Credit Balance and Proceeds Agreement, in form and substance satisfactory to Agent, duly executed by Borrower and the Restricted Subsidiaries and any Factor and a Consent and Acknowledgment thereto duly executed by such Factor.

"Authorized Person" means any duly authorized officer or employee, or combination thereof of Borrower.

"Availability for Revolving Credit Loans" means the lesser of (a) the Revolving Credit Commitment minus the sum of: (i) the Letter of Credit Obligations and (ii) the aggregate amount of Borrower's and its Restricted Subsidiaries' outstanding obligations under the Unsecured Lines and (b) the Net Borrowing Base minus the Letter of Credit Obligations.

"Availability Reserves" shall mean, as of any date of determination, such reserves in amounts as Agent may from time to time establish and revise in good faith in accordance with customary credit practices in the commercial finance industry reducing the amount of Revolving Credit Loans and Letters of Credit which would otherwise be available to the Borrower under the lending formula(s) provided for herein: (a) to reflect events, conditions, contingencies or risks which, as determined in good faith by Agent in accordance with its customary credit practices, do or could reasonably be expected to adversely affect either (i) the Collateral or its value, (ii) the assets or business of the Borrower or any Restricted Subsidiary of the Borrower or (iii) the security interests and other rights of Agent in the Collateral (including the enforceability, perfection and priority thereof) or (b) to reflect Agent's good faith belief that any collateral report or financial information furnished to it any Bank by or on behalf of the Borrower or any Subsidiary of the Borrower, is or may have been incomplete, inaccurate or misleading in any material respect or (c) in respect of any state of facts which Agent determines in good faith constitutes an Event of Default or may, with notice or the passage of time or both, constitute an Event of Default. The amount of any Availability Reserve established by Agent shall have a reasonable relationship to the event,

condition or other matter which is the basis for such reserve as determined by Agent in good faith.

"Bank" or "Banks" has the meaning specified in the preamble to this Agreement.

"Bank Parties" means Agent, each of the Banks and each of the Letter of Credit Issuing Banks.

"Banking Day" means any day on which commercial banks are not authorized or required to close in London, England, New York City, New York, Greenville, South Carolina or Anderson, South Carolina.

"Board of Governors" means the Board of Governors of the Federal Reserve System or any successor.

"Book Value" shall mean, as to any inventory in respect of which such amount is to be determined, the lower of (a) the cost (as reflected in the general ledgers of Designers, Item-Eyes, or, with the approval of Agent, any other existing or future Subsidiary of the Borrower), as applicable or (b) market value (both cost and market value being determined in accordance with GAAP calculated on a first in first out basis).

"Borrower Pledge Agreement" means the Pledge Agreement executed by Borrower in favor of Agent for the ratable benefit of the Bank Parties.

-2-

"Borrower Security Agreement" means the Security Agreement executed by Borrower in favor of Agent for the ratable benefit of the Bank Parties.

"Borrower Trademark Security Agreement" means the Trademark Security Agreement executed by Borrower in favor of Agent for the ratable benefit of the Bank Parties.

"Borrowing Base" shall mean, at any time, an amount equal to the sum of (without duplication):

- (a) eighty-five percent (85%) of the Net Amount of Eligible Accounts, plus
- (b) the lesser of: (x) fifty percent (50%) of Net Amount of Eligible Inventory, or (y) the amount for the period in any given year indicated below:
  - (i) \$30,000,000 for the period January 1 through March 31,
  - (ii) \$35,000,000 for the period April 1 through May 31,
  - (iii) \$50,000,000 for the period June 1 through October 31, and
  - (iv) \$25,000,000 for the period November 1 through December 31, plus

(c) fifty percent (50%) of the aggregate undrawn amount of all outstanding Eligible Trade Letters of Credit, plus

(d) fifty percent (50%) of the amount of Eligible In-Transit Inventory, plus

(e) the Supplemental Amount, less

(f) Availability Reserves.

"Borrowing Base Certificate" means the certificate substantially in the form of Exhibit E annexed hereto.

"Borrowing Notice" has the meaning specified in Section 2.02 hereof.

"Capital Lease" means any lease which has been or should be capitalized on the books of the lessee in accordance with GAAP.

"Cash Collateral" means a deposit by Borrower, made in immediately available funds, to a savings, checking or time deposit account at HSBC or the purchase by Borrower of a certificate of deposit issued by HSBC and the execution of all documents and the taking of all steps required to give Agent a perfected security interest for the benefit of the Banks in such deposit or certificate of deposit.

"Change of Control" means any "person" or "group" (within the meaning of Sections 13(d) and 14(d) (2) of the Exchange Act) shall have become the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act) of Voting

-3-

Shares entitled to exercise more than 51% of the total power of all outstanding Voting Shares of the Borrower (including any Voting Shares which are not then outstanding of which such person or group is deemed the beneficial owner). For purposes of this definition, the term "Voting Shares" shall mean all outstanding shares of any class or classes (however designated) of capital stock of the Borrower entitled to vote generally in the election of members of the Board of Directors thereof.

"Chase" means JPMorgan Chase Bank.

"CIT" has the meaning specified in Section 9.03(f) hereof.

"Code" means the Internal Revenue Code of 1986.

"Collateral" means any and all personal property subject to a Lien granted by any of the Security Documents and this Agreement.

"Collateral Monitor" means HSBC, when acting in its capacity as Collateral Monitor under any of the Loan Documents, and any successor thereto.

"Commitment" means, collectively, the Revolving Credit Commitment, the Trade Letter of Credit Commitment and the Standby Letter of Credit Commitment.

"Consolidated Amortization" means the amortization or write-off of impaired value adjustments of the intangible assets of Borrower and the Restricted Subsidiaries, on a consolidated basis, all as determined in accordance with GAAP.

"Consolidated Capital Expenditures" means the Dollar amount of gross expenditures (including the principal portion of payments under Capital Leases) made for real property, fixed assets, property, plant and equipment, and all renewals, improvements and replacements thereto (including, but not limited to, maintenance and repairs thereof but only to the extent required to be capitalized in accordance with GAAP) incurred or paid by Borrower and the Restricted Subsidiaries.

"Consolidated Depreciation" means depreciation of Borrower and its Restricted Subsidiaries, on a consolidated basis, all as determined in accordance with GAAP.

"Consolidated Earnings Before Interest, Taxes, Depreciation and Amortization" means, for any period, Consolidated Net Income, plus Consolidated Interest Expense, plus Consolidated Taxes, plus Consolidated Depreciation, plus Consolidated Amortization, all for such period.

"Consolidated Fixed Charge Ratio" means a ratio of: (i) (a) Consolidated Earnings Before Interest, Taxes, Depreciation and Amortization for such period, less (b) Consolidated Capital Expenditures made by the Borrower or any Restricted Subsidiary during such period, less (c) Consolidated Taxes paid during such period, to (ii) the sum of (a) Consolidated Interest Expense for such period, plus (b) Consolidated Principal Amortization for such period, in each case excluding the performance of HIL from any of the foregoing calculations.

"Consolidated Interest Expense" means, for any period, all interest paid or required to be paid by Borrower and its Restricted Subsidiaries on all of their respective Debt, including the Obligations, during such period.

-4-

"Consolidated Inventory" means, at any time, the Inventory of Borrower and its Restricted Subsidiaries on a consolidated basis, all as determined in accordance with GAAP.

"Consolidated Net Income" means, for any period, the net income of Borrower and its Restricted Subsidiaries, on a consolidated basis, all as determined in accordance with GAAP.

"Consolidated Principal Amortization" means scheduled consolidated principal payments of all funded debt of Borrower and the Restricted Subsidiaries.

"Consolidated Subsidiaries" means all existing and future Subsidiaries of Borrower, except HIL and any subsidiary of HIL, that should be included in Borrower's consolidated financial statements, all as determined in accordance with GAAP.

"Consolidated Tangible Net Worth" means the sum of (a) Consolidated Total Tangible Assets less (b) Consolidated Total Liabilities, less (c) the investment in HIL by Borrower or the Restricted Subsidiaries, at cost, without adjustment for losses or income of HIL, and less (d) without duplication, the equity of HIL, any advances or loans to HIL and guaranties by Borrower or its Restricted Subsidiaries of the obligations of HIL.

"Consolidated Taxes" means, for any period, the income and franchise taxes of Borrower and its Restricted Subsidiaries, on a consolidated basis, all as determined in accordance with GAAP.

"Consolidated Total Tangible Assets" means the total assets of Borrower and its Restricted Subsidiaries, on a consolidated basis, minus all intangible assets (other than deferred taxes), including, but not limited to, non-compete contracts, employment contracts, deferred or prepaid transactions cost, capitalized research and development cost, capitalized interest, debt discount and expenses, goodwill, patents, trademarks, copyrights, franchises, licenses and other intangible assets, all as determined in accordance with GAAP.

"Consolidated Total Liabilities" means total liabilities and all mandatorily redeemable preferred stock of Borrower and its Restricted Subsidiaries, on a consolidated basis, all as determined in accordance with GAAP.

"Credit Facilities" means, collectively, the Revolving Credit Loans and the Letters of Credit.

"Debt" means: (a) indebtedness or liability for borrowed money, or for the deferred purchase price of property or services (including trade obligations); (b) the principal portion of obligations as lessee under Capital Leases; (c) obligations under letters of credit issued for the account of any Person; (d) all obligations arising under bankers' or trade acceptance facilities of any Person; (e) all guarantees, endorsements (other than for collection or deposit in the ordinary course of business), and other contingent obligations to purchase any of the items included in this definition, to provide funds for payment, to supply funds to invest in any Person, or otherwise to assure a creditor against loss; and (f) all obligations secured by any Lien on property owned by such Person, whether or not the obligations have been assumed. For purposes of the foregoing, the amount of any Debt described in clause (e) shall be equal to the lesser of (A) the amount of the primary obligation in respect to which such guaranty is issued and (B) the maximum liability amount under the terms of such guaranty.



"Default" means any event which, with the giving of notice or lapse of time, or both, would become an Event of Default.

"Default Rate" means, at any time, a rate of interest equal to 2% per annum plus the highest rate that would then be applicable to Prime Rate Loans; provided, that, if the Default Rate is implemented and the applicable Obligation is a Revolving Credit Loan, Default Rate shall mean, with respect to an amount of any such Revolving Credit Loan not paid when due, a rate per annum equal to two percent (2%) above the Interest Rate then in effect thereon.

"Designers" means Hampshire Designers, Inc., a Delaware corporation.

"Designers Pledge Agreement" means the Pledge Agreement executed by Designers in favor of Agent for the ratable benefit of the Bank Parties.

"Designers Security Agreement" means the Security Agreement executed by Designers in favor of Agent for the ratable benefit of the Bank Parties.

"Designers Trademark Security Agreement" means the Trademark Security Agreement executed by Designers in favor of Agent for the ratable benefit of the Bank Parties.

"Dollars" and the sign "\$" mean lawful money of the United States of America.

"Effective Date" means on the date as of which (a) this Agreement shall be executed by all the parties hereto and delivered to the Agent and (b) all the conditions precedent required to have been satisfied on or before the first extension of credit hereunder pursuant to Article 6 hereof shall have been satisfied or waived (whether temporarily or otherwise) in writing by the Agent. The Agent shall notify the Borrower and the Banks of the Effective Date if other than the date of the execution of this Agreement; provided, however, that, the failure to give such notice shall not alter the Effective Date or any of any Bank Party's rights under this Agreement and the other Loan Documents.

"Eligible Accounts" shall mean (a) the trade accounts receivable created in the ordinary course of business by Designers, Item-Eyes and, with the approval of Agent and the Required Banks, any other existing or future Subsidiary of the Borrower, which (i) are subject to a valid, first priority, fully perfected security interest in favor of Agent for the ratable benefit of the Bank Parties and which conform to the representations and warranties contained herein and in the Loan Documents, and (ii) at all times shall continue to be acceptable to Agent in all respects (the "Non-Factored Accounts"), and, (b) the trade accounts receivable of Designers, Item-Eyes and, with the approval of Agent, any other existing or future Subsidiary of the Borrower, created in the ordinary course of business which have been purchased, credit approved and continue to be credit approved by the Factor under a Factoring Agreement, provided that such factored accounts receivable remain subject to an Assignment of Proceeds Agreement which is satisfactory in all respects to Agent (the "Factored Accounts").

In general, the Non-Factored Accounts may, as determined by Agent in good

faith, be deemed eligible if:

(a) delivery of the merchandise has been completed;

-6-

(b) no return, rejection or repossession has occurred;

(c) the merchandise has been accepted by the account debtor without dispute, setoff, defense or counterclaim;

(d) such trade account receivable is unconditionally payable in Dollars within 90 days of the invoice date and is not evidenced by a promissory note, chattel paper or any other instrument or document, Notwithstanding the prior sentence, a trade account receivable payable more than 90 days but less than 150 days from the invoice date may be eligible (the "Over 90 Receivables") provided that, (i) such receivable is due from Marmaxx Group, Inc., Burlington Coat Factory or Ross Stores, Inc. or such other customer approved by Agent, (iii) such receivable is scheduled in sufficient detail to the Borrowing Base Certificate which includes such receivable, and (iv) such receivable is not more than 15 days past due;

(e) except as otherwise provided pursuant to subclause "(d)" above with respect to the Over 90 Receivables, no more than 60 days has elapsed from the invoice due date and no more than 120 days has elapsed from the invoice date;

(f) the account debtor is not an Affiliate of the Borrower or any Restricted Subsidiary;

(g) such trade account receivable does not constitute an obligation of the United States or any other Governmental Authority;

(h) the chief executive office of the account debtor with respect thereto is located in the continental United States, unless the Receivable is supported by a letter of credit or other similar obligation satisfactory to Agent or Agent has received evidence that credit insurance with respect to such Non-Factored Account has been assigned to Agent and names Agent as loss payee;

(i) the account debtor with respect thereto is not also a supplier or a creditor of the Borrower or any Restricted Subsidiary, unless such supplier or creditor has executed a no offset letter satisfactory to Agent (but the portion of the Non-Factored Accounts of such account debtor in excess of the amount at any time and from time to time owed by such Subsidiary of Borrower to such account debtor or claimed to be owed may deemed an Eligible Account);

(j) not more than 50% of the aggregate amount of all trade account receivables from an account debtor with respect thereto remain unpaid more than 60 days past the invoice due date or 120 days past the invoice date;

(k) the account debtor is not insolvent, subject to a bankruptcy, reorganization, receivership, insolvency arrangement or any similar proceeding;

and

(1) no facts, events or occurrences exist that would impair the validity, enforceability or collectibility of such trade account receivable or reduce the amount payable, or delay payment thereunder, all as determined in the good faith by Agent (provided, that, as to facts, events or occurrences that reduce the amount payable under such receivable the amount payable thereunder as so reduced, may be deemed an Eligible Account).

-7-

The aggregate amount of all Eligible Accounts of Designers, Item-Eyes and, with the approval of Agent, any other existing or future Subsidiary of the Borrower, shall be reduced by any reserves deemed necessary by Agent in good faith, including a reserve in an amount which would represent the historical or anticipated ratio of dilution (i.e. returns, discounts, claims, credits, and allowances) to collections to the extent that such amounts are not already included in the Availability Reserves.

"Eligible Inventory" shall mean inventory of Designers, Item-Eyes and, with the approval of Agent and the Required Banks, any other existing or future Subsidiary of the Borrower, comprised solely of uncut fabric, yarn and finished goods located in the United States which meets all of the following specifications:

(a) the inventory is owned by Designers, Item-Eyes and, with the approval of Agent, any other existing or future Subsidiary of the Borrower, free and clear of any existing Lien (other than warehouseman's and landlord's liens as long as a satisfactory waiver has been entered into with Agent), other than the liens and security interests in favor of Agent under the Loan Documents, it is not held on consignment and may be lawfully sold and it continues to be in full conformity with any representations and warranties made under the Loan Documents by the Borrower and its Restricted Subsidiaries to Agent with respect thereto;

(b) Designers, Item-Eyes and, with the approval of Agent, any other existing or future Subsidiary of the Borrower, has the right to assignment thereof and the power to grant liens thereon and security interests with respect thereto;

(c) the inventory arose or was acquired in the ordinary course of business of Designers, Item-Eyes or, with the approval of Agent, any other existing or future Subsidiary of the Borrower, as applicable and does not represent returned, second quality or damaged goods;

(d) the inventory is readily marketable for sale by Designers, Item-Eyes and, with the approval of Agent and the Required Banks, any other existing or future Subsidiary of the Borrower;

(e) the inventory is located at one of the addresses for locations of Collateral set forth on Schedule 1.01(a) and with respect to which inventory Agent, for the ratable benefit of the Bank Parties, has been granted and has

perfected a valid, first priority security interest therein;

(f) the inventory is not goods to be returned to a supplier of the Borrower or any Restricted Subsidiary, or, with the approval of Agent, any other existing or future Subsidiary of the Borrower;

(g) the inventory is not samples;

(h) if the inventory is sold under a licensed trademark, with respect to each Required Licensor, Agent shall have entered into a licensor waiver letter, in form and substance satisfactory to Agent, with such Required Licensor with respect to the rights of Agent to use the trademark to sell or otherwise dispose of such inventory;

(i) the inventory is Eligible Prior Season Inventory;

(j) the inventory is not obsolete, slow-moving or unmerchantable and is and at all times shall continue to be acceptable to Agent in all respects as determined by Agent in good faith;

-8-

(k) the inventory, other than Eligible In-Transit Inventory, is not located in a warehouse or on leased premises unless Agent has entered into a warehouseman's waiver or landlord's waiver, as the case may be, on terms reasonably satisfactory to Agent.

"Eligible In-Transit Inventory" shall mean "in transit" fabric, yarn or finished goods inventory of Designers, Item-Eyes and, with the approval of Agent and the Required Banks, any other existing or future Subsidiary of the Borrower, shipped under an Eligible Trade Letter of Credit, the amount of which is equal to the face amount of the related Eligible Trade Letter of Credit, provided that such inventory (a) has been paid for by the Borrower and has not otherwise been included in Eligible Inventory or under an Eligible Trade Letter of Credit, and (b) such inventory would otherwise qualify as Eligible Inventory and is otherwise satisfactory in all respects as determined by Agent in good faith.

"Eligible Prior Season Inventory" shall mean Prior Season Inventory which Agent determines, in good faith, to be eligible inventory. In general, Prior Season Inventory may be deemed Eligible Prior Season Inventory if (a) it is subject to a confirmed purchase order, (b) the cost of such inventory is an amount in the general ledger of Designers, Item-Eyes, or such other existing or future Subsidiary of the Borrower approved by Agent, as the case may be, which will produce, when such inventory is sold, a gross profit margin which is satisfactory to Agent, and (c) such inventory would otherwise qualify as Eligible Inventory and is otherwise satisfactory in all respects to Agent in good faith.

"Eligible Trade Letter of Credit" shall mean a commercial letter of credit issued by Agent for the account of the Borrower covering fabric, yarn or finished goods inventory of Designers, Item-Eyes and, with the approval of Agent

and the Required Banks, any other existing or future Subsidiary of the Borrower, for which (a) the documents of title have been or will be consigned to Agent, (b) the underlying goods have been or will be insured to the satisfaction of Agent, and (c) the underlying goods have been or will be shipped to an eligible location in the United States set forth on Schedule 1.01(b).

"Environmental Discharge" means any discharge or release by Borrower or any Restricted Subsidiaries of any Hazardous Materials in violation of any applicable Environmental Law.

"Environmental Law" means any Law relating to pollution of the environment, including Laws relating to noise or to emissions, discharges, releases or threatened releases of Hazardous Materials into the workplace, the community or the environment, or otherwise relating to the generation, manufacture, processing, distribution, use, treatment, storage, disposal, transport or handling of Hazardous Materials.

"Environmental Notice" means any complaint, order, citation, letter, inquiry, notice or other written communication from any Governmental Authority (a) affecting or relating to Borrower's or any Restricted Subsidiaries' violation of any Environmental Law in connection with any activity or operations at any time conducted by Borrower or such Restricted Subsidiary, (b) relating to the unpermitted occurrence or Presence of or exposure to or possible or threatened or alleged occurrence or presence of or exposure to Environmental Discharges or Hazardous Materials at any of Borrower's or any Restricted Subsidiary's locations or facilities, including, without limitation: (i) the existence of any contamination or possible or threatened contamination at any such location or facility and (ii) remediation of any Environmental Discharge or Hazardous Materials at any such location or facility or any part thereof; and (c) any violation or alleged violation of any relevant Environmental Law.

-9-

"ERISA" means the Employee Retirement Income Security Act of 1974, including any rules and regulation promulgated thereunder.

"ERISA Affiliate" means any corporation or trade or business which is a member of the same controlled group of corporations (within the meaning of Section 414(b) of the Code) as Borrower or any Guarantor or is under common control (within the meaning of Section 414(c) of the Code) with Borrower or such Guarantor; provided however, that for purposes of provisions herein concerning minimum funding obligations (imposed under Section 412 of the Code or Section 302 of ERISA), the term "ERISA Affiliate" shall also include any entity required to be aggregated with Borrower or any Guarantor under Section 414(m) or 414(o) of the Code.

"Eurodollar Base Rate" means with respect to any Interest Period for a Eurodollar Loan, the arithmetic mean, as calculated by Agent, of the respective rates per annum (rounded upwards, if necessary, to the nearest 1/16 of 1 %) quoted at approximately 11:00 A.M. London time by the principal London branch of Agent two (2) Banking Days prior to the first day of such Interest Period for

the offering to leading banks in the London interbank market of Dollar deposits in immediately available funds, for a period, and in an amount, comparable to the Interest Period and principal amount of the Eurodollar Loan which shall be made by Agent and outstanding during such Interest Period.

"Eurodollar Loan" means any Revolving Credit Loan when and to the extent the Interest Rate therefor is determined on the basis of the definition "Eurodollar Base Rate."

"Eurodollar Rate" means, for any Eurodollar Loan for any Interest Period therefor, a rate per annum (rounded upwards, if necessary to the nearest 1/100 of 1%) determined by Agent to be equal to the quotient of (a) the Eurodollar Base Rate for such Loan for such Interest Period, divided by (b) one minus the Reserve Requirement for such Loan for such Interest Period.

"Event of Default" has the meaning specified in Section 11.01 hereof.

"Exchange Act" means the Securities Exchange Act of 1934, as amended.

"Existing Agreement" means the Amended and Restated Credit Agreement and Guaranty, dated as of September 5, 2000, by and among Borrower, the guarantors that are party thereto, Chase, as agent and the financial institutions parties thereto as lenders (as amended, modified or supplemented from time to time).

"Existing Letters of Credit" means the trade (documentary) letters of credit issued by Chase for the account and/or benefit of Borrower or its Restricted Subsidiaries under the Existing Agreement, as more fully set forth on Schedule 1A.01.

"Existing Loan Documents" means, collectively, the Existing Agreement and all agreements, instruments and documents executed or delivered pursuant to or in connection therewith (as amended, modified or supplemented from time to time).

"Factor" shall have the meaning set forth in Section 9.03(f) hereof.

"Factored Accounts" shall have the meaning set forth under "Eligible Accounts."

"Factoring Agreement" means any factoring agreement by and between Borrower and/or any Restricted Subsidiary and a Factor.

-10-

"Federal Funds Rate" means, for any day, the rate per annum (rounded, if necessary, to the next greater 1/100 of 1%) equal to the rate per annum at which the Agent is offered overnight Federal funds by a Federal funds broker selected by the Agent at or about 2:00 p.m., New York time, on such day, provided that if such day is not a Banking Day, the Federal Funds Rate for such day shall be such rate at which the Agent is offered overnight Federal funds by such Federal funds broker at or about 2:00 p.m., New York time, on the next preceding Banking Day.

"Fiscal Month" means each of the twelve (12) monthly periods of Borrower's Fiscal Year.

"Fiscal Month End Date" means the last day of any Fiscal Month of each Fiscal Year.

"Fiscal Quarter" means each of the four (4) quarterly periods of Borrower's Fiscal Year.

"First Quarterly Date" means the last day of the first Fiscal Quarter of each Fiscal Year.

"Fiscal Year" means each calendar year ending December 31.

"Foreign Lender" means any Bank that is organized under the laws of a jurisdiction other than that in which Borrower is located. For purposes of this definition, the United States of America, each State thereof and the District of Columbia shall be deemed to constitute a single jurisdiction.

"Fourth Quarterly Date" means the last day of the fourth Fiscal Quarter of each Fiscal Year.

"GAAP" means generally accepted accounting principles in the United States of America as in effect on the date hereof, applied on a basis consistent with those used in the preparation of the financial statements referred to in Section 7.05 hereof.

"Glamourette" means Glamourette Fashion Mills, Inc., a Delaware corporation.

"Glamourette Security Agreement" means the Security Agreement executed by Glamourette in favor of Agent for the ratable benefit of the Bank Parties.

"GMAC" has the meaning specified in Section 9.03(f) hereof.

"Good Faith Contest" means the contest of an item if: (a) the item is diligently contested in good faith by appropriate proceedings timely instituted; (b) adequate reserves are established in accordance with GAAP; (c) during the period of such contest, the enforcement of any contested item is effectively stayed; and (d) the failure to pay or comply with the contested item during the period of the Good Faith Contest is not likely to result in a Material Adverse Change.

"Governmental Approvals" means any authorization, consent, approval, license, permit, certification, or exemption of registration or filing with or report or notice to any Governmental Authority.

"Governmental Authority" means any nation or government, any state or other political subdivision thereof, and any entity exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to government.



"Guarantor Security Agreements" means any Security Agreements executed by any of Designers, Item-Eyes and Glamourette to secure the Guaranty Obligations.

"Guarantor" and "Guarantors" means (i) with respect to all Obligations other than the Letter of Credit Obligations, Designers, Item-Eyes, Glamourette and HIL and any future Restricted Subsidiaries and (ii) with respect to all Letter of Credit Obligations, Borrower, Designers, Item-Eyes, Glamourette and HIL and any future Restricted Subsidiaries.

"Guaranty" means, collectively, all of the guarantees provided by the Guarantors pursuant to Section 5.01 hereof.

"Guaranty Obligations" has the meaning specified in Section 5.01 hereof.

"Hazardous Materials" means any pollutant, effluents, emissions, contaminants, toxic or hazardous wastes or substances, as any of those terms are defined from time to time in or for the purposes of any applicable Environmental Law, including asbestos fibers and friable asbestos, polychlorinated biphenyls, and any petroleum or hydrocarbon-based products or derivatives.

"HIL" means Hampshire Investments, Limited, a Delaware corporation.

"HIL Spin-off Transaction" means the sale of all of the issued and outstanding capital stock of HIL by Borrower to a Person other than the Borrower or any direct or indirect Subsidiary of Borrower.

"HSBC" means HSBC Bank USA, a New York State chartered bank and its successors and assigns and any Person acting as agent or nominee for HSBC Bank USA and any corporation the stock of which is owned or controlled directly or indirectly by, or is under common control with, HSBC Bank USA and/or HSBC Holdings plc.

"Instructions" means oral or written instructions or instructions transmitted by teleprocess given on behalf of Borrower by one or more Authorized Persons.

"Instrument" means with respect to any Letter of Credit or Steamship Guaranty, Airway Guaranty, any draft, receipt, acceptance, teletransmission, including, but not limited to, telex or cable, or other written demand for payment under such Letter of Credit.

"Insurance Companies" shall mean Phoenix Life Insurance Company and The Ohio National Life Insurance Company.

"Insurance Company Loan Documents" means the Senior Secured Notes and the agreements and documents among the Insurance Companies and Borrower and/or Guarantors providing for the purchase by the Insurance Companies of the Senior Secured Notes of Borrower and the giving of security therefor.



"Intercreditor Agreement" means the agreement among the Banks, the Agent and the Insurance Companies and the Agent for the Insurance Companies.

"Intercompany Demand Note" means a negotiable demand promissory note made by HIL to the order of Borrower evidencing loans by Borrower to HIL, substantially in the form of Exhibit H.

-12-

"Interest Period" means, with respect to any Eurodollar Loan, a period of one, two, three or six months commencing on the date such Loan is made, converted from another type of Loan or renewed, as Borrower may select in accordance with Section 2.02 hereof, provided that, each such Interest Period, which commences on the last Banking Day of a calendar month (or on any day for which there is no numerically corresponding day in the appropriate subsequent calendar month), shall end on the last Banking Day of the appropriate calendar month; provided, further, that,

(a) If any Interest Period would otherwise end on a day which is not a Banking Day, that Interest Period shall be extended to the next succeeding Banking Day unless such Interest Period is with respect to a Eurodollar Loan and the result of such extension would be to extend such Interest Period into another calendar month, in which event such Interest Period shall end on the immediately preceding Banking Day.

(b) No Interest Period with respect to a Revolving Credit Loan shall extend beyond the Revolving Credit Termination Date.

"Interest Rate" means either (a) with respect to a Prime Rate Loan, the Prime Rate minus one quarter of one percent or (b) with respect to a Eurodollar Loan, the Eurodollar Rate plus the Applicable Margin.

"Interest Rate Contracts" means interest rate swap agreements, interest rate cap agreements, interest rate collar agreements, interest rate insurance and other agreements or arrangements designed to provide protection against fluctuation in interest rates, in each case, in form and substance reasonably satisfactory to the Agent.

"International Standby Practices" means the "International Standby Practices (ISP98)," as promulgated by the Institute of International Banking Law & Practice, Inc., approved by the International Chamber of Commerce ("ICC") Commission on Banking Technique and Practice, and issued by the ICC as Publication No. 590, or any successor code of standby letter of credit practices among banks adopted by the Bank as a standby letter of credit issuer in the ordinary course of its business and in effect at the time of reference.

"Inventory" shall have the meaning set forth in the Borrower Security Agreement and the Security Agreements that have been executed by the Guarantors.

"Item-Eyes" means Item-Eyes, Inc., a Delaware corporation.

"Item-Eyes Security Agreement" means the Security Agreement executed by Item-Eyes in favor of Agent for the ratable benefit of the Bank Parties.

"Item-Eyes Trademark Security Agreement" means the Trademark Security Agreement executed Item-Eyes by in favor of Agent for the ratable benefit of the Bank Parties.

"Law" means any applicable federal, state or local statute, law, rule, regulation, ordinance, order, code, policy or rule of common law, now or hereafter in effect, and any applicable judicial or administrative interpretation thereof by a Governmental Authority or otherwise, including any judicial or administrative order, consent decree or judgment.

-13-

"Letters of Credit" means Trade Letters of Credit and the Standby Letters of Credit.

"Letter of Credit Account Party" means the Borrower, Designers, Item-Eyes or any other Restricted Subsidiary, as the case may be.

"Letter of Credit Account Parties" means the Borrower, Designers, Item-Eyes and all other Restricted Subsidiaries.

"Letter of Credit Fee" means the Trade Letter of Credit Fee and the Standby Letter of Credit Fee.

"Letter of Credit Issuing Bank" means (i) HSBC with respect to all Letters of Credit other than the Existing Letters of Credit and (ii) Chase with respect to all Existing Letters of Credit.

"Letter of Credit Obligations" means at any time an amount equal to the sum of (a) the aggregate amount of Trade Letter of Credit Obligations, (b) the aggregate amount of Standby Letter of Credit Obligations and (c) any Letter of Credit Fee due and payable.

"Lien" means any mortgage, deed of trust, pledge, security, interest, hypothecation, assignment, deposit arrangement, encumbrance, lien (statutory or other), or preference, priority, or other security agreement or preferential arrangement, charge, or encumbrance of any kind or nature whatsoever (including, without limitation, any conditional sale or other title retention agreement, any financing lease having substantially the same economic effect as any of the foregoing, and the filing of any financing statement under the Uniform Commercial Code or comparable Law of any jurisdiction to evidence any of the foregoing).

"Loan Account" shall have the meaning set forth in Section 2.11(a) hereof.

"Loan Document(s)" means this Agreement, the Notes, the Letters of Credit, the Security Documents, the Intercreditor Agreement and any and all documents

executed in connection with the Letters of Credit and the Intercreditor Agreement.

"Material Adverse Change" means either (a) a material adverse change in the status of the business, assets, liabilities, results of operations, condition (financial or otherwise) or property or prospects of Borrower and its Restricted Subsidiaries, taken as a whole, or (b) any event or occurrence of whatever nature which is likely to have a material adverse effect on Borrower's ability to perform its obligations under the Loan Documents to which it is a party. For the avoidance of doubt, no matter affecting the business, operations, affairs, financial condition, assets or properties of HIL or any Subsidiary thereof in and of itself shall be deemed to cause a material adverse change in the status of the business, assets, liabilities, results of operations, condition (financial or otherwise), property or prospects of Borrower or Borrower's ability to perform its obligations under any Loan Document.

"Monthly Date(s)" means the first Banking Day of each calendar month occurring on or after the Effective Date.

"Multiemployer Plan" means a Plan defined as such in Section 3(37) of ERISA.

-14-

"Net Amount of Eligible Accounts" shall mean and include at any time, without duplication, the gross amount of Eligible Accounts at such time less (a) sales, excise or similar taxes and (b) returns, discounts, claims, credits, allowances, of any nature at any time issued, owing, granted, outstanding, available or claimed; provided, that such amounts have not already otherwise been deducted.

"Net Amount of Eligible Inventory" shall mean, at any time, the aggregate Book Value of Eligible Inventory.

"Net Availability" shall mean, at any date, (a) the Availability for Revolving Credit Loans less (b) the aggregate principal amount of all outstanding Revolving Credit Loans.

"Net Borrowing Base" shall mean, at any date, (a) the Borrowing Base less (b) the sum of (i) the outstanding principal amount of indebtedness of Borrower and Restricted Subsidiaries to the Insurance Companies in respect to the Senior Secured Notes and (ii) the outstanding indebtedness of Borrower and its Restricted Subsidiaries under the Unsecured Lines.

"Net Worth Adjustment Amount" means (i) as to any Fiscal Year beginning with the Fiscal Year ending December 31, 2003, fifty percent (50%) of the Borrower's Consolidated Net Income (without any deduction for loss) for such Fiscal Year determined on a cumulative basis in accordance with GAAP and (ii) for any first, second or third Fiscal Quarter of the Borrower, beginning with the Fiscal Quarter ending March 29, 2003, fifty percent (50%) percent of the amount of Consolidated Net Income (or loss) as reflected in the quarterly

financial statements required to be delivered to Agent under Section 8.08(a) hereof, calculated on a quarterly (cumulative) basis. For purposes of determining the minimum Consolidated Tangible Net Worth required to be maintained:

(x) with respect to the adjustment required under subpart (i) above, the Net Worth Adjustment Amount shall be determined as at the last day of each Fiscal Year of the Borrower and shall be added, on a cumulative basis, to the minimum Consolidated Tangible Net Worth required to be maintained and such minimum Consolidated Tangible Net Worth shall be maintained at all times during the period beginning on such date until the last day of the immediately following Fiscal Quarter at which time the minimum Consolidated Tangible Net Worth shall increase (or decrease) as provided below, until the last day of the immediately following Fiscal Year, at which time and at each subsequent Fiscal Year end the minimum Consolidated Tangible Net Worth required to be maintained shall again be increased and maintained as provided in this subpart (x); and

(y) with respect to the adjustment required under subpart (ii) above, the Net Worth Adjustment Amount shall be determined as at the last day of each first, second and third Fiscal Quarter of the Borrower and shall be added, or subtracted (in the case of a net loss), on a cumulative basis, to the minimum Consolidated Tangible Net Worth required to be maintained and such minimum Consolidated Tangible Net Worth shall be maintained at all times during the period beginning on such date until the last day of the immediately following Fiscal Quarter at which time and at each subsequent Fiscal Quarter end the minimum Consolidated Tangible Net Worth required to be maintained shall again be increased (or decreased) and maintained accordingly until the last day of the Fiscal Year, at which time the minimum Consolidated Tangible Net Worth shall be increased in the manner provided above.

"Note(s)" means the Revolving Credit Notes.

-15-

"Obligations" shall mean any and all Revolving Credit Loans, Letter of Credit Obligations and all other indebtedness, liabilities and obligations of every kind, nature and description owing by Borrower, a Letter of Credit Account Party or Guarantors (excluding the Obligations of HIL other than Obligations of HIL arising under its Guaranty) to each Bank Party, the Banks and/or their Affiliates, arising out of or in connection with the Notes, the Letters of Credit, including Airway Guaranty or Steamship Guaranty, this Agreement, the other Loan Documents and any and all Interest Rate Contracts (but solely to the extent a Bank is a counter-party to such Interest Rate Contract), including without limitation for principal, interest, charges, fees, expenses, reimbursement obligations and foreign exchange obligations, however evidenced, whether as principal, surety, endorser, guarantor or otherwise, arising under this Agreement, whether now existing or hereafter arising, whether arising before, during or after the Revolving Credit Termination Date or after the commencement of any case with respect to Borrower, any Letter of Credit Account

Party or any Guarantor under the Bankruptcy Code or any similar statute, whether direct or indirect, absolute or contingent, joint or several, due or not due, primary or secondary, liquidated or unliquidated, secured or unsecured, original, renewed or extended and whether arising directly or howsoever acquired by the Banks including from any other entity outright, conditionally or as collateral security, by assignment, merger with any other entity, participations or interests of the Banks in the obligations of Borrower, Letter of Credit Account Parties or Guarantors to others, assumption, operation of law, subrogation or otherwise and shall also include all amounts chargeable to Borrower, any Letter of Credit Account Party or any Guarantor under this Agreement or in connection with any of the foregoing, provided however, that indebtedness and obligations due to any of the Banks in connection with transactions between Borrower or any Guarantor and any such Bank separate from this Agreement, excluding those in connection with Interest Rate Contracts, shall not be deemed "Obligations".

"Optional Prepayment" has the meaning specified in Section 2.07 hereof.

"Outstanding Credit Facilities" means at any time an amount equal to the sum of (a) the aggregate principal amount of all outstanding Revolving Credit Loans plus (b) the Letter of Credit Obligations.

"Participating Banks" means each Bank other than HSBC.

"Participation" has the meaning set forth in Section 4.01 hereof.

"PBGC" means the Pension Benefit Guaranty Corporation and any entity succeeding to any or all of its functions under ERISA.

"Permitted Investments" means any of the following:

Investment Type	Maximum Maturity	Minimum Rating
T Bills	6 months	N/A
T Notes	1 year	N/A
US Government Agency Bills, Notes and Bonds	1 year	N/A
Commercial Paper	9 months	A2/P2
Asset Backed Commercial Paper	9 months	A2/P2

Bankers Acceptances	6 months	N/A
Repurchase Agreements	1 month	N/A

Domestic Certificate of Deposit	1 year	N/A
Euro Certificate of Deposit	1 year	N/A
Medium Term Notes	1 year	AAA
Variable Rate Demand Notes	3 months	AAA
Corporate Bonds	1 year	AAA
Municipal Notes/ Bonds	1 year	AAA
Tax Exempt or Taxable Money Market Funds	N/A	AAA
Stock, obligations or securities received in settlement of debts (created in the ordinary course of business) owing to the Borrower.		

"Permitted Liens" has the meaning set forth in Section 9.03 hereof.

"Person" means an individual, partnership, corporation, business trust, joint stock company, trust, unincorporated association, joint venture, Governmental Authority or other entity of whatever nature.

"Plan" means any plan, agreement, arrangement or commitment which is an employee benefit plan, as defined in Section 3(3) of ERISA, maintained by Borrower, any Guarantor or any ERISA Affiliate or with respect to which Borrower, any Guarantor or any ERISA Affiliate at any relevant time has any liability or obligation to contribute.

"Pledge Agreement" means a Pledge Agreement substantially in the form of Exhibit A hereto, to be delivered by Borrower and certain Guarantors under the terms of this Agreement.

"Presence" when used in connection with any Environmental Discharge or Hazardous Materials, means and includes presence, generation, manufacture, installation, treatment, use, storage, handling, repair, encapsulation, disposal, transportation, spill, discharge and release.

"Prime Rate" means that rate of interest from time to time announced by HSBC at its Principal Office as its prime commercial lending rate. The Prime Rate is a reference rate and does not necessarily represent the lowest or best rate being charged to any customer. The interest rate for Prime Rate Loans shall change when and as the Prime Rate changes and which changes in the rate of interest resulting from changes in the Prime Rate shall take effect immediately without notice or demand of any kind.

"Prime Rate Loan" means any Revolving Credit Loan when and to the extent the Interest Rate therefor is based on the Prime Rate.

"Principal Office" means the principal office of HSBC, presently located at 452 Fifth Avenue, New York, New York 10018.

"Prior Season Inventory" shall mean finished goods inventory of Designers , Item-Eyes and, with the approval of Agent and the Required Banks, any other existing or future Subsidiary of the Borrower, which was manufactured for sale in a shipping season prior to the current shipping season, as the case may be,

-17-

of Designers, Item-Eyes or such other existing or future Subsidiary of the Borrower which has been approved by Agent and the Required Banks (for purposes of this definition, the term "shipping season" means the period of time in which Inventory of Designers, Item-Eyes and, with the approval of Agent and the Required Banks, any other existing or future Subsidiary of the Borrower, is shipped for sale, such period to be determined in a manner consistent with such Persons' past business practices).

"Pro Rata Share" means (a) with respect to each Bank's Revolving Credit Commitment, a fraction, the numerator of which is such Bank's portion of the Revolving Credit Commitment and the denominator of which is the total of all the Bank's Revolving Credit Commitments; (b) with respect to each payment on the Revolving Credit Loans, a fraction, the numerator of which is the outstanding principal amount of all such Revolving Credit Loans owed to such Bank, and the denominator of which is the outstanding principal amount of all such Revolving Credit Loans owed to all Banks; and (c) with respect to Letters of Credit, the percentages set forth in Section 4.01 hereof.

As of the date of this Agreement, the amount of each Bank's Revolving Credit Commitment and its Pro Rata Share of such Revolving Credit Commitment is as follows:

Bank	Commitment	Pro Rata Share
HSBC	\$22,000,000	22.0%
CIT	\$20,000,000	20.0%
Fleet	\$16,500,000	16.5%
BOA	\$15,000,000	15.0%
Chase	\$15,000,000	15.0%
IDB	\$11,500,000	11.5%

"Prohibited Transaction" means any transaction prohibited under Section 406 of ERISA or Section 4975 of the Code.

"Quarterly Date" means the last Banking Day of each March, June, September, and December.

"Ratable Portion" means, at any time, a fraction, the numerator of which is the outstanding principal amount of the Outstanding Credit Facilities at such time, and the denominator of which is the sum of (a) the aggregate principal



amount of the Senior Secured Notes outstanding at such time plus (b) the aggregate principal amount of the Outstanding Credit Facilities at such time.

"Regulatory Change" means, with respect to any Bank, any change after the date of this Agreement in the United States federal, state, municipal or foreign laws or regulations (including without limitation Regulation D) or the adoption or making after such date of any interpretations, directives or requests applying to a class of banks including any of the Banks of or under any United States federal, state, municipal or foreign laws or regulations (whether or not having the force of law) by any court or governmental or monetary authority charged with the interpretation or administration thereof.

"Reportable Event" means any of the events set forth in Section 4043(c) of ERISA or in the regulations thereunder except for any such event for which the 30-day notice requirement is waived.

-18-

"Required Banks" means at any time the Banks holding sixty-six and two-thirds (66.67 %) percent of the aggregate Revolving Credit Commitment. In calculating the Revolving Credit Commitment of each Bank for purposes of this definition of "Required Banks", each Bank (other than HSBC) shall be deemed to have a portion of the Trade Letter of Credit Commitment or the Standby Letter of Credit Commitment, as the case may be, equal to that Bank's Pro Rata Share of the Trade Letter of Credit Commitment or the Standby Letter of Credit Commitment, as the case may be, and HSBC shall be deemed to have a portion of such Trade Letter of Credit Commitment or Standby Letter of Credit Commitment equal to one hundred percent (100%) minus the sum of the Pro Rata Shares of the other Banks.

"Required Licensor" means, with respect to inventory of the Borrower or a Restricted Subsidiary that is sold under a licensed trademark, each licensor that has licensed such trademark to the Borrower and/or the Restricted Subsidiaries to the extent that the gross revenues received or to be received by the Borrower and/or the Restricted Subsidiaries with respect to the sale of inventory subject to such licensed trademark equals or is in excess of \$5,000,000 for any twelve month period (taking into account sales as well as unfilled orders). The Required Licensors as of the Effective Date are Geoffrey Beene, Inc. (as to the "Geoffrey Beene" licensed trademark) and Levi Strauss & Co. (as to the "Dockers" and "Dockers Premium" licensed trademarks).

"Reserve Requirement" means, for any Eurodollar Loan for any Interest Period therefor, the rate at which reserves (including any marginal, supplemental or emergency reserves) are required to be maintained during such Interest Period under Regulation D by member banks of the Federal Reserve System in New York City with deposits exceeding \$1,000,000,000 against in the case of Eurodollar Loans, "Eurocurrency Liabilities" (as such term is used in Regulation D). Without limiting the effect of the foregoing, the Reserve Requirement shall reflect any other reserves required to be maintained by such member banks by reason of any Regulatory Change against (a) any category of liabilities which includes deposits by reference to which the Eurodollar Base Rate is to be



determined as provided in the definition of "Eurodollar Base Rate" in this Section 1.01 hereof or (b) any category of extensions of credit or other assets which include Eurodollar Loans. Agent will use its best efforts to promptly notify Borrower of any change of such Reserve Requirement.

"Restricted Payment" means (i) any advances or payments to, investments in, or guaranties for the benefit of HIL, (ii) any guaranties other than those guaranties permitted by Section 9.02 hereof, and/or (iii) any repurchase of any shares of the Borrower.

"Restricted Subsidiaries" means, individually and collectively, Designers, Glamourette, Item-Eyes and any existing and future Subsidiaries of Borrower, except HIL and any Subsidiary of HIL, together with their respective successors and assigns.

"Revolving Credit Commitment" means the commitment of the Banks to lend, pursuant to their Pro Rata Share, One Hundred Million (\$100,000,000) Dollars to Borrower pursuant to the terms of this Agreement as such commitment may be reduced in accordance with Section 2.07 hereof.

"Revolving Credit Loan(s)" has the meaning specified in Section 2.01 hereof.

"Revolving Credit Note(s)" has the meaning specified in Section 2.06 hereof.

"Revolving Credit Termination Date" means April 30, 2007.

-19-

"Second Quarterly Date" means the last day of the second Fiscal Quarter of each Fiscal Year.

"Secured Parties" means Agent and each of the Banks.

"Security Agreement" means a Security Agreement substantially in the form of Exhibit B hereto, to be delivered by Borrower and certain Guarantors under the terms of this Agreement.

"Security Documents" means the Borrower Security Agreement, the Guarantor Security Agreements, the Borrower Pledge Agreement, the Designers Pledge Agreement, the Borrower Trademark Security Agreement, the Designers Trademark Security Agreement, the Item-Eyes Trademark Security Agreement, and each other Security Agreement, Pledge Agreement and Trademark Security Agreement, to the extent executed, separately or jointly, by any party obligated in connection with the Obligations.

"Senior Secured Notes" means the Senior Secured Notes issued by Borrower in favor of the Insurance Companies pursuant to the Insurance Company Loan Documents in the original principal amount of \$15,000,000 due January 2, 2008, as amended, transferred or exchanged from time to time, in accordance with the

"Solvent" means, when used with respect to any Person, that (a) the fair value of the property of such Person, on a going concern basis, is greater than the total amount of liabilities (including, without limitation, contingent liabilities) of such Person, (b) the present fair saleable value of the assets of such Person, on a going concern basis, is not less than the amount that will be required to pay the probable liabilities of such Person on its debts as they become absolute and matured, (c) such Person does not intend to, and does not believe that it will incur debts or liabilities beyond such Person's ability to pay as such debts and liabilities mature, and (d) 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 property would constitute unreasonably small capital after giving due consideration to the prevailing practice in the industry in which such Person is engaged. Contingent liabilities will be computed at the amount that, in light of all the facts and circumstances existing at such time, represents the amount that can reasonably be expected to become an actual or matured liability.

"Standby Letter of Credit" means a Standby Letter of Credit issued by HSBC for the account of Borrower.

"Standby Letter of Credit Commitment" shall have the meaning set forth in Section 3.05 hereof.

"Standby Letter of Credit Fee" has the meaning specified in Section 3.05 hereof.

"Standby Letter of Credit Obligations" means at any time an amount equal to the sum of (a) the aggregate unused face amount of all outstanding Standby Letters of Credit, plus any variance allowed under the terms of the Standby Letter of Credits, (b) the aggregate amount of all unreimbursed obligations on Standby Letters of Credit and (c) the aggregate amount of all outstanding overdrafts created to satisfy any of the foregoing obligations.

"Steamship Guaranty" has the meaning specified in Section 3.09 hereof.

-20-

"Subsidiary" means, as to any Person, a corporation of which shares of stock having ordinary voting power (other than stock having such power only by reason of the happening of a contingency) to elect a majority of the board of directors or other managers of such corporation are at the time owned, or the management of which is otherwise controlled, directly, or indirectly through one or more intermediaries, or both, by such Person.

"Supplemental Amount" shall mean, for each of the periods set forth below, the following amounts (unless reconsidered pursuant to Section 8.08(i), in which case, such reconsidered amount):

Period	Supplemental Amount
Effective Date through and including August 30, 2003	\$ 6,000,000
August 31, 2003 through and including February 28, 2004	\$ 0
February 29, 2004 through and including April 3, 2004	\$ 2,000,000
April 4, 2004 through and including May 1, 2004	\$ 9,000,000
May 2, 2004 through and including May 29, 2004	\$18,000,000
May 30, 2004 through and including June 3, 2004	\$13,000,000
July 4, 2004 through and including July 31, 2004	\$ 8,000,000
August 1, 2004 through and including August 28, 2004	\$ 6,000,000
From August 29, 2004 through and including the The Revolving Credit Termination Date	\$ 0

"Third Quarterly Date" means the last day of the third Fiscal Quarter of each Fiscal Year.

"Trade Letter of Credit" has the meaning specified in Section 3.01 hereof.

"Trade Letter of Credit Commitment" shall have the meaning set forth in Section 3.01 hereof.

"Trade Letter of Credit Fee" has the meaning specified in Section 3.03 hereof.

"Trade Letter of Credit Obligations" means at any time an amount equal to the sum of (a) the aggregate unused face amount of all outstanding Trade Letters of Credit, plus any variance allowed under the terms of the Trade Letter of Credits, (b) the aggregate amount of all unreimbursed obligations on Trade Letters of Credit, (c) the aggregate amount of all outstanding overdrafts created to satisfy any of the foregoing obligations and (d) the aggregate amount of all Airway Guaranties and Steamship Guaranties.

"Trademark Security Agreement" means a Trademark Collateral Assignment and Security Agreement, substantially in the form of Exhibit C hereto, to be delivered by Borrower and certain Guarantors under the terms of this Agreement.

"Uniform Customs and Practices" means, with regard to each Letter of Credit, the Uniform Customs and Practices for Documentary Letters of Credit (1993 Revisions), International Chamber of Commerce Publication No. 500, and any subsequent revision thereof adhered to by HSBC on the date such Letter of Credit is issued.

"Unsecured Lines" shall have the meaning set forth in Section 9.01(f) hereof.

Section 1.02 Accounting Terms. All accounting terms not specifically defined herein shall be construed in accordance with GAAP, and all financial data required to be delivered hereunder shall be prepared in accordance with GAAP. Section 1.03 Computation of Time Periods. Except as otherwise provided

herein, in this Agreement, in the computation of periods of time from a specified date to a later specified date, the word "from" means "from and including" and words "to" and "until" each means "to but excluding".

Section 1.04 Rules of Construction. When used in this Agreement: (a) "or" is not exclusive; (b) a reference to a law includes any amendment or modification to such law and any statutory amendments and recodifications; (c) a reference to a Person includes its permitted successors and permitted assigns; and (d) a reference to an agreement, instrument or document shall include such agreement, instrument or document as the same may be amended, modified or supplemented from time to time in accordance with its terms and as permitted by the Loan Documents.

## ARTICLE II

### REVOLVING CREDIT LOANS

Section 2.01 Revolving Credit. Subject to the terms and conditions of this Agreement, each of the Banks severally agrees to make loans (the "Revolving Credit Loans") according to each such Bank's Pro Rata Share of the Revolving Credit Commitment, to Borrower from time to time during the period from the Effective Date up to but not including the Revolving Credit Termination Date, provided that the aggregate principal amount of all Revolving Credit Loans outstanding at any time does not exceed the Availability for Revolving Credit Loans. Each Revolving Credit Loan which shall not utilize the Availability for Revolving Credit Loans in full shall be in the minimum amount set forth in Section 2.10 hereof. Subject to the terms hereof, the Borrower may borrow, make an Optional Prepayment pursuant to Section 2.07 hereof, and reborrow under this Section 2.01 hereof.

The failure of any Bank to make any requested Revolving Credit Loan to be made by it on the date specified for such Revolving Credit Loan shall not relieve any other Bank of its obligation (if any) to make such Revolving Credit Loan on such date, but no Bank shall be responsible for the failure by any other Bank to make such Revolving Credit Loans.

Section 2.02 Notice and Manner of Borrowing. Borrower shall give Agent telephonic notice, to be followed by written or telegraphic or facsimile notice in the form of Exhibit D hereto (irrevocable and effective upon receipt) of any Revolving Credit Loan, such notice to indicate whether such Revolving Credit Loan shall be a Prime Rate Loan or Eurodollar Loan. Each of the foregoing notices (a "Borrowing Notice") must specify the date and the amount of such Revolving Credit Loan to the Agent and the Agent will promptly notify each Bank of receipt by the Agent of a Borrowing Notice and of the contents thereof. In the case of a Eurodollar Loan, the Borrowing Notice shall be received not later than three (3) Banking Days prior to such Eurodollar Loan and shall specify the Interest Period selected and in the case of a Prime Rate Loan, the Borrowing Notice shall be received not later than noon (New York time) on the date of such proposed Prime Rate Loan. Not later than 1:00 P.M. (New York time) on the date of a Revolving Credit Loan, each Bank will cause to be transmitted to the Agent, to an account designated by the Agent, in immediately available funds, such

Bank's Pro Rata Share of such Revolving Credit Loan. After the Agent's receipt of such funds, not later than 3:00 P.M. (New York time) on the date of a Revolving Credit Loan, and upon fulfillment of the applicable conditions set forth in Article VI, the Agent will make such Revolving Credit Loan available to Borrower in immediately available funds by crediting the amount thereof to the accounts as designated by Borrower to Agent.

-22-

Section 2.03 Conversions. Borrower shall have the right to convert one type of Revolving Credit Loan into another type of Revolving Credit Loan at any time or from time to time; provided that: (a) Borrower shall give the Agent at least three (3) Banking Days notice of the conversion of a Prime Rate Loan into a Eurodollar Loan and (b) Eurodollar Loans may be prepaid or converted only on the last day of an Interest Period for such Eurodollar Loan. Agent shall promptly notify each Bank of any such conversion.

Section 2.04 Non-Receipt of Funds by Agent. Unless the Agent shall have received notice from a Bank, prior to the date on which such Bank is to provide funds to the Agent for a Revolving Credit Loan to be made by such Bank, that such Bank will not make available to the Agent such funds, the Agent may assume that such Bank has made such funds available to Agent on the date of such Revolving Credit Loan in accordance with Section 2.02 hereof and the Agent, in its sole discretion, may, but shall not be obligated to, in reliance upon such assumption, make available to Borrower on such date a corresponding amount. If and to the extent such Bank shall not have made such funds available to the Agent, such Bank agrees to repay the Agent forthwith on demand such corresponding amount together with interest thereon, for each day from the date such amount is made available to Borrower until the date such amount is repaid to the Agent, for three (3) Banking Days, at the Federal Funds Rate and thereafter, at the Prime Rate. If such Bank shall repay to the Agent such corresponding amount, such amount so repaid shall constitute such Bank's Revolving Credit Loan for purposes of this Agreement. If such Bank does not pay such corresponding amount forthwith upon Agent's demand therefor, the Agent shall promptly notify Borrower, and Borrower shall immediately pay such corresponding amount to the Agent with the interest thereon, for each day from the date such amount is made available to Borrower until the date such amount is repaid to the Agent, at the rate of interest applicable at the time to such proposed Revolving Credit Loan. Unless the Agent shall have received notice from Borrower prior to the date on which any payment is due to any Bank hereunder that Borrower will not make such payment in full, the Agent may assume that Borrower has made such payment in full to the Agent on such date and the Agent, in its sole discretion, may, but shall not be obligated to, in reliance upon such assumption, cause to be distributed to each Bank on such due date an amount equal to the amount then due such Bank. If and to the extent Borrower shall not have so made such payment in full to the Agent, each Bank shall repay to the Agent forthwith on demand such amount distributed to such Bank together with interest thereon, for each day from the date such amount is distributed to such Bank until the date such Bank repays such amount to the Agent, for three (3) Banking Days, at the Federal Funds Rate and thereafter at the Prime Rate.

Section 2.05 Interest. Borrower shall pay interest to the Agent, for the account of the applicable Bank, on the outstanding and unpaid principal amount of the Revolving Credit Loans at a rate per annum equal to the Interest Rate. Any principal or interest amount not paid when due (at maturity, by acceleration or otherwise) shall bear interest thereafter, payable on demand, at the Default Rate.

The interest rate on each Prime Rate Loan shall change when the Prime Rate changes. Interest on each Revolving Credit Loan shall not exceed the maximum amount permitted under applicable Law and shall be calculated on the basis of a year of three hundred sixty (360) days for the actual number of days elapsed.

-23-

Accrued interest shall be due and payable (a) in the case of a Prime Rate Loan (i) in arrears on each Monthly Date, commencing with the first such date after such Prime Rate Loan, and (ii) upon each payment or prepayment of principal on such Prime Rate Loan and (b) in the case of a Eurodollar Loan, at the end of each Interest Period and, in the case of a Eurodollar Loan with an Interest Period of more than three months' duration, each day prior to the last day of such Interest Period that occurs at intervals of three months' duration after the first day of such Interest Period, and (c) in the case of a prepayment that reduces the Revolving Credit Commitment in accordance with Section 2.07 hereof, upon each such prepayment.

Section 2.06 Notes. All Revolving Credit Loans made by each Bank under this Agreement shall be evidenced by, and repaid with interest in accordance with, a single promissory note of Borrower in substantially the form of Exhibit F duly completed, in the principal amount equal to such Bank's Pro Rata Share of the total Revolving Credit Commitment, dated the date such bank becomes a Bank, payable to such Bank and maturing as to principal on the Revolving Credit Termination Date (the "Revolving Credit Notes"). Each Bank is hereby authorized by Borrower to endorse on the schedule attached to the Revolving Credit Note held by it the amount of each Revolving Credit Loan, and the payment amount of each principal payment received by such Bank on account of the Revolving Credit Loans, which endorsement shall, in the absence of manifest error, be conclusive as to the outstanding balance of the Revolving Credit Loans made by such Bank; provided however, that the failure to make such notation with respect to any Revolving Credit Loan or payment shall not limit or otherwise affect the obligations of Borrower under this Agreement or the Revolving Credit Note held by such Bank. Each Bank agrees that prior to any assignment of the Revolving Credit Note, it will endorse the schedule attached to its Revolving Credit Note.

Section 2.07 Optional and Mandatory Prepayments.

(a) Borrower may prepay a Prime Rate Loan, in whole or in part, with accrued interest to the date of such prepayment on the amount prepaid, provided that, each partial prepayment shall be in a principal amount of not less than One Hundred Thousand Dollars (\$100,000) (each such payment, an "Optional Prepayment"). Eurodollar Loans may only be prepaid at end of any Interest Period.



(b) During the term of this Agreement, Borrower shall make mandatory prepayments (i) in an amount equal, during any Fiscal Year, to the net proceeds received in excess of \$250,000 in the aggregate, from the sale (other than a sale in the ordinary course of business) of all or any part of the assets of any Restricted Subsidiary; (ii) in an amount equal to the net proceeds received by Borrower or any Restricted Subsidiary from the sale or issuance of any debt instrument, and (iii) in an amount equal to the net proceeds received by Borrower or any Restricted Subsidiary under any insurance policy, to the extent that, in the case of property and casualty insurance, such proceeds are not used by Borrower or such Restricted Subsidiary to repair or replace the property which was the subject of such insurance claim, with a reasonable period of time but in no event later than six (6) months from the date such proceeds are received by the Borrower or such Subsidiary, unless Borrower or such Subsidiary has taken action to affect such repair or replacement, as determined by the Agent in good faith, or unless otherwise agreed to by the Agent. So long as the Intercreditor Agreement remains in effect, notwithstanding anything to the contrary contained herein, the Banks shall be entitled to receive their Ratable Portion of the prepayments required to be paid under this Section 2.07(b) and if Agent shall be in receipt of any proceeds of such prepayments in excess of the Bank's Ratable Portion of such prepayments (the "Excess Prepayments"), Agent shall deliver such Excess Prepayments to the Noteholder Agent (as defined in the Intercreditor Agreement). With respect to prepayments received by the Agent for the ratable benefit of Banks under this Section 2.07(b), such prepayments shall be applied first, to the repayment of the then outstanding Revolving Credit Loans and second, at the discretion of Agent, to be held as Cash Collateral to

-24-

secure Letter of Credit Obligations; provided that, any mandatory prepayment of the Revolving Credit Loans or held as Cash Collateral to secure Letters of Credit hereunder shall permanently reduce the Supplemental Amount and the Revolving Credit Commitment on a dollar for dollar basis to the extent such proceeds are received by the Agent in accordance with the terms of the Intercreditor Agreement (with respect to secured Letter of Credit Obligations such reduction will occur as Letter of Credit Obligations are satisfied by the Cash Collateral).

(c) To the extent that, at any given time, (i) the Outstanding Credit Facilities exceed the then effective Revolving Credit Commitment, or (ii) the Outstanding Credit Facilities exceed the sum of the Availability for Revolving Credit Loans plus the Letter of Credit Obligations, or (iii) the Revolving Credit Loans exceed the Availability for Revolving Credit Loans, or (iv) the Obligations exceed any of the other borrowing limitations set forth in this Agreement, in each case the Borrower shall immediately pay to the Agent for the ratable benefit of the Banks a mandatory prepayment of the Revolving Credit Loans in an amount equal to such excess and/or Borrower shall immediately provide Cash Collateral for the Letter of Credit Obligations to the extent required to eliminate such excess. Any Cash Collateral deposited with the Agent for the ratable benefit of the Banks in accordance with the terms of this Section 2.07 shall be credited, for purposes of the calculation of Availability

for Revolving Credit Loans under Section 2.01 hereof, against the outstanding Letter of Credit Obligations subject to Section 2.07(d) hereof.

(d) In the event Eurodollar Loans are outstanding at the time of any mandatory prepayment under this Section 2.07 hereof, such mandatory prepayment shall be applied first to reduce any Prime Rate Loans outstanding to zero. Any remaining mandatory prepayment amount shall be deemed to be Cash Collateral and shall be deposited by Agent in a segregated account to be applied to the Eurodollar Loans. The Cash Collateral in such segregated account shall represent a reduction of the Eurodollar Loans then outstanding and such amount shall be credited against Revolving Credit Loans for purposes of calculating Availability for Revolving Credit Loans. Agent shall hold such amounts in such segregated account and use it to pay the Eurodollar Loans as such loans mature. If the amounts in the segregated account are sufficient to pay (at maturity) the then outstanding Eurodollar Loans, any remaining mandatory prepayment shall then be applied to Letter of Credit Obligations in accordance with Section 2.07(c) hereof.

(e) Borrower may, without premium or penalty, reduce the Revolving Credit Commitment to an amount not less than the sum of the aggregate unpaid principal amount of all Revolving Credit Loans and Letter of Credit Obligations then outstanding. Each such reduction (i) shall be in an amount which is an integral multiple of \$1,000,000, (ii) shall be made providing not less than ten (10) Banking Days written notice to Agent, which notice shall state the amount of the payment to be made and shall conform to the amount of the Revolving Credit Commitment after giving effect to such payment, (iii) shall reduce, on a permanent basis, the Revolving Credit Commitment by an amount equal to the amount of such reduction, and (iv) shall be irrevocable. Once reduced the Revolving Credit Commitment may not be increased. Borrower may reduce the Revolving Credit Commitment to \$0 provided the Revolving Credit Termination Date occurs simultaneously therewith.

Section 2.08 Method of Payment. Borrower shall make each payment under this Agreement and under the Notes, without setoff or counterclaim, not later than 2:00 p.m. (New York time) on the date when due in Dollars to the Agent at the Agent's Office in immediately available funds and if received after 2:00 p.m. New York time, then such payment shall be credited the next Banking Day. The

-25-

Agent will promptly thereafter cause to be distributed to each Bank (a) such Bank's Pro Rata Share of the payments of principal and interest in like funds, and (b) fees or sums payable to such Bank in accordance with the terms of this Agreement, including, but not limited to, amounts due in accordance with Article XIII.

Borrower hereby authorizes the Agent to charge, from time to time, against any account it maintains with the Agent or any Bank, any such amount so due to the Agent and/or the Banks.

Except to the extent provided in this Agreement, whenever any payment to be



made under this Agreement or under the Notes shall be stated to be due on any day other than a Banking Day, such payment shall be made on the next succeeding Banking Day, and such extension of time shall, in such case, be included in the computation of the payment of interest and other fees, as the case may be.

Section 2.09 Use of Proceeds. On and after the date hereof, the proceeds of the Revolving Credit Loans will be used by Borrower to provide working capital for Borrower and its Restricted Subsidiaries, and the Trade Letters of Credit will be used for importation and purchasing of inventory by Borrower and its Restricted Subsidiaries.

Borrower will not, directly or indirectly, use any part of such proceeds for the purpose of purchasing or carrying any margin stock within the meaning of Regulation U of the Board of Governors or to extend credit to any Person for the purpose of purchasing or carrying any such margin stock.

Section 2.10 Minimum Amounts. Each Prime Rate Loan shall be in an amount at least equal to One Hundred Thousand (\$100,000) Dollars and each Eurodollar Loan shall be in an amount at least equal to One Million Five Hundred Thousand (\$1,500,000) Dollars.

Section 2.11 Establishment of Loan Account; Collection of Accounts.

(a) Agent shall maintain a loan account (the "Loan Account") on its books in which shall be recorded the Revolving Credit Loans and other Obligations and the Collateral, all payments made by or on behalf of Borrower and all other appropriate debits and credits as provided in this Agreement, including fees, charges, costs, expenses and interest. All entries in the Loan Account shall be made in accordance with Agent's customary practices as in effect from time to time. The records of Agent shall be conclusive and binding, in the absence of manifest error.

(b) Upon and during the continuance of any Event of Default, all proceeds of Collateral shall be deposited by Borrower and Restricted Subsidiaries into lockbox accounts with or under the control of Agent (for the ratable benefit of the Bank Parties).

Section 2.12 Closing Fee. Borrower shall pay to Agent, for the ratable benefit of Banks, a closing fee in the amount of \$150,000, which fee shall be fully earned and payable as of the date hereof.

Section 2.13 Commitment Fee. If, for any Agreement Quarter (as defined below) during the term of this Agreement, the average daily unpaid balance of the Revolving Credit Loans plus Letter of Credit Obligations for Borrower for each day of such quarter does not equal the Revolving Credit Commitment, then Borrower shall pay to Agent, for the ratable benefit of Banks, a fee at a rate equal to one eighth of one percent (.125%) per annum on the amount by which the Revolving Credit Commitment exceeds such aggregate average daily unpaid balance of the Revolving Credit Loans plus Letter of Credit Obligations for Borrower. Such fee shall be payable by Borrower to Agent in arrears on the last day of

each calendar quarter, shall be fully earned as of the date of payment and shall not be subject to refund, rebate or proration for any reason whatsoever. For the purposes of this Section 2.13 only, the term "Agreement Quarter" shall mean each calendar quarter of each calendar year.

### ARTICLE III

#### LETTERS OF CREDIT

Section 3.01 Trade Letters of Credit; Cash Collateral for Letters of Credit Expiring After Termination Date. Letter of Credit Issuing Bank agrees, on the terms and conditions hereinafter set forth, to issue trade letters of credit payable at sight with a maturity date of up to one hundred eighty (180) days from the date of issuance (such Letters of Credit issued by Letter of Credit Issuing Bank after the Effective Date, and all the Existing Letters of Credit are collectively referred to herein as the "Trade Letters of Credit") for the account of a Letter of Credit Account Party, during the period from the Effective Date to five (5) Banking Days prior to the Revolving Credit Termination Date; provided that, at no time will the outstanding Trade Letter of Credit Obligations exceed the lesser of (a) Eighty Five Million Dollars (\$85,000,000) less all Letter of Credit Obligations (other than Trade Letter of Credit Obligations), or (b) the Revolving Credit Commitment less outstanding Revolving Credit Loans and Letter of Credit Obligations (other than Trade Letter of Credit Obligations) or (c) the Net Borrowing Base less outstanding Revolving Credit Loans and Letter of Credit Obligations (other than Trade Letter of Credit Obligations) (the "Trade Letter of Credit Commitment"); provided further that, Letter of Credit Issuing Bank will not be required to issue a Trade Letter of Credit with a maturity (expiration) date of more than 90 days after the Revolving Credit Termination Date and, with respect to all Letters of Credit with a maturity (expiration) date after the Revolving Credit Termination Date, all of such outstanding Trade Letters of Credit Obligations and/or Standby Letters of Credit Obligations, as of five (5) Banking Days prior to the Revolving Credit Termination Date, shall be secured by Cash Collateral at one hundred and five (105%) percent of the face amount thereof.

Title documents shall be consigned to Agent at Agent's request; provided that with respect to any Existing Letters of Credit for delivery of goods from outside of the United States into the United States, within five (5) Banking Days of the Effective Date, at Agent's request Borrower shall apply for amendments to such Letters of Credit to provide that all title documents related to such goods shall be consigned to Agent.

Section 3.02 Reimbursement Obligation. With respect to each Letter of Credit, the Letter of Credit Account Party for which such Letter of Credit has been issued will pay Letter of Credit Issuing Bank, on demand at Letter of Credit Issuing Bank's Principal Office, in immediately available funds, the amount required to reimburse Letter of Credit Issuing Bank in respect of Letter of Credit Issuing Bank's payment of each Instrument applicable and/or relating

to such Letter of Credit. Such reimbursement shall be made with interest at the Default Rate from the date of Letter of Credit Issuing Bank's demand for reimbursement of such Instrument to the date of reimbursement. If the Instrument is in foreign currency, such reimbursement shall be in Dollars at Letter of Credit Issuing Bank's selling rate for cable transfers to the place of payment of the Instrument current on the date of payment or of Letter of Credit Issuing Bank's settlement of its obligation, as Letter of Credit Issuing Bank may require. If, for any cause, on the date of payment or settlement, as the case may be, there is no selling rate or other rate of exchange generally current in New York for effecting such transfers, each applicable Letter of Credit Account Party will pay Letter of Credit Issuing Bank on demand an amount in Dollars equivalent to Letter of Credit Issuing Bank's actual cost of settlement of its obligation however or whenever Letter of Credit Issuing Bank shall make such

-27-

settlement, with interest at the Prime Rate for Revolving Credit Loans from the date of settlement to the date of payment. Each Letter of Credit Account Party will comply with all governmental exchange regulations now or hereafter applicable to each Letter of Credit or Instrument or payments related thereto and will pay Letter of Credit Issuing Bank, on demand, in Dollars, such amount as Letter of Credit Issuing Bank may be or may have been required to expend on account of such regulations. HSBC may debit, or direct any other Bank to debit, any account or accounts maintained by any other Letter of Credit Account Party with any office of HSBC or any other Bank or any of their respective Subsidiaries or Affiliates (now or in the future) and apply the proceeds to the payment of any and all amounts owed by any Letter of Credit Account Party to Letter of Credit Issuing Bank hereunder, and such Bank, Subsidiary or Affiliate shall be authorized to act in accordance herewith and shall treat this authorization as irrevocable.

Section 3.03 Payment of Commissions, Expenses and Interest. Each Letter of Credit Account Party will pay interest where chargeable, including reasonable fees and charges of counsel, or reasonable costs allocated by Letter of Credit Issuing Bank's internal legal department in connection with the enforcement of this Agreement or any Letter of Credit. Unless otherwise agreed:

(a) interest payable under this Article III on amounts not paid when due shall be at the lesser of (i) the maximum rate permissible under applicable Law and (ii) the Default Rate; and

(b) each Letter of Credit Account Party shall pay to Letter of Credit Issuing Bank on demand such amounts as Letter of Credit Issuing Bank, in its sole discretion, determines are necessary to compensate it for any cost attributable to its issuing or having outstanding such Letter of Credit resulting from the application of any Law or regulation applicable to Letter of Credit Issuing Bank regarding any reserve, assessment, capital adequacy or similar requirements relating to letters of credit or the reimbursement agreements with respect thereto or to similar liabilities or assets of Letter of Credit Issuing Bank whether existing at the time of issuance of the Letter of Credit or adopted thereafter including, but not limited to, fees and amounts

payable with respect to amendments to and increases of a Letter of Credit. Each Letter of Credit Account Party acknowledges that there may be various methods of allocating costs to the Letter of Credit and agrees that Letter of Credit Issuing Bank's allocation for purposes of determining the costs referred to above shall be conclusive and binding upon each Letter of Credit Account Party provided such allocation is made in good faith.

In addition to other expenses to be paid by the Letter of Credit Account Parties with respect to a Letter of Credit (all of which shall be for the Letter of Credit Issuing Bank's own account), each Letter of Credit Account Party shall pay to Agent, for the ratable benefit of the Banks, under a Trade Letter of Credit issued for its account a fee for each draw in the amount of (i) with respect to the Existing Letters of Credit, one quarter of one percent (.25%) of the amount drawn under such Existing Letter of Credit and (ii) with respect to all Trade Letters of Credit other than the Existing Letters of Credit, one fifth of one percent (.20%) of the amount drawn under such Trade Letter of Credit (collectively the "Trade Letter of Credit Fee). All such fees shall be due and payable at the time of drawing.

Section 3.04 Proper Drawing; Letter of Credit Issuing Bank's Honoring. Letter of Credit Issuing Bank may accept or pay any Instrument presented to it on or before the expiration date of the applicable Letter of Credit. Except

-28-

insofar as written instructions may be given by an Authorized Person expressly to the contrary, and prior to Letter of Credit Issuing Bank's issuance of a Letter of Credit:

(a) Letter of Credit Issuing Bank may honor the related Instrument(s) in an amount or amounts not exceeding the amount of such Letter of Credit, although shipment(s) in excess of the quantity called for under such Letter of Credit are made, and

(b) Letter of Credit Issuing Bank may honor, as complying with the terms of such Letter of Credit and of the Application relating to it, any Instrument or other document otherwise in order signed or issued by a person purporting to be an administrator, executor, trustee in bankruptcy, debtor in possession, assignee for the benefit of creditors, liquidator, receiver or other legal representative of the party authorized under such Letter of Credit to draw or issue such Instruments or other documents.

Section 3.05 Standby Letters of Credit. During the period from the Effective Date to five (5) Banking Days prior to the Revolving Credit Termination Date, Letter of Credit Issuing Bank may open, at the request of and for the account of a Letter of Credit Account Party, Standby Letters of Credit; provided, that, at no time will the outstanding Standby Letter of Credit Obligations exceed the lesser of (a) Five Million Dollars (\$5,000,000), or (b) the Revolving Credit Commitment less outstanding Revolving Credit Loans and Letter of Credit Obligations (other than Standby Letter of Credit Obligations) or (c) the Net Borrowing Base less outstanding Revolving Credit Loans and Letter

of Credit Obligations (other than Standby Letter of Credit Obligations) (the "Standby Letter of Credit Commitment"). No Standby Letter of Credit shall have a stated expiration date later than the earlier of (a) the Revolving Credit Termination Date (unless collateralized as provided in Section 3.01 hereof) or (b) 364 days from the date of issuance. For the purpose of calculating the Net Availability, Standby Letters of Credit shall be deemed Revolving Loans. In addition to the Letter of Credit Issuing Bank's standard fees and charges for Letters of Credit and all other fees, commissions and other amounts otherwise payable with respect to issuance of Letters of Credit (all of which shall be for the Letter of Credit Issuing Bank's own account), each Letter of Credit Account Party shall pay to Agent (for the pro rata benefit of the Lenders) an amount equal 1.8% of the face amount of each Standby Letter of Credit issued for the account of such Letter of Credit Account Party, payable upon issuance (the "Standby Letter of Credit Fee").

Section 3.06 Amendment; Change; Modification; No Waiver. In the event of any amendment, change or modification relating to a Letter of Credit or any Instruments or documents called for thereunder, including waiver of noncompliance of any such Instruments or documents with the terms of such Letter of Credit, this Agreement shall be binding upon each Letter of Credit Account Party with regard to such Letter of Credit as so amended, changed, or modified, and to any act taken by Letter of Credit Issuing Bank or any of its correspondents relating thereto. No amendment, change, waiver, or modification to which Letter of Credit Issuing Bank has consented shall be deemed to mean that Letter of Credit Issuing Bank will consent or has consented to any other or subsequent request to amend, change, modify or waive a term of such Letter of Credit. Letter of Credit Issuing Bank shall not be deemed to have waived any of its rights hereunder, unless Letter of Credit Issuing Bank or its authorized agent shall have signed such waiver in writing. No such waiver, unless expressly stated therein, shall be effective as to any transaction which occurs subsequent to the date of such waiver, nor as to any continuance of a breach after such waiver.

Section 3.07 U.C.P. and I.S.P.; Agreements and Acknowledgments; Indemnification. The Uniform Customs and Practice and the International Standby Practices shall be binding on each Letter of Credit Account Party and Letter of Credit Issuing Bank, except to the extent it is otherwise expressly agreed. It is also agreed that:

-29-

(a) user(s) of a Letter of Credit shall not be deemed agents of Letter of Credit Issuing Bank;

(b) none of Letter of Credit Issuing Bank, its Affiliates, Subsidiaries, or its correspondents shall be responsible for:

(i) failure of any Instrument to bear any reference to the related Letter of Credit or inadequate reference in any Instrument to such Letter of Credit, or failure of any document (other than documents expressly required to be presented under such Letter of Credit) to accompany any

Instrument at negotiation, or failure of any person to note the amount of any Instrument on the reverse of a Letter of Credit, or to surrender or take up a Letter of Credit or to forward documents apart from Instruments as required by the terms of such Letter of Credit, each of which provisions, if contained in a Letter of Credit itself, it is agreed may be waived by Letter of Credit Issuing Bank; or

(ii) errors, omissions, interruptions or delays in transmission, or delivery of any message, by mail, telex, cable, telegraph, wireless or other teletransmission or by oral instructions, whether or not they may be in cipher;

(c) Letter of Credit Issuing Bank shall not be responsible for any act, error, neglect or default, omission, insolvency or failure in business of any of its correspondents;

(d) Each Letter of Credit Account Party will promptly examine:

(i) any copy of a Letter of Credit (and of any amendments the thereof) sent to it by Letter of Credit Issuing Bank; and

(ii) all Instruments and documents delivered to it, from time to time, and, in the event of any claim of non compliance with a Letter of Credit Account Party's instructions or other irregularity, the applicable Letter of Credit Account Party will immediately notify Letter of Credit Issuing Bank thereof in writing, each Letter of Credit Account Party being conclusively deemed to have waived any such claim against Letter of Credit Issuing Bank and its correspondents unless such notice is given as aforesaid;

(e) any action, inaction or omission on the part of Letter of Credit Issuing Bank or any of its correspondents, under or in connection with a Letter of Credit or the related Instruments, documents or property, if, in good faith, shall be binding upon each Letter of Credit Account Party and shall not place Letter of Credit Issuing Bank or any of its correspondents under any liability to any Letter of Credit Account Party; and

(f) in the event that Letter of Credit Issuing Bank shall pre-assign a letter of credit number or numbers to any Letter of Credit Account Party, each Letter of Credit Account Party shall keep such number(s) confidential and shall not disclose any such number to any Person until the Letter of Credit to which such number relates has been approved by Letter of Credit Issuing Bank.

Each Letter of Credit Account Party agrees to hold HSBC, each Affiliate and Subsidiary of HSBC, Letter of Credit Issuing Bank, Collateral Monitor, Agent,

-30-

each Bank, each Affiliate and Subsidiary of each Bank, each of their officers, directors, employees and correspondents indemnified and harmless against any and all claims, loss, liability or damage, including reasonable counsel fees,



howsoever arising from or in connection with any Letter of Credit or any Application, including, without limitation, any such claim, loss, liability or damage arising out of any transfer, sale, delivery, surrender or endorsement of any document at any time(s) held by Letter of Credit Issuing Bank or any of its Affiliates or Subsidiaries, or held for the account of any one of them by any correspondent of any of them, or arising out of any action for injunctive or other judicial or administrative relief arising out of or in connection with any Letter of Credit and affecting, directly or indirectly, HSBC, or each Affiliate or Subsidiary of HSBC.

Section 3.08 Licenses; Insurance; Regulations. Each Letter of Credit Account Party will procure promptly any necessary import, export or other licenses for the import, export or shipping of the property shipped under or pursuant to or in connection with each Letter of Credit, and will comply with all foreign and domestic governmental regulations in regard to the shipment of such property or the financing thereof, and will furnish such certificates in that respect as Letter of Credit Issuing Bank may, at any time(s), require, and will keep such property adequately covered by insurance in amounts, against risks and with companies satisfactory to Agent, and will assign the policies or certificates of insurance to Agent, or will make the loss or adjustment, if any, payable to Agent, at Agent's option, and will furnish Agent, on its demand, with evidence of acceptance by the insurers of such assignment. Should the insurance upon such property for any reason be unsatisfactory to Agent, Agent may, at Borrower's expense, obtain insurance satisfactory to Agent.

Each Application for a Trade Letter of Credit hereunder shall constitute the warranty and certification made by each Letter of Credit Account Party that is a party to such Application that no shipment or payment to be made in connection with such Trade Letter of Credit violates or will violate any Law or any United States export, currency control, or other regulations.

Section 3.09 Airway and Steamship Guaranties. HSBC may, in its discretion, issue a letter of indemnity or such other document requested by the party in possession of merchandise to enable a Letter of Credit Account Party to take possession of such merchandise forthwith without production of the shipping documents (an "Airway Guaranty" or "Steamship Guaranty", as the case may be). Such Airway Guaranty or Steamship Guaranty shall be deemed a part of the Letter of Credit Obligations and shall be included, without duplication, as such in the calculation of the Borrowing Base, the Net Borrowing Base, the Availability for Revolving Credit Loans, the Trade Letter of Credit Commitment and the Standby Letter of Credit Commitment, provided, however, that any merchandise which is the subject of such Airway Guaranty or Steamship Guaranty shall not be included in Eligible Inventory or Eligible In-Transit Inventory or Eligible Trade Letters of Credit.

Section 3.10 Additional Security. If a temporary restraining order or an injunction (preliminary or permanent) or any similar order is issued in connection with any Letter of Credit or any Instrument or documents relating thereto, which order, injunction, or similar order may apply, directly or indirectly, to Letter of Credit Issuing Bank, each Letter of Credit Account Party shall, on demand, deliver, convey, transfer, or assign to the Agent

additional security of a value and character satisfactory to Agent and Letter of Credit Issuing Bank, or make such payment as Agent and/or Letter of Credit Issuing Bank may require.

Section 3.11 Continuing Rights and Obligations. Agent's and Letter of Credit Issuing Bank's rights hereunder shall continue unimpaired, and each

-31-

Letter of Credit Account Party shall be and remain obligated in accordance with the terms and provisions hereof, notwithstanding the release and/or substitution of any property which may be held as Collateral at any time(s), or of any rights or interest therein. No delay, extension of time, renewal, compromise or other indulgence which may occur or be granted by Agent and/or Letter of Credit Issuing Bank shall impair Agent's and/or Letter of Credit Issuing Bank's rights or powers hereunder.

Section 3.12 Instructions; No Liability. Instructions may be honored by Agent and Letter of Credit Issuing Bank when received from an Authorized Person. Each Letter of Credit Account Party may furnish Agent and Letter of Credit Issuing Bank with written confirmation of any such Instruction, but Agent's and Letter of Credit Issuing Bank's responsibility with respect to any Instruction shall not be affected by its failure to receive, or the content of, such confirmation. Neither Agent nor Letter of Credit Issuing Bank shall have responsibility to notify any Letter of Credit Account Party of any discrepancies between such Letter of Credit Account Party's instructions and its written confirmation, and in the event of any such discrepancy, the original Instruction shall govern. Agent and Letter of Credit Issuing Bank shall be fully protected in, and shall incur no liability to any Letter of Credit Account Party for, acting upon any Instructions or any oral, written, telephone, teleprocess, electronic, or other amendments thereto which it in good faith believes to have been given by any Authorized Person, and in no event shall Agent or Letter of Credit Issuing Bank be liable for special, consequential, or punitive damages. Agent and Letter of Credit Issuing Bank may, at its option, use any means of verifying any Instruction received by it. Agent and Letter of Credit Issuing Bank also may, at its option, refuse to act upon any instruction or other communication or any part thereof, without incurring any responsibility for any loss, liability or expense arising out of such refusal. All such authorizations and instructions shall continue in full force and effect unless Letter of Credit Issuing Bank may elect to act upon additional instructions delivered to it by any Letter of Credit Account Party prior to the issuance of a Letter of Credit in reliance upon the original Instructions. Notwithstanding anything to the contrary contained herein, each Letter of Credit Issuing Bank is authorized to delegate to one or more of its Affiliates any or all of its rights and obligations with respect to any or all Letters of Credit issued by such Letter of Credit Issuing Bank; provided, that, no Letter of Credit may be issued by, and no obligations under outstanding Letters of Credit may be delegated to, an Affiliate of a Letter of Credit Issuing Bank unless (i) such Letter of Credit is confirmed by a Letter of Credit Issuing Bank, or (ii) such Affiliate of a Letter of Credit Issuing Bank has the same or better credit rating as the applicable Letter of Credit Issuing Bank based on the credit rating assigned to each by



Moody's Investors Service, Inc. or Standard & Poor's Ratings Group (a division of The McGraw Hill Companies, Inc.) (or any successor or assignee of the business of each such company in the business of rating securities credit rating).

Section 3.13 Steamship Guaranty. Any Steamship Guaranty which the Letter of Credit Issuing Bank may issue from time to time at its sole discretion will be deemed Letter of Credit Obligations.

Section 3.14 Letter of Credit Application and Agreement. If requested by the Letter of Credit Issuing Bank, each Letter of Credit Account Party also shall submit an Application and/or letter of credit reimbursement agreement on the Letter of Credit Issuing Bank's standard forms in connection with any request for a Letter of Credit. In the event of any inconsistency between the terms and conditions of this Agreement and the terms and conditions of any Application and/or letter of credit reimbursement agreement and/or any other agreement submitted by a Letter of Credit Account Party to, or entered into by a Letter of Credit Account Party with, the Letter of Credit Issuing Bank relating to any Letter of Credit, the terms and conditions of this Agreement shall control.

-32-

Section 3.15 Existing Letters of Credit; Use of Term "Letter of Credit Issuing Bank". Banks, Borrower, Guarantors, Agent and Letter of Credit Issuing Bank hereby acknowledge and agree that the Existing Letters of Credit constitute Letters of Credit hereunder and commencing the date of this Agreement, each Bank shall be deemed to have purchased from the Letter of Credit Issuing Bank an undivided participating interest in the obligations of the Letter of Credit Issuing Bank under and in connection with such Existing Letters of Credit pursuant to Article IV hereof. Notwithstanding anything to the contrary contained in this Agreement, with respect to all Letters of Credit, to the extent that any consent or action is required by, or any notice is required to be provided to, the Letter of Credit Issuing Bank for any matter relating to Letters of Credit, (i) to the extent same relates to Letters of Credit other than Existing Letters of Credit, the Letter of Credit Issuing Bank shall be deemed to mean only HSBC and such consent, action and/or notice shall only be required of/to HSBC and (ii) to the extent same relates to Existing Letters of Credit, the Letter of Credit Issuing Bank shall be deemed to mean only Chase and such consent, action and/or notice shall only be required of/to Chase.

Section 3.16 Borrower's Obligations Under Letters of Credit. With respect to Letters of Credit issued for the account of a Letter of Credit Account Party that is not the Borrower, the Borrower hereby agrees that, in addition to each other Letter of Credit Account Party for whose account such Letter of Credit has been issued, the Borrower shall be primarily obligated for all reimbursement obligations and Letter of Credit Fees in connection with any and all such Letters of Credit to the same extent as if such Letters of Credit had named the Borrower as the account party therefore.

#### ARTICLE IV

## PARTICIPATION

Section 4.01 Participating Banks' Pro Rata Shares. Subject to the terms and conditions hereinafter set forth in this Article IV, Letter of Credit Issuing Bank hereby agrees to sell and each Participating Bank hereby agrees to purchase a risk participation ("Participation") from Letter of Credit Issuing Bank in each Letter of Credit to the extent of the percentage set forth below opposite such Bank's name (as such percentage may be reduced or otherwise modified from time to time in accordance with the terms of this Article IV):

Bank	Pro Rata Share
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HSBC	22.0%
CIT	20.0%
Fleet	16.5%
BOA	15.0%
Chase	15.0%
IDB	11.5%

Section 4.02 Sale and Purchase of Participation. Each Participating Bank hereby irrevocably and unconditionally agrees to purchase, and Letter of Credit Issuing Bank hereby agrees to sell and transfer to each Participating Bank, an undivided fractional interest equal to such Participating Bank's Pro Rata Share

-33-

in each Letter of Credit upon issuance thereof and each draw thereunder upon such drawing, and in the obligations of the Letter of Credit Account Parties in respect of each such Letter of Credit under this Agreement and the Letter of Credit (including all related payments and recoveries to which such Participating Bank is entitled pursuant to Section 4.05 hereof).

Section 4.03 Participation in Fees and Collateral; Relationship. Agent shall pay each Participating Bank its Pro Rata Share of each Trade Letter of Credit Fee and Standby Letter of Credit Fee. This fee shall be due and payable promptly, after such Fee is paid to Agent, in arrears on each Quarterly Date.

The relationship between Letter of Credit Issuing Bank (in its capacity as seller of a Participation pursuant to this Article IV) and each Participating Bank (in its capacity as purchaser of a Participation pursuant to this Article IV) is and shall be that of a purchaser and seller of a property interest and not a creditor-debtor relationship or joint venture. Letter of Credit Issuing Bank (in its capacity as seller of a Participation pursuant to this Article IV) shall owe each Participating Bank (in its capacity as purchaser of a Participation pursuant to this Article IV) no duty except as specifically set forth in this Article IV.

Section 4.04 Procedures. Whenever a draw shall be made under a Letter of Credit and a Letter of Credit Account Party shall fail to reimburse Letter of

Credit Issuing Bank therefor in accordance with this Agreement, Letter of Credit Issuing Bank will promptly notify each Participating Bank regarding such draw as follows: (a) the date of such draw, and (b) the amount of such draw or payment. Although Letter of Credit Issuing Bank shall be responsible for paying each such draw on each Letter of Credit, each Participating Bank shall bear its Pro Rata Share of the credit risk associated with each such draw. Accordingly, in the event that the amount of any such draw is not paid in full by or on behalf of a Letter of Credit Account Party when required in accordance with the terms of this Agreement, for any reason, Letter of Credit Issuing Bank shall give prompt notice by telephone (promptly confirmed in writing) or telex to each Participating Bank of such event. Upon receipt of such telephone or telex notice, each Participating Bank shall cause to be transmitted to Letter of Credit Issuing Bank, to an account to be specified by Letter of Credit Issuing Bank, an amount in immediately available funds equivalent to its Pro Rata Share of such draw or payment in such manner to ensure that such funds are received by, and available to, Letter of Credit Issuing Bank by 3:00 P.M., New York City time, on the date demand therefor was made by Letter of Credit Issuing Bank (if demand was made by 11:00 A.M., New York City time) or by 10:00 A.M., New York City time, on the Banking Day following the date demand therefore was made (if demand was made after 11:00 A.M., New York City time) and any such payment by each Participating Bank shall be deemed a Revolving Loan.

Letter of Credit Issuing Bank shall advise each Participating Bank quarterly of its Pro Rata Share of the Letter of Credit Obligations (but shall have no liability for its failure to do so). In addition, Letter of Credit Issuing Bank shall supply any notices of reasonable requests in the ordinary course of business.

Section 4.05 Collections and Remittances. Whenever Letter of Credit Issuing Bank receives any payment, interest reimbursement, collection, recovery, setoff, counterclaim or banker's lien on account of a Letter of Credit, whether from a Letter of Credit Account Party, the Collateral, or otherwise, it shall allocate such receipt as follows:

(a) First, to the payment of taxes, assessments, insurance premiums, legal fees, or for similar purposes as required by the Letter of Credit, as the case may be, or any other Loan Document, and, if previously paid by Agent or Letter of Credit Issuing Bank, such sums shall be retained by Agent or Letter of Credit Issuing Bank, as the case may be; and

-34-

(b) Second, in the event a Letter of Credit Account Party fails to reimburse Letter of Credit Issuing Bank, when due, for any draw under a Letter of Credit, and Letter of Credit Issuing Bank receives a payment of or on account of such defaulted amount as to which a Participating Bank has paid Letter of Credit Issuing Bank the amount of its Pro Rata Share pursuant to Section 4.04 hereof, that portion of the amount received shall be allocated between each such Participating Bank and Letter of Credit Issuing Bank pro rata, with each such Participating Bank's percentage of the principal amount based on its Pro Rata Share and with each such Participating Bank's portion of the interest and fees

on its Pro Rata Share based upon the amounts set forth above.

If any payment received by Letter of Credit Issuing Bank and distributed or credited to a Participating Bank is later rescinded or is otherwise returned by Letter of Credit Issuing Bank for whatever reason (including, without limitation, settlement of an alleged claim), each such Participating Bank, upon demand by Letter of Credit Issuing Bank, shall immediately pay to Letter of Credit Issuing Bank, such Participating Bank's Pro Rata Share of the amount so returned, with interest at the Federal Funds Rate from and after the date of demand. The covenants contained in this paragraph shall survive the termination of this Agreement.

Section 4.06 Sharing of Setoffs and Collections. Each Participating Bank agrees that to the extent any payment is received by it on any of a Letter of Credit Account Party's obligations under a Letter of Credit, whether by counterclaim, setoff, banker's lien, by realizing on collateral or otherwise and such payment results in such Participating Bank receiving a greater payment than it would have been entitled to under Section 4.05 hereof had the total amount of such payment been paid directly to Letter of Credit Issuing Bank for disbursement according to that Section, then such Participating Bank shall immediately purchase for cash from Letter of Credit Issuing Bank an additional Participation and a participation from the other Participating Banks in such Letter of Credit (subject to the same terms and conditions provided for herein), sufficient in amount so that such payment shall effectively be shared pro rata with HSBC and the other Participating Banks in accordance with the amount, and to the extent, of their respective interests in the Letter of Credit; provided however, that if all or any portion of such payment is thereafter recovered from such Participating Bank at any time, the purchase shall be rescinded and the purchase price returned to the extent of such recovery upon demand by such Participating Bank with interest at the Federal Funds Rate from and after the date of demand.

Section 4.07 Indemnification; Costs and Expense. To the extent not reimbursed by a Letter of Credit Account Party, and without limiting the obligation of the Letter of Credit Account Parties to do so, each Participating Bank agrees to, on demand, reimburse each Letter of Credit Issuing Bank for, indemnify each Letter of Credit Issuing Bank against, and hold each Letter of Credit Issuing Bank harmless from, to the extent of each such Participating Banks Pro Rata Share of, any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses, or disbursements of any kind whatsoever (including, without limitation, disbursements necessary, in the reasonable judgment of such Letter of Credit Issuing Bank, to preserve or protect the Collateral), that may, at any time, be imposed on, incurred by, or asserted against such Letter of Credit Issuing Bank in any way relating to this Agreement, a Letter of Credit, the Collateral or any other Revolving Credit Loan Document or other instrument relating to any of the foregoing, or the transactions contemplated thereby and hereby, or any action taken or omitted by such Letter of Credit Issuing Bank under or in connection with any of the foregoing; provided however, that no Participating Bank shall be liable for the payment of any portion of such liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses, or disbursements

resulting from such Letter of Credit Issuing Bank's gross negligence or willful misconduct. The covenants contained in this Section 4.07 hereof shall survive the termination of this Agreement.

-35-

Section 4.08 Administration; Standard of Care. Letter of Credit Issuing Bank will administer each Letter of Credit in the ordinary course of business and in accordance with its usual practices, modified from time to time as it deems appropriate under the circumstances. Except as expressly set forth in the third paragraph of this Section 4.08, Letter of Credit Issuing Bank shall be entitled to use its discretion in taking or refraining from taking any actions in connection with any of the foregoing as if it were the sole party involved in any of the foregoing and no Participation existed.

Each Participating Bank acknowledges that its Participation hereunder is without recourse to any Letter of Credit Issuing Bank and that each such Participating Bank expressly assumes all risk of loss in connection with its Participation in the Letters of Credit as if such Participating Bank had directly provided such Letters of Credit. No Letter of Credit Issuing Bank shall have any liability express or implied, for any action taken or omitted to be taken by such Letter of Credit Issuing Bank or for any failure or delay in exercising any right or power possessed by such Letter of Credit Issuing Bank under any of the Loan Documents except for actual losses, if any, suffered by any Participating Bank that are proximately caused either by such Letter of Credit Issuing Bank's gross negligence or by such Letter of Credit Issuing Bank's willful misconduct. Without limiting the foregoing, each Letter of Credit Issuing Bank (a) may consult with legal counsel, independent public accountants, appraisers, and other experts, selected by such Letter of Credit Issuing Bank, and shall not be liable for any action taken or omitted to be taken in good faith by it in accordance with the advice of such persons, (b) shall be entitled to rely on, and shall incur no liability by acting upon, any conversation, notice, consent, certificate, statement, order, or any document or other writing (including, without limitation, telegraph, telex, telecopy, TWX, or other telecommunication device) believed by such Letter of Credit Issuing Bank to be genuine and correct and to have been signed, sent, or made by the proper person, (c) makes no warranty or representation of any kind or character relating to any Letter of Credit Account Party or the Collateral, and shall not be responsible for any warranty or representation made in or in connection with any of the Loan Documents, (d) makes no warranty or representation as to, and shall not be responsible for the correctness as to form, the due execution, legality, validity, enforceability, genuineness, sufficiency, or collectability of any of the Loan Documents, for any failure by any Letter of Credit Account Party or any Person to perform its obligations thereunder, for a Letter of Credit Account Party's use of the proceeds therefrom, or for the preservation of the Collateral or the loss, depreciation, or release thereof, (e) makes no warranty or representation as to, and assumes no responsibility for, the authenticity, validity, accuracy, or completeness of any notice, financial statement, or other document or information received by such Letter of Credit Issuing Bank or any Participating Bank in connection with, or otherwise referred to in, any of the Loan Documents, and (f) shall not be required to make any inquiry concerning the

observance or performance of any agreement contained in, or conditions of, any of the Loan Documents, or to inspect the property, books, or records of any Letter of Credit Account Party or any Person.

Notwithstanding the provisions of the first paragraph of this Section 4.08, each Letter of Credit Issuing Bank agrees that it will not waive any Event of Default without the consent of the requisite Banks and it will not take any of the following actions without the written consent of each Participating Bank: (i) [reserved]; (ii) extend the maturity date of any Letter of Credit beyond ninety (90) days after the Revolving Credit Termination Date; (iii) increase the amount of the Trade Letter of Credit Commitment or the Standby Letter of Credit

-36-

Commitment; (iv) reduce the fees charged on the Letters of Credit below the amount required to be paid to such Letter of Credit Issuing Bank or to the Participating Banks pursuant to the terms of this Article IV; or (v) release any Guarantor or any Collateral, except as otherwise contemplated in any Loan Documents. Each Letter of Credit Issuing Bank shall be fully justified in failing or refusing to take any action under any of the Loan Documents unless it shall first receive such advice or concurrence of the requisite Participating Banks.

Each Letter of Credit Issuing Bank and the Participating Banks may lend money to, accept deposits from, and generally engage in any kind of business with each Letter of Credit Account Party as freely as though no Participation had been granted to a Participating Bank.

Section 4.09 Independent Investigation by the Participating Banks. Each Participating Bank acknowledges (a) that each Letter of Credit Issuing Bank has provided such Participating Bank with copies of all of the Loan Documents and each Letter of Credit Account Party and each Letter of Credit Issuing Bank has provided or granted such Participating Bank access to, certain financial data and other information pertaining to the Letter of Credit Account Parties and the Guarantors that such Participating Bank has requested in order to enable it to make an independent, informed judgment with respect to the desirability of purchasing Participation in the Letters of Credit, (b) that no Letter of Credit Issuing Bank has made any representations or warranties to such Participating Bank and that no prior or future act by any Letter of Credit Issuing Bank, including, without limitation, any review of the affairs of any Letter of Credit Account Party, shall be deemed to constitute a representation or warranty of such Letter of Credit Issuing Bank, and (c) that such Participating Bank has independently, without reliance upon any Letter of Credit Issuing Bank, and based on such information as such Participating Bank has deemed appropriate, made its own appraisal of and investigation into the business, operations, property, financial condition, and general credit worthiness of each Letter of Credit Account Party, made its own analysis of the value and Lien status of any Collateral, and made its own decision to execute this Agreement and thereby purchase from the applicable Letter of Credit Issuing Bank(s) a Participation in accordance with this Article IV in the Letters of Credit. Each Participating Bank agrees that, independently and without reliance upon any Letter of Credit



Issuing Bank or any representations or statements of any Letter of Credit Issuing Bank, and based on such information as such Participating Bank deems appropriate at the time, it will continue to make and rely upon its own credit analysis and decisions in taking or not taking any action under this Article IV or any of the Loan Documents.

Section 4.10 Participating Banks' Ownership of Interests in the Participation; Repurchases by the Letter of Credit Issuing Banks. Each Participating Bank hereby represents and warrants to each Letter of Credit Issuing Bank that the purchase of its Participation in the Letters of Credit (a) is a legal investment pursuant to the Law under which such Participating Bank is organized and operates, (b) has been duly authorized and approved by all necessary action of the management of such Participating Bank, and (c) is made for such Participating Bank's own account for the purpose of investment only and with no present intention of disposing of the same.

Upon the occurrence of an Event of Default and failure to consent to a change in this Agreement where such Participating Bank's consent is required pursuant to this Article IV, each Letter of Credit Issuing Bank, or any party designated by it, shall have the right (but not the obligation) to repurchase such Participating Bank's Participation in any Letter of Credit for a purchase price equal to any unpaid amount due the Participating Bank with respect to such Participation. Upon demand and payment therefor, such Participating Bank shall

-37-

promptly transfer to such Letter of Credit Issuing Bank its Participation in any such Letter of Credit by executing and delivering to such Letter of Credit Issuing Bank an instrument of transfer in form and substance satisfactory to such Letter of Credit Issuing Bank and such Participating Bank; provided however, that failure by such Participating Bank to do so shall not affect such Letter of Credit Issuing Bank's repurchase of such Participating Bank's Participation in any such Letter of Credit, which repurchase shall be effective upon payment therefor by such Letter of Credit Issuing Bank to such Participating Bank. At any time before each payment, such Letter of Credit Issuing Bank may withdraw and terminate its offer to repurchase such Participating Bank's Participation in any such Letter of Credit prior to the payment of such price.

## ARTICLE V

### GUARANTY

Section 5.01 Guaranty. Each Guarantor hereby, jointly and severally, irrevocably, absolutely and unconditionally guarantees to each Bank Party and their successors, endorsees, transferees and assigns the prompt and complete payment by Borrower and each Letter of Credit Account Party, as and when due and payable (whether at stated maturity or by required prepayment, acceleration, demand or otherwise), of all Obligations and agrees to pay on demand any and all expenses (including counsel fees and expenses) which may be paid or incurred by any Bank Party in collecting any or all of the Obligations and/or enforcing any

rights under any of the Loan Documents or under the Obligations (the "Guaranty"). The Guaranty of each Guarantor of the payment of the Obligations is such Guarantor's "Guaranty Obligation".

#### Section 5.02 Guarantor's Guaranty Obligations Unconditional.

(a) Each Guarantor hereby guarantees that the Obligations will be paid strictly in accordance with the terms of the Loan Documents, regardless of any Law now or hereafter in effect in any jurisdiction affecting any such terms or, the rights of any Bank Party with respect thereto. The obligations and liabilities of each Guarantor under this Guaranty shall be to the extent permitted by applicable law absolute and unconditional irrespective of: (i) any lack of validity or enforceability of any of the Obligations, any Loan Documents, or any agreement or instrument relating thereto; (ii) any change in the time, manner or place of payment of, or in any other term in respect of, all or any of the Obligations, or any other amendment or waiver of or consent to any departure from any Loan Documents or any other documents or instruments executed in connection with or related to the Obligations; (iii) any exchange or release of, or non-perfection of any Lien on or in, any Collateral, or any release or amendment or waiver of or consent to any departure from any other guaranty, for all or any of the Obligations; or (iv) any other circumstances which might otherwise constitute a defense (other than indefeasible payment in full) available to, or a discharge of, Borrower, any Letter of Credit Account Party or any other guarantor in respect of the Obligations of any Guarantor in respect of this Guaranty.

(b) This Guaranty is a continuing guaranty and shall remain in full force and effect until: (i) the payment in full of all the Obligations and the termination of the Commitment; and (ii) the payment of the other expenses to be paid by the Guarantors pursuant hereto. This Guaranty shall continue to be effective or shall be reinstated, as the case may be, if, at any time, any payment, or any part thereof, of any of the Obligations is rescinded or must otherwise be returned by any Bank Party upon the insolvency, bankruptcy, dissolution, liquidation or reorganization of Borrower and/or any Letter of Credit Account Party or otherwise, all as though such payment had not been made.

-38-

(c) The obligations and liabilities of each Guarantor under this Guaranty shall not be conditioned or contingent upon the pursuit by the Agent or any Bank or any other Person at any time of any right or remedy against Borrower, any Letter of Credit Account Party or any other Person which may be or become liable in respect of all or any part of the Obligations or against any Collateral or security or guarantee therefor or right of setoff with respect thereto.

(d) Each Guarantor hereby consents that, without the necessity of any reservation of rights against any Guarantor and without notice to or further assent by any Guarantor, any demand for payment of any of the Obligations made by any Bank Party may be rescinded by such Bank Party and any of the Obligations continued after such rescission.



Section 5.03 Waivers. To the extent permitted by applicable law, each Guarantor hereby waives: (a) promptness and diligence; (b) notice of or proof of reliance by any Bank Party upon this Guaranty or acceptance of this Guaranty; (c) notice of the incurrence of any Obligation by Borrower and/or any Letter of Credit Account Party or the renewal, extension or accrual of any Obligation; (d) notice of any actions taken by any Bank Party or Borrower, any Letter of Credit Account Party or any other party under any Loan Document, or any other agreement or instrument relating to the Obligations; (e) all other notices, demands and protests, and all other formalities of every kind other than such as are provided for in the Loan Documents in connection with the enforcement of the Obligations or of the obligations of any Guarantor hereunder, the omission of or delay or which, but for the provisions of this Section 5.03, might constitute grounds for relieving any Guarantor of its obligations hereunder; and (f) any requirement that any Bank Party protect, secure, perfect or insure any Lien on any property subject thereto or exhaust any right or take any action against Borrower, any Letter of Credit Account Party or any other Person or any Collateral.

Section 5.04 Subrogation. Each Guarantor agrees that it hereby defers any rights which it may acquire by way of subrogation under this Guaranty, whether acquired by any payment made hereunder, by any setoff or application of funds of such Guarantor by any Bank Party or otherwise until the Obligations have been paid in full.

Section 5.05 Limitation of Liability. The obligations of each Guarantor hereunder shall be limited to an aggregate amount equal to the largest amount that would not render its obligations hereunder subject to avoidance under Section 548 of the United States Bankruptcy Code or any comparable provision of any applicable state law.

## ARTICLE VI

### CONDITIONS PRECEDENT

Section 6.01 Conditions Precedent to Initial Use of a Credit Facility on and after the Effective Date. The obligations of the Banks on or after the date of this Agreement to make a Revolving Credit Loan and the obligation of HSBC to issue the initial Letter of Credit and for the Existing Letters of Credit to become Letters of Credit hereunder is subject to the condition precedent that the Banks shall have received on or before the Effective Date each of the following documents, in form and substance satisfactory to the Banks and their counsel, and each of the following requirements shall have been fulfilled:

(a) Evidence of Due Organization and all Corporate Actions by Borrower and each Guarantor. A certificate of the Secretary or Assistant Secretary of Borrower and each Guarantor, dated the date of this Agreement, attesting to the

certificate of incorporation and by-laws of Borrower and each Guarantor and all amendments thereto and to all corporate actions taken by Borrower and each

Guarantor, including resolutions of its board of directors, authorizing the execution, delivery and performance of the Loan Documents, and each other document to be delivered pursuant to the Loan Documents;

(b) Incumbency and Signature Certificates of Borrower and each Guarantor. A certificate of the Secretary or Assistant Secretary of Borrower and each Corporate Guarantor, dated the date of this Agreement, certifying the names and true signatures of the officers of Borrower and each Guarantor authorized to sign the Loan Documents to which it is a party, and the other documents to be delivered pursuant to the Loan Documents;

(c) Good Standing Certificates of Borrower and each Guarantor. A Certificate, dated reasonably near the date of this Agreement, from the Secretary of State (or other appropriate official) of the jurisdiction of incorporation of Borrower and each Guarantor certifying as to the due incorporation and good standing of Borrower or such Guarantor and certificates, dated reasonably near the date of this Agreement, from the Secretary of State (or other appropriate official) of each other jurisdiction where Borrower and each Guarantor is required to be qualified to conduct business, certifying that Borrower or such Guarantor is duly qualified to do such business and is in good standing in each such state;

(d) Notes. The Revolving Credit Notes;

(e) Borrower Security Agreement. Borrower Security Agreement duly executed by Borrower together with (i) financing statements (UCC-1) to be filed under the Uniform Commercial Code of all jurisdictions necessary or, in the opinion of the Agent or any Bank, desirable to perfect the security interest created by such Security Agreement; (ii) Uniform Commercial Code searches identifying all of the financing statements on file with respect to Borrower in all jurisdictions referred to under (i), including the financing statements filed by the Agent against such party indicating that no party other than the Agent claims an interest in any of the Collateral except with respect to Permitted Liens and (iii) endorsement, without recourse, of the Intercompany Demand Note payable to the order of Borrower and the original of each such Intercompany Demand Note;

(f) Guarantor Security Agreements. Security Agreements duly executed by the Guarantors (other than HIL) together with (i) financing statements (UCC-1) to be filed under the Uniform Commercial Code of all jurisdictions necessary or, in the opinion of the Agent or any Bank, desirable to perfect the security interest created by such Security Agreement and (ii) Uniform Commercial Code searches identifying all of the financing statements on file with respect to the Guarantors (other than HIL) in all jurisdictions referred to under (i) including the financing statements filed by the Agent against such party indicating that no party other than the Agent claims an interest in any of the Collateral except with respect to Permitted Liens;

(g) Borrower Pledge Agreement. Borrower Pledge Agreement duly executed by Borrower, together with the certificates representing the shares pledged pursuant to such Pledge Agreement and undated stock powers executed in blank for each such certificate;

(h) Designers Pledge Agreement. Designers Pledge Agreement duly executed by Designers, together with the certificates representing the shares pledged pursuant to the such Pledge Agreement and undated stock powers executed in blank for such certificates;

-40-

(i) Borrower Trademark Security Agreement. Borrower Trademark Security Agreement and the Special Power of Attorney related thereto each duly executed by Borrower;

(j) Designers Trademark Security Agreement. Designers Trademark Security Agreement and the Special Power of Attorneys related to the foregoing, duly executed by Designers;

(k) Item-Eyes Trademark Security Agreement. Item-Eyes Trademark Security Agreement and the Special Power of Attorneys related to the foregoing, each duly executed by Item-Eyes;

(l) Intercreditor Agreement. The Intercreditor Agreement duly executed by each of the Insurance Companies, the Agent for the Insurance Companies, the Banks and the Agent;

(m) Existing Loan Documents. The Agent shall have received (i) a payoff letter (in form and substance reasonable satisfactory to the Agent) with respect to the obligations under the Existing Loan Documents (other than the Existing Letters of Credit) which shall include an agreement or authorization by Chase to file uniform commercial code termination statements with respect to all financing statements filed naming Chase as secured party and naming as debtor either Borrower, a Guarantor or a trade name of the foregoing and (ii) a direction letter from Borrower to satisfy all such obligations with the first advance under this Agreement.

(n) Opinions of Counsel for Borrower and Guarantors. A favorable opinion of Willkie Farr & Gallagher, counsel for Borrower and each Guarantor, addressed to all Banks, dated the date of this Agreement;

(o) Insurance Coverage. A certificate from Borrower's and Guarantors' insurance carriers evidencing the coverage required by Section 8.05 hereof (which certificates shall show that the Agent or the Insurance Companies is an additional insured and loss payee);

(p) Payment of Fees. Payment in full to the Agent of all fees required to be paid to the Agent pursuant to the terms of a separate letter agreement between Agent and Borrower; and payment in full of all other fees required to be paid in accordance with the Loan Documents;

(q) Officer's Certificate. The following statements shall be true and the Agent shall have received a certificate signed by a duly authorized officer of Borrower dated the date of this Agreement stating that:

(i) The representations and warranties contained in this Agreement and in each of the other Loan Documents are correct on and as of the date of this Agreement as though made on and as of such date; and

(ii) No Default or Event of Default has occurred and is continuing;

(r) Terminations. Termination or Assignment of UCC Financing Statements terminating or assigning Liens other than Permitted Liens;

(s) Assignment of Proceeds Agreement. Assignment of Proceeds Agreement duly executed by Borrower and the Restricted Subsidiaries and a Consent and Acknowledgment thereto duly executed by Factor;

-41-

(t) Field Examination. Collateral Monitor and/or its designee shall have conducted an examination of the books and records of Borrower and its Subsidiaries, at the expense of the Borrower, and the results of such examination shall be in form and substance reasonably satisfactory to the Required Banks; provided, that, the signature of a Bank to this Agreement shall be deemed to be its approval of such field examination.

(u) Pre-Closing Borrowing Base Certificate. Based upon Collateral Monitor's completion of an updated field examination of the books and records of Borrower and its Subsidiaries and, after giving effect to any Revolving Credit Loans and Letter of Credit Obligations and any other extension of credit to be made by the Banks on the date of this Agreement, a Borrowing Base Certificate of Borrower and its Restricted Subsidiaries showing Net Availability of a positive amount (the Borrowing Base Certificate shall reflect all extensions of credit to be made on the Effective Date and other than such extensions of credit to be made on the Effective Date, all information in the Borrowing Base Certificate shall be as of August 2, 2003); and

(v) Additional Documentation. Such other approvals, opinions or documents as the Agent or any Bank may reasonably request.

Section 6.02 Conditions Precedent to All Credit Facilities. The obligations of the Bank Parties, as the case may be, to provide each Credit Facility, shall be subject to the further conditions precedent that on the date of providing such Credit Facility:

(a) The following statements shall be true:

(i) (A) the representations and warranties with a materiality provision contained in this Agreement and in each of the other Loan Documents are correct on and as of the date of providing such Credit Facility as though made on and as of such date and (B) all the representations and warranties with no materiality provision contained in this Agreement and in each of the other Loan Documents are correct in all material respects on and as of the date of providing such Credit Facility

as though made on and as of such date, except, in each case, to the extent that such representations and warranties expressly relate to an earlier date (in which case, such representations and warranties shall have been correct on and as of such earlier date); and

(ii) no Default or Event of Default has occurred and is continuing, or could result from providing such Credit Facility;

(b) The Agent shall have received such other approvals, opinions or documents as the Agent or any Bank may reasonably request.

Section 6.03 Deemed Representation. Each request under a Credit Facility and acceptance by Borrower of any proceeds of such Revolving Credit Loan or the issuance of any Letter of Credit, as the case may be, shall constitute (a) for representations and warranties with a materiality provision, a representation and warranty that the statements contained in Section 6.02(a) hereof are true and correct both on the date of such notice and as of the date of the providing of such Revolving Credit Loan or issuance of such Letter of Credit, as the case may be, and (b) for representations and warranties with no materiality provision, a representation and warranty that the statements contained in Section 6.02(a) hereof are true and correct in all material respects both on the date of such notice and as of the date of the providing of such Revolving Credit Loan or issuance of such Letter of Credit, as the case may be.

-42-

## ARTICLE VII

### REPRESENTATIONS AND WARRANTIES

Borrower and each Guarantor hereby represents and warrants that:

Section 7.01 Incorporation. Good Standing and Due Qualification. Borrower and each Guarantor is duly incorporated, validly existing and in good standing under the laws of the jurisdiction of its incorporation, has the corporate power and authority to own its assets and to transact the business in which it is now engaged or proposed to be engaged, and is duly qualified as a foreign corporation and in good standing under the laws of each other jurisdiction in which such qualification is required, except to the extent that its failure to be so qualified could not result in a Material Adverse Change.

Section 7.02 Corporate Power and Authority; No Conflicts. The execution, delivery and performance by Borrower and each Guarantor of the Loan Documents to which it is a party have been duly authorized by all necessary corporate action and do not and will not: (a) require any consent or approval of its stockholders which has not been obtained; (b) contravene its certificate of incorporation or by-laws; (c) violate any provision of, or require any filing (other than the filing of the financing statements contemplated by the Security Documents), registration, consent or approval under any Law (including, without limitation, Regulations T, U and X of the Board of Governors), order, writ, judgment, injunction, decree, determination or award presently in effect having

applicability to Borrower or any Guarantor; (d) result in a breach of or constitute a default under or require any consent under any indenture or loan or credit agreement or any other agreement, lease or instrument to which Borrower or any Guarantor is a party or by which it or its properties may be bound or affected; (e) result in, or require, the creation or imposition of any Lien (other than as created under the Security Documents), upon or with respect to any of the properties now owned or hereafter acquired by Borrower or any Guarantor; or (f) cause such corporation to be in default under any such Law, order, writ, judgment, injunction, decree, determination or award or any such indenture, agreement, lease or instrument.

Section 7.03 Legally Enforceable Agreements. Each Loan Document to which Borrower and each Guarantor is a party is a legal, valid and binding obligation of Borrower and each Guarantor, enforceable against Borrower and each Guarantor in accordance with its terms, except to the extent that such enforcement may be limited by applicable bankruptcy, insolvency and other similar laws affecting creditors' rights generally.

Section 7.04 Litigation. There are no actions, suits or proceedings (private or governmental) pending or, to the knowledge of Borrower or any Guarantor, threatened, against or affecting Borrower or any Guarantor before any Governmental Authority or arbitrator, except as set forth in Schedule 7.04. None of the actions set forth on Schedule 7.04 are reasonably expected to result in a Material Adverse Change.

Section 7.05 Financial Statements. Each of: (a) the consolidated balance sheets of Borrower and its Subsidiaries as of December 31, 2002 and the related consolidated statements of income and retained earnings, and consolidated statements of cash flows of Borrower and its Subsidiaries for the Fiscal Year, then ended, and the accompanying footnotes, together, with the opinion thereon, dated December 31, 2002, of Deloitte & Touche LLP, independent certified public accountants, copies of which have been furnished to the Banks, and (b) the internally prepared financial statements as of December 31, 2002 showing

-43-

Borrower and the Restricted Subsidiaries and the internally prepared financial statements as of March 29, 2003 showing Borrower and the Restricted Subsidiaries, fairly present the financial condition of Borrower and its Subsidiaries as at such dates and the results of the operations of Borrower and its Subsidiaries for the periods covered by such statements, all in accordance with GAAP consistently applied except as set forth in the notes thereto and subject in the case of interim financials statements to normal year end adjustments. There has been no Material Adverse Change since December 31, 2002. There are no liabilities of Borrower or any of the Subsidiaries, fixed or contingent, which are material but are not reflected in the financial statements referred to above or in the notes thereto, other than liabilities arising in the ordinary course of business since December 31, 2002. No information, exhibit, or report furnished by Borrower or any Restricted Subsidiaries to the Agent or any Bank in connection with the negotiation of this Agreement and the other Loan Documents contained any material misstatement of fact or omitted to state a



material fact or any fact necessary to make the statements contained therein not materially misleading.

Section 7.06 Ownership and Liens. Borrower and each Restricted Subsidiary have title to, or valid leasehold interests in, all of their properties and assets, real and personal, including the properties and assets, and leasehold interests reflected in the financial statements referred to in Section 7.05 hereof (other than any properties or assets disposed of in the ordinary course of business), and none of the properties and assets owned by Borrower or any Restricted Subsidiary and none of their leasehold interests are subject to any Lien, except as may be permitted under this Agreement. Neither Borrower nor any Restricted Subsidiary has any copyright or patent. All trademarks owned by Borrower and/or the Restricted Subsidiaries are indicated on Schedule 7.06 hereto.

Section 7.07 Taxes. Borrower and each Guarantor have filed all tax returns (federal, state and local) required to be filed and have paid all taxes, assessments and governmental charges and levies thereon to be due, including interest and penalties, except to the extent they are the subject of a Good Faith Contest.

Section 7.08 ERISA. Each Plan is administered in compliance in all material respects with all applicable provisions of ERISA and the Code except where such failure would not reasonably be expected to result in a Material Adverse Change. Neither a Reportable Event nor a Prohibited Transaction has occurred with respect to any Plan; no notice of intent to terminate a Plan has been filed nor has any Plan been terminated; no circumstance exists which constitutes grounds under Section 4042 of ERISA entitling the PBGC to institute proceedings to terminate, or appoint a trustee to administer, a Plan, nor has the PBGC instituted any such proceedings; neither Borrower nor any Guarantor nor any ERISA Affiliate has completely or partially withdrawn under Section 4201 or 4204 of ERISA from a Multiemployer Plan; and no Plan which is a Multiemployer Plan is in reorganization (within the meaning of Section 4241 of ERISA), is insolvent (within the meaning of Section 4245 of ERISA) or is terminating; Borrower, each Guarantor and each ERISA Affiliate has met its minimum funding requirements under ERISA with respect to all of its Plans subject to Title IV of ERISA and there are no unfunded vested liabilities except as set forth in Schedule 7.08; and neither Borrower nor any Guarantor nor any ERISA Affiliate has incurred any liability to the PBGC under ERISA; and neither Borrower, any Guarantor, nor any ERISA Affiliate has liability for retiree medical, life insurance or other death benefits (contingent or otherwise) other than as a result of a continuation of medical coverage required under Section 4980B of the Code or as required pursuant to an employment agreement.

Section 7.09 Subsidiaries; Ownership of Guarantors; Investments. As of the Effective Date, all of the outstanding capital stock or other interest of each Guarantor is set forth on Schedule 7.09 and has been validly issued, is fully



paid and nonassessable and, is owned free and clear of all Liens other than Permitted Liens. As of the Effective Date, Schedule 7.09 lists each of the Borrower's direct and indirect Subsidiaries and all other capital stock and other equity securities or other debt or equity investments owned or held by Borrower or any Restricted Subsidiary.

Section 7.10 Operation of Business. Borrower and each Restricted Subsidiary possesses all licenses, permits, franchises, and trade names, or rights thereto, to conduct its business substantially as now conducted and as presently proposed to be conducted, and Borrower and each Restricted Subsidiary is not in violation of any valid rights of others with respect to any of the foregoing.

Section 7.11 No Default on Outstanding Judgments or Orders. Borrower and each Guarantor have satisfied all judgments and Borrower and each Guarantor are not in default with respect to any judgment, writ, injunction, or decree of any court, arbitrator or any rule or regulation of any federal, state, municipal or other Governmental Authority, commission, board, bureau, agency or instrumentality, domestic or foreign.

Section 7.12 No Defaults on Other Agreements. Neither Borrower nor any Restricted Subsidiary is a party to any indenture, loan or credit agreement or any lease or other agreement or instrument or subject to any certificate of incorporation or corporate restriction which is likely to result in a Material Adverse Change. Neither Borrower nor any Restricted Subsidiary is in default in any respect in the performance, observance or fulfillment of any of the obligations, covenants or conditions contained in any agreement or instrument. Neither Borrower nor any Guarantor is a party to any agreement which restricts or prohibits any Guarantor from declaring and/or paying dividends to Borrower.

Section 7.13 Labor Disputes and Acts of God. Neither the business nor the properties of Borrower or any Restricted Subsidiary are affected by any fire, explosion, accident, strike, lockout or other labor dispute, drought, storm, hail, earthquake, embargo, act of God or of the public enemy or other casualty (whether or not covered by insurance), except as specified in Schedule 7.13.

Section 7.14 Governmental Regulation. Neither Borrower nor any Guarantor is subject to regulation under the Public Utility Holding Company Act of 1935, the Investment Company Act of 1940, the Interstate Commerce Act, the Federal Power Act or any statute or regulation limiting its ability to incur indebtedness for money borrowed as contemplated hereby.

Section 7.15 Partnerships. Neither Borrower nor any Restricted Subsidiary is a partner in any partnership.

Section 7.16 Environmental Protection. Borrower and each Restricted Subsidiary have obtained all permits, licenses and other authorizations which are required under all Environmental Laws, except to the extent failure to have any such permit, license or authorization is not likely to result in a Material Adverse Change. Borrower and each Restricted Subsidiary are in compliance with all Environmental Laws and the terms and conditions of the required permits, licenses and authorizations, and is also in compliance with all other applicable

limitations, restrictions, obligations, schedules and timetables contained in those Laws or contained in any plan, order, decree, judgment, injunction, notice or demand letter issued, entered, promulgated or approved by a Governmental Authority thereunder, except to the extent failure to comply is not likely to result in a Material Adverse Change.

-45-

The Collateral contains no Hazardous Materials that, under any Environmental Law then in effect, (a) would impose liability on Borrower or any Guarantor that could result in a Material Adverse Change or (b) could result in the imposition of a Lien on the Collateral or any portion thereof or any other assets of Borrower or any Guarantor, in each case if not properly handled in accordance with applicable Law.

Section 7.17 Solvency. Borrower and each Guarantor is, and upon consummation of the transactions contemplated by this Agreement, the other Loan Documents, and any other documents, instruments or agreements relating thereto, will be Solvent.

Section 7.18 Properties; Priority of Liens. All of the properties and assets owned by the Borrower and the Guarantors (excluding HIL) are owned by each of them, respectively, free and clear of any Lien of any nature whatsoever, except as provided for in the Security Documents, and Permitted Liens. The Liens that, simultaneously with the execution and delivery of this Agreement and the consummation of the initial extensions of credit, have been created and granted by the Security Documents constitute valid perfected first Liens on the properties and assets covered by the Security Documents, subject to no prior or equal Lien except Permitted Liens.

## ARTICLE VIII

### AFFIRMATIVE COVENANTS

So long as any of the Notes shall remain unpaid or any Letter of Credit Obligation shall remain outstanding or any Bank Party shall have a Commitment hereunder, or any other amount is owing by Borrower to any Bank Party hereunder or under any other Loan Document, Borrower and each Guarantor, (except HIL and its Subsidiaries as to the covenants contained in Sections 8.07, 8.08, and 8.10 hereof), shall:

Section 8.01 Maintenance of Existence. Preserve and maintain its corporate existence and good standing in the jurisdiction of its incorporation, and qualify and remain qualified as a foreign corporation in each jurisdiction in which such qualification is required, except to the extent that its failure to so qualify could not result in a Material Adverse Change.

Section 8.02 Conduct of Business. Continue to operate its business in a manner consistent with the conduct of it on and prior to the Effective Date.

Section 8.03 Maintenance of Properties. Maintain, keep and preserve all of

its properties, (tangible and intangible) necessary or used in the proper conduct of its business in good working order and condition, ordinary wear and tear excepted.

Section 8.04 Maintenance of Records. Keep adequate records and books of account, in which complete entries will be made in accordance with GAAP, reflecting all of its financial transactions.

Section 8.05 Maintenance of Insurance. Maintain insurance with financially sound and reputable insurance companies or associations in such amounts and covering such risks as are usually carried by companies engaged in the same or a similar business and similarly situated and such other insurance as reasonably required by the Banks.

-46-

Section 8.06 Compliance with Laws. Comply in all respects with all applicable Laws, such compliance to include, without limitation, paying before the same become delinquent all taxes, assessments and governmental charges imposed upon it or upon its property, except (a) in the case of the failure to pay taxes, such taxes are the subject of a Good Faith Contest, and (b) to the extent that its failure to so comply is not likely to result in a Material Adverse Change.

Section 8.07 Right of Inspection.

(a) Permit Collateral Monitor and/or its designee, at any time and from time to time, upon reasonable prior notice, to examine and make copies of the extracts from the books and records of Borrower and its Subsidiaries, and visit the properties of Borrower and its Subsidiaries, and discuss the affairs, finances and accounts of Borrower and its Subsidiaries with any of their respective employees, officers, directors and independent accountants examine and audit the inventory and receivables of Borrower and each Subsidiary (such foregoing right of inspection and review to be referred to as the "Field Examination"), with the cost of one such Field Examination during each twelve month period from and after the Effective Date being borne by the Borrower; provided, that, for each such Field Examination the Borrower shall not be required to pay more than \$750 per day per examiner plus the reasonable out-of-pocket costs incurred by Collateral Monitor in conducting such Field Examination, capped at \$20,000.00 for each such Field Examination; provided, further, that, if a Default has not occurred, only one such Field Examination may be conducted in any twelve month period from and after the Effective Date and at any time a Default has occurred and is continuing, Collateral Monitor and/or its designee shall be authorized to conduct at any time and from time to time (without any requirement for prior notice) as many Field Examinations as it, the Agent or the Required Banks request and the Borrower shall be required to pay the entire cost of all such Field Examinations (even if more than one Field Examination is conducted in a twelve month period).

(b) In consideration for serving as Collateral Monitor, pay to Collateral Monitor (i) a fee of \$10,000, non-refundable and earned regardless of

circumstances, on the date of this Agreement and (ii) an additional \$10,000 on each anniversary thereof. Such fee is in addition to the payment to Collateral Monitor of any other fees referred to in this Section 8.07.

Section 8.08 Reporting Requirements. Furnish directly to each of the Banks:

(a) Borrower's Quarterly Financial Statements. As soon as available and in any event within forty-five (45) days after the end of each of the first three quarters of each Fiscal Year of Borrower, the consolidating balance sheets of Borrower, and (i) its Restricted Subsidiaries, and (ii) all of its Subsidiaries as of the end of such quarter, consolidated and consolidating statements of income, statements of stockholders' equity and cash flow statements of Borrower and (A) its Restricted Subsidiaries and (B) all of its Subsidiaries both for such quarter and for the period commencing at the end of the previous Fiscal Year and ending with the end of such quarter, all in reasonable detail and stating in comparative form corresponding unaudited consolidated figures for the corresponding date and period in the previous Fiscal Year and all prepared in accordance with GAAP consistently applied and certified by the chief financial officer of Borrower (subject to year-end adjustments).

(b) Borrower's Annual Financial Statements. As soon as available and in any event within one hundred twenty (120) days after the end of each Fiscal Year of Borrower: (i) for Borrower and its Subsidiaries, on a consolidated and consolidating basis, the balance sheets, statements of changes in stockholders' equity, income statements and statements of cash flow for such Fiscal Year, all in reasonable detail and stating in comparative form the respective consolidated

-47-

figures for the corresponding date and period in the Fiscal Year and all prepared in accordance with GAAP consistently applied, and the consolidated financials referenced in this Section 8.08(b)(i) shall be audited by such independent certified public accountants selected by Borrower and acceptable to Banks and the consolidating financial statements referenced in this Section 8.08(b)(i) shall be certified by the chief financial officer of Borrower; and (ii) for Borrower and the Restricted Subsidiaries, on a consolidated and consolidating basis, the balance sheets, statements of changes in stockholders' equity, income statements and statements of cash flow for such Fiscal Year, all in reasonable detail and stating in comparative form the respective consolidated figures for the corresponding date and period for such Fiscal Year and all prepared in accordance with GAAP consistently applied, and which shall be certified by the chief financial officer of Borrower, and (iii) for Borrower and the Restricted Subsidiaries, the balance sheets and income statements prepared on a consolidated basis in accordance with GAAP consistently applied, and which shall be audited by such independent certified public accountants selected by Borrower and acceptable to Banks. As of the date hereof, Deloitte & Touche, LLP is acceptable to Banks.

(c) Borrowing Base Certificate. Within twenty-one (21) days after each Fiscal Month End Date, a Borrowing Base Certificate, in form and substance satisfactory to the Agent reporting that all Revolving Credit Loans and Letter

of Credit Obligations as of such Fiscal Month End Date are in compliance with the Net Borrowing Base as of such Fiscal Month End Date and such Borrowing Base Certificate shall be accompanied by a summary accounts receivable aging.

(d) Management Letters. Promptly upon receipt thereof, copies of any reports submitted to Borrower and any Consolidated Subsidiary by independent certified public accountants in connection with the examination of the financial statements of such Borrower and Consolidated Subsidiary made by such accountants.

(e) Certificate of No Default. Within forty-five (45) days after the end of each quarter of each Fiscal Year of Borrower, a certificate of the chief financial officer of Borrower (i) certifying that no Default or Event of Default has occurred and is continuing or, if a Default or Event of Default has occurred and is continuing, a statement as to the nature thereof and the action which is proposed to be taken with respect thereto, and (ii) with computations demonstrating compliance with the covenants contained in Article X, as of the end of that fiscal period.

(f) Notice of Litigation. Promptly after receipt of notice of the commencement thereof, notice of all actions, suits, and proceedings before any Governmental Authority, affecting Borrower or any Restricted Subsidiary which, if determined adversely to Borrower or any Restricted Subsidiary, could result in a Material Adverse Change.

(g) Notices of Defaults and Events of Default. As soon as possible and in any event within ten (10) days after the occurrence of each Default or Event of Default a written notice setting forth the details of such Default or Event of Default and the action which is proposed to be taken with respect thereto.

(h) ERISA Reports. As soon as possible and in any event within twenty (20) days after Borrower knows or has reason to know that any Reportable Event or Prohibited Transaction has occurred with respect to any Plan or that the PBGC or Borrower has instituted or will institute proceedings under Title IV of ERISA to terminate any Plan or that Borrower, or any ERISA Affiliate has completely or partially withdrawn from a Multiemployer Plan or that a Plan which is a Multiemployer Plan is in reorganization (within the meaning of Section 4241 of

-48-

ERISA), is insolvent (within the meaning of Section 4245 of ERISA) or is terminating, Borrower will deliver to each of the Banks a certificate of the chief financial officer of Borrower setting forth details as to such Reportable Event or Prohibited Transaction or Plan termination or withdrawal or reorganization or insolvency and the action Borrower proposes to take with respect thereto.

(i) Annual Business Plan. As soon as possible and in any event no later than March 31 in any year, a copy of an annual consolidated business plan in form and substance acceptable to the Banks with respect to the subsequent Fiscal Year (consisting of consolidated balance sheets of Borrower and its

Subsidiaries, and consolidated statements of earnings and cash flow statements of Borrower and its Subsidiaries, prepared on a quarterly basis for such year) for Borrower and its Subsidiaries approved by Borrower's Board of Directors, together with the assumptions and projections on which the business plan is based. Based on the information provided in the submitted annual business plan, the Banks may reconsider, in their sole and absolute discretion, the amount of the Supplemental Amount for such subsequent Fiscal Year; provided, that, any change to the Supplemental Amount shall require the consent of all Banks (in their sole and absolute discretion). Any material changes made to the plan during the year will be provided by Borrower as soon as possible.

(j) Insurance. Upon the occurrence of any casualty, damage or loss, whether or not giving rise to a claim under any insurance policy, in an amount greater than Five Hundred Thousand (\$500,000) Dollars, notice thereof, together with copies of any document relating thereto (including copies of any such claim) in possession or control of Borrower and any Restricted Subsidiary or any agent of Borrower and any Restricted Subsidiary; and immediately after the occurrence thereof, written notice of any cancellation of any insurance policy required to be maintained by Borrower and any Restricted Subsidiary pursuant to Section 8.05 hereof.

(k) Material Adverse Change. As soon as possible and in any event within five (5) days after the occurrence of any event or circumstance which is likely to result in or has resulted in a Material Adverse Change, written notice thereof.

(l) Environmental Notices. As soon as possible and in any event within ten (10) days after receipt by any corporate executive officer, copies of all Environmental Notices received by Borrower or any Restricted Subsidiary which are not received in and do not relate to the ordinary course of Borrower or such Restricted Subsidiary's business.

(m) Required Licensors. At any time a licensor that has licensed a trademark to the Borrower and/or a Restricted Subsidiary becomes a Required Licensor, written notice thereof as soon as possible and in any event within five (5) days after such licensor becomes a Required Licensor.

(n) General Information. Such other information respecting the conditions or operations, financial or otherwise, of Borrower or any Restricted Subsidiary as the Agent or any Bank may from time to time reasonably request.

Section 8.09 Compliance With Environmental Laws. Comply in all respects with all applicable Environmental Laws where the failure to comply could result in a Material Adverse Change.

## ARTICLE IX

### NEGATIVE COVENANTS



So long as any of the Notes shall remain unpaid or any Letter of Credit Obligation shall remain outstanding or any Bank Party shall have any Commitment hereunder or any other amount is owing by Borrower to any Bank Party hereunder or under any other Loan Document, Borrower and each Guarantor (excluding HIL and its Subsidiaries with respect to this Article IX), shall not:

Section 9.01 Debt. Create, incur, assume or suffer to exist any Debt, except:

(a) Debt of Borrower and the Guarantors under this Agreement, the Notes, or any other Loan Document;

(b) Accounts payable to any Person that supplies goods or services to Borrower or any Guarantor, and other current liabilities (other than Debt) incurred, in the ordinary course of business; provided that, all such accounts and liabilities are paid in the ordinary course of business;

(c) Debt of Borrower under the Insurance Company Loan Documents;

(d) Debt secured by purchase money Liens (i) permitted by Section 9.03 hereof and (ii) of acquired properties and acquired Persons who become Restricted Subsidiaries;

(e) up to an aggregate Three Million (\$3,000,000) Dollars in unsecured lines of credit to be used for general corporate purposes, which is currently provided exclusively by Merchant National Bank;

(f) up to an aggregate Two Million (\$2,000,000) Dollars in unsecured lines of credit to be used for trade letters of credit payable at sight (the "Unsecured Lines"), which is currently provided exclusively by Regions Bank;

(g) Guaranties permitted under Section 9.02 hereof;

(h) Debt under Interest Rate Contracts with a counter-party that is a Bank or with another counter-party that is reasonably satisfactory to the Agent and the Required Banks; and

(i) Debt owing by Borrower to HIL in an aggregate amount at any one time outstanding not in excess of \$10,000,000; provided that, such Debt shall only be permitted to the extent HIL remains a Guarantor as long as such Debt remains outstanding and only as long as, upon the occurrence and during the continuance of a Default, such Debt is completely subordinated to the Obligations pursuant to a subordination agreement in form and substance satisfactory to Agent.

Section 9.02 Guaranties. Assume, guarantee, endorse or otherwise be or become directly or contingently responsible or liable (including, but not limited to an agreement to purchase any obligation, stock, assets, goods or services or to supply or advance any funds, assets, goods or services, or an agreement to maintain or cause such Person to maintain a minimum working capital or net worth or otherwise to assure the creditors of any Person against loss) for the obligations of any Person, except:



(a) guaranties by endorsement of negotiable instruments for deposit or collection or similar transactions in the ordinary course of business;

-50-

(b) the Guaranty Obligations;

(c) guaranties by Borrower or any Restricted Subsidiary of accounts payable incurred in the ordinary course of business by Borrower or any Restricted Subsidiary, as the case may be;

(d) guaranties by Borrower and the Restricted Subsidiaries for the benefit of HIL, but not in excess of the amount provided in Section 9.10 hereof;

(e) guaranties under Insurance Company Loan Documents;

(f) guaranties of trade obligations of HIL provided such guaranties are Restricted Payments permitted under Section 9.10 hereof and guarantees of up to \$200,000 of trade obligations of Borrower or a Restricted Subsidiary or; and

(g) Guaranties permitted under Section 9.06(e) hereof.

Section 9.03 Liens. Create, incur, assume or suffer to exist any Lien, upon or with respect to any of its real or personal properties (including, without limitation, leasehold interests, leasehold improvements and any other interest in real property or fixtures), now owned or hereafter acquired, except the following ("Permitted Liens"):

(a) Liens granted under and pursuant to the Loan Documents;

(b) Liens granted under and pursuant to the Insurance Company Loan Documents.

(c) Liens for taxes or assessments or other government charges or levies if not yet due and payable or if due and payable if they are the subject of a Good Faith Contest;

(d) Liens imposed by law, such as mechanic's, materialmen's, landlord's, warehousemen's and carrier's Liens, and other similar Liens, securing obligations incurred in the ordinary course of business which are not past due for more than ninety (90) days, or which are the subject of a Good Faith Contest;

(e) Liens under workmen's compensation, unemployment insurance, social security or similar legislation (other than ERISA) or to secure letters of credit obtained in connection therewith;

(f) Liens of GMAC Commercial Credit LLC ("GMAC") and/or The CIT Group/Commercial Services, Inc. ("CIT"), or any other Person, each in its capacity as factor for Borrower or a Restricted Subsidiary and/or provides

credit protection with respect to the Accounts of Borrower or a Restricted Subsidiary (each a "Factor") so long as, with respect to each such Factor, Agent has obtained the following in form and substance satisfactory to Agent: (i) a copy of the executed Factoring Agreement; (ii) a duly executed Assignment of Proceeds Agreement and (iii) an agreement duly executed by Factor pursuant to which Factor agrees, among other things, (A) not to make any loans or advances to Borrower or a Restricted Subsidiary or to guaranty on behalf of Borrower or any Restricted Subsidiary any amounts and (B) to waive the right of setoff against Accounts or proceeds thereof of amounts owed by Borrower or a Restricted Subsidiary to Factor or Factor's clients arising out of claims or accounts receivable owed by Borrower or a Restricted Subsidiary to such other clients of Factor or other third parties and (C) except for Accounts factored by Factor, that the Lien of Agent in the property of Borrower and each Restricted Subsidiary is senior to the Lien of Factor in such property;

-51-

(g) Liens, deposits or pledges to secure the performance of bids, tenders, contracts (other than contracts for the payment of money), leases (permitted under the terms of this Agreement), public or statutory obligations, surety, stay, appeal, indemnity, performance or other similar bonds, or other similar obligations arising in the ordinary course of business;

(h) judgment and other similar Liens arising in connection with court proceedings, provided that, the existence of such Liens does not constitute an Event of Default;

(i) easements, rights-of-way, restrictions, zoning and other similar encumbrances which, in the aggregate, do not materially interfere with the occupation, use and enjoyment by Borrower or any Guarantor of the property or assets encumbered thereby in the normal course of its business or materially impair the value of the property subject thereto;

(j) each of the Liens listed on Schedule 9.03 securing the Debt specified on such schedule, including any extension or modification thereof but not the extension of such Lien to other property in whole or in part;

(k) purchase money Liens on any real property, fixtures or equipment hereafter acquired or the assumption of or taking subject to any Lien on real property, fixtures or equipment existing at the time of such acquisition, or a Lien incurred in connection with any conditional sale or other title retention agreement or a Capital Lease; provided that:

(i) any property subject to any of the foregoing is acquired by Borrower or any Guarantor in the ordinary course of its business and the Lien on any such property (if not preexisting) is created contemporaneously with such acquisition or within 90 days thereof;

(ii) the Debt secured by any Lien so created, assumed or existing shall not exceed one hundred percent (100%) of the lesser of the cost or fair market value as of the time of acquisition of the property covered

thereby including shipping and installation costs; and

(iii) each such Lien shall attach only to the property so acquired and fixed improvements thereon.

Section 9.04 Sale of Assets. Sell, lease, assign, transfer or otherwise dispose of any of its now owned or hereafter acquired assets to any Person or any capital stock of the Borrower's Subsidiaries to any Person, except for (a) inventory disposed of in the ordinary course of business; (b) the sale or other disposition of worn out or obsolete assets or no longer necessary for the conduct of its business; (c) the sale or other dispositions of assets not exceeding Three Hundred Thousand (\$300,000) Dollars per Fiscal Year; (d) the leasing of assets having an aggregate book value at any one time not exceeding Three Hundred Thousand (\$300,000) Dollars; (e) accounts receivable pursuant to a Factoring Agreement acceptable to Agent in its sole discretion; (f) Borrower's issuance of capital stock or other equity interest or options to purchase such capital stock or equity interests.

Section 9.05 Transactions with Affiliates. Enter into any transaction, including, without limitation, the purchase, sale or exchange of property or the

-52-

rendering of any service, with any Affiliate other than Borrower or any Restricted Subsidiary or enter into any transaction, including, without limitation, the purchase, sale or exchange of property or the rendering of any service, with any such Affiliate, except for transactions among Borrower and its Restricted Subsidiaries or in the ordinary course of and pursuant to the reasonable requirements of Borrower's or the Restricted Subsidiary's business and upon fair and reasonable terms no less favorable to Borrower or Restricted Subsidiary than it would obtain in a comparable arms' length transaction with a Person not an Affiliate, provided however that Borrower and Restricted Subsidiaries may make loans, and advances to and investments in HIL; provided that, all such loans, advances, investments, together with guaranties provided in Section 9.02, hereof do not, in the aggregate, exceed the amount of permitted Restricted Payments allowed in Section 9.10 hereof.

Section 9.06 Investments; Acquisitions. Without the written approval of the Banks, except as provided in Sections 9.05 and 9.10 hereof, make any loan or advance to any Person or purchase or otherwise acquire any capital stock, assets, obligations or other securities of, make any capital contribution to, or otherwise invest in, or acquire any interest in, any Person in an amount in excess of \$5,000,000 (which for purposes of acquisitions shall include the amount of any Debt assumed), except the following: (a) Permitted Investments; (b) investments made in accordance with Section 9.10 hereof; (c) the formation (but not by way of acquisition) of additional wholly owned Subsidiaries of Borrower or the Restricted Subsidiaries; provided, that, in connection therewith, unless Agent shall waive such requirements, each such Subsidiary shall deliver to Agent a joinder to this Agreement, the Intercreditor Agreement shall be amended to the extent necessary to include such Subsidiary, the capital stock or other equity interest of such Subsidiary shall be pledged to Agent for

the benefit of Banks and such Subsidiary shall deliver to Agent a Security Agreement and, to the extent such Subsidiary owns stock of another Person, a Pledge Agreement, and, to the extent such Subsidiary owns any intellectual property, a Trademark Security Agreement and shares of stock, stock powers and powers of attorney and each other agreement, document or instrument reasonably requested by Agent in connection with the foregoing and in connection therewith such Subsidiary shall satisfy the conditions precedent set forth in Sections 6.01(a), (b), (c), (f), (h) (except same shall be deemed to apply to such Subsidiary instead of Designers), (j) except same shall be deemed to apply to such Subsidiary instead of Designers), (n), (o), (p) and (r) to the same extent as if such Subsidiary were an original party to this Agreement; (d) investments in Borrower's common stock made with director and officer deferred compensation pursuant to the terms Borrower's common stock purchase plan and investments made with director or officer deferred compensation pursuant to Borrower's deferred compensation plan; and (e) loans or advances to any employees of Borrower or a Restricted Subsidiary or guaranties made by Borrower and the Restricted Subsidiaries of indebtedness or obligations of any of their employees not to exceed \$200,000 in the aggregate during any Fiscal Year outstanding in the ordinary course of business for reasonable and necessary work-related, moving, entertainment and other ordinary business expenses to be incurred by such employee(s) in connection with their employment, provided, that, as of the date of such loan or guarantee and after giving effect thereto, no Event of Default shall exist or have occurred; provided, further, with respect to the Permitted Investments (1) all certificates of deposit, bankers acceptances and money market funds shall be issued or offered by a domestic office of a commercial bank organized under the laws of the United States of America or any State thereof which has a combined capital and surplus and undivided profits ("Bank Equity") of not less than \$500,000,000, except that amounts up to the aggregate of \$5,000,000 is permitted with banks with Bank Equity of less than \$500,000,000 but greater than \$50,000,000; (2) all money market funds shall comply with the criteria set forth in Securities and Exchange Commission Rule 2a-7 under the Investment Company Act of 1940 and have portfolio assets of at least \$5,000,000,000; (3) the aggregate amount of commercial paper rated less than A1/P1, asset backed commercial paper rated less than A1/P1, medium term notes, variable rate demand notes, corporate bonds and municipal notes/bonds shall not

-53-

exceed \$20,000,000 at any time; and (4) the aggregate amount of Permitted Investments of the type referred to in the preceding clause (3) with respect to any individual issuer shall not exceed \$10,000,000 at any time.

Section 9.07 Mergers. Merge or consolidate with, or sell, assign, lease or otherwise dispose of (whether in one transaction or in a series of transactions) all or substantially all of its assets (whether now owned or hereafter acquired) to any Person or form any Subsidiary, except that the foregoing shall not prohibit (i) the formation of a new Subsidiary in accordance with the requirements of Section 9.06 hereof, or (ii) the merger of Restricted Subsidiaries with and into each other or into Borrower (with the Borrower as the surviving corporation), so long as at the time thereof or as a result thereof there shall be no Default or Event of Default.

Section 9.08 Leases. Create, incur, assume, or suffer to exist any obligation as lessee for the rental or hire of any real or personal property except: (a) Capital Leases permitted under Section 9.03(k) hereof, (b) each of the retail and warehouse leases in effect on this date and those retail and warehouse leases entered into in the future, and (c) leases that do not in the aggregate require Borrower and its Subsidiaries to make payments (including taxes, insurance, maintenance, and similar expenses which Borrower is required to pay under the terms of the lease but excluding all payments based upon a percentage of sales or revenues) in any Fiscal Year in excess of the amount permitted under Section 10.04 hereof.

Section 9.09 Dividends. Declare or pay any cash dividends on capital stock of Borrower; or purchase, redeem, retire, or otherwise acquire for value any of the capital stock or securities convertible into capital stock of Borrower now or hereafter outstanding or make any distribution of assets to its stockholders as such whether in cash, assets, or in obligations of Borrower or any Restricted Subsidiary, or allocate or otherwise set apart any sum for the payment of any dividend or distribution on, or for the purchase, redemption, or retirement of any shares of its capital stock, except in all cases for transactions that are (a) made in common stock of Borrower or (b) otherwise permitted under Section 9.10 hereof.

Section 9.10 Restricted Payments. Notwithstanding anything to the contrary contained in this Article IX, make any Restricted Payment; except that, so long as no Default exists and is continuing, (i) Borrower may repurchase treasury stock in an aggregate amount not to exceed \$1,500,000 from the date of this Agreement and all times thereafter as long as this Agreement remains in effect, net of amounts received by Borrower upon the sale of its capital stock, including capital stock of Borrower which may be sold including those through its stock plans and (ii) at any time prior to the consummation of the HIL Spin-off Transaction, Borrower may make advances or payments to or investments in, or issue guaranties for HIL as long as the aggregate amount of such investments in, advances or payments to or investments in, or guaranties for HIL, whether made prior or subsequent to the Effective Date, do not in the aggregate, at any one time outstanding, as long as this Agreement remains in effect, exceed \$40,000,000. In calculating the amount of payments under Subsection 9.10(ii), investments shall be valued at cost without adjustment for losses or earnings incurred by HIL.

Section 9.11 Fiscal Year. Change its fiscal year to a period other than its fiscal year in effect on the date hereof.

Section 9.12 Changes, Amendments or Modifications. Change, amend, modify or supplement any of the following: (a) its certificate of incorporation; or (b) by-laws, or (c) any other material agreement to which Borrower is a party, to

the extent any of the foregoing is likely to result in a Material Adverse Change.

Section 9.13 Nature of Business. Materially alter the nature of its business.

Section 9.14 Double Negative Pledge. Enter into any agreement which prohibits or limits the ability of the Borrower or any Restricted Subsidiary to create, incur, assume or suffer to exist any Lien upon any of its property or revenues, whether now owned or hereafter acquired.

Section 9.15 Senior Secured Debt. Permit the sum of (i) the aggregate outstanding amount of the Debt of Borrower and the Guarantors under this Agreement, the Notes, and/or the other Loan Documents, plus (ii) the aggregate outstanding amount of Debt of Borrower under the Insurance Company Loan Documents, to at any one time exceed One Hundred Ten Million (\$110,000,000) Dollars.

Section 9.16 Insurance Company Provisions. (i) Permit the financial covenants contained in the Insurance Company Loan Documents to be amended from those in existence on the date of this Agreement in a manner that is more stringent as to the Borrower or any Guarantor (that is a Restricted Subsidiary), unless the same financial covenant that is to be amended is contained in this Agreement and the Agent and the requisite Banks have agreed, in their sole and absolute discretion, to amend such financial covenant in the same manner as is proposed to be amended in the Insurance Company Loan Documents, or (ii) provide security or other sources of payment for obligations of the Borrower which have not been provided hereunder or in connection herewith.

Section 9.17 Factoring Agreements. Enter into, amend or modify any Factoring Agreement with a Factor unless same shall theretofore been approved in writing by Agent.

## ARTICLE X

### FINANCIAL COVENANTS

So long as any of the Notes shall remain unpaid or any Letter of Credit Obligation shall remain outstanding or any Bank Party shall have any Commitment hereunder or any other amount hereunder is owing by Borrower to any Bank Party hereunder or under any other Loan Document:

Section 10.01 Consolidated Tangible Net Worth. Borrower and its Restricted Subsidiaries shall maintain at all times a Consolidated Tangible Net Worth of not less than the \$56,000,000, plus, or minus, as the case may be, the Net Worth Adjustment Amount.

Section 10.02 Consolidated Fixed Charge Coverage Ratio. Borrower and its Restricted Subsidiaries will maintain as at the last day of each fiscal quarter of the Borrower, beginning with the fiscal quarter ending December 31, 2002, in each case calculated on a rolling four (4) quarter basis, a Consolidated Fixed Charge Ratio in a proportion of not less than 1.75 to 1.



Section 10.03 Consolidated Average Current Ratio. Borrower and its Restricted Subsidiaries shall maintain a ratio of (a) consolidated current assets (determined in accordance with GAAP) to (b) consolidated current liabilities (determined in accordance with GAAP) in a proportion of not less than 1.75 to 1.00, determined as at the last day of each fiscal quarter of the Borrower on an average basis with respect to the most recent four fiscal quarters then ending, in each case excluding the performance of HIL from any of such calculations.

-55-

Section 10.04 Consolidated Capital Expenditures. Borrower and its Restricted Subsidiaries shall not, in any Fiscal Year, make Consolidated Capital Expenditures in the aggregate amount in excess of \$1,500,000.

Section 10.05 Revolving Credit Loan and Insurance Loan Coverage. During a single period comprised of any sixty (60) consecutive days during each calendar year, the sum of the aggregate amount of outstanding Revolving Credit Loans and the aggregate Debt outstanding under the Insurance Company Loan Documents shall not exceed eighty-five (85%) percent of the Net Amount of Eligible Accounts of Borrower and the Restricted Subsidiaries.

## ARTICLE XI

### EVENTS OF DEFAULT

Section 11.01 Events of Default. Any of the following events shall be an "Event of Default":

(a) (i) Borrower shall fail to pay the principal of any Note as and when due and payable, or any Letter of Credit Account Party shall fail to reimburse the Letter of Credit Issuing Bank on a Letter of Credit as and when due and payable; (ii) Borrower shall fail to pay interest on any Note within five (5) Banking Days of when such interest is due and payable; (iii) Borrower or any Letter of Credit Account Party shall fail to pay within ten (10) days after the request for payment is made any fees or expenses or other payments required to be paid under the terms of any of the Loan Documents; (iv) Borrower shall fail to make any payments or prepayments under Section 2.07 (b) hereof within three (3) Banking Days; (iv) Borrower shall fail to make any payments under Section 2.07 (c) hereof on the date required by that Section or (v) Borrower shall fail to deliver, in accordance with Section 8.08 (c) hereof, a Borrowing Base Certificate showing all Revolving Credit Loans and Letter of Credit Obligations as of such Fiscal Month End Date are in compliance with the Net Borrowing Base as of such Fiscal Month End Date; or

(b) any representation or warranty made or deemed made by Borrower or any Guarantor in this Agreement or in any other Loan Document to which it is a party or which is contained in any certificate, document, opinion, financial or other statement furnished at any time under or in connection with any Loan Document shall prove to have been incorrect in any material respect on or as of the date made or deemed made; or



(c) Borrower or any Guarantor shall fail to perform or observe any term, covenant or agreement contained in this Agreement or any of the Loan Documents (other than those covered by any other Event of Default) and such failure shall continue for five (5) days or more following the earlier of the time (i) an executive officer of Borrower knew or should have known of such Event of Default; or (ii) written notice of such Event of Default is given to Borrower by the Agent (except that this Section 11.01(c) shall not apply to the delivery of a Borrowing Base Certificate not in compliance with Section 8.08(c) hereof); or

(d) Borrower or any Guarantor shall: (i) fail to pay any Debt of Borrower or any Guarantor in an amount greater than Two Hundred Fifty Thousand (\$250,000) Dollars (other than the payment obligations described in (a) above or Debt under the Insurance Company Loan Documents) when due (whether by scheduled maturity,

-56-

required prepayment, acceleration, demand or otherwise) after giving effect to any applicable grace period, (ii) or fail to pay all or any portion of the Debt under the Insurance Company Loan Documents when due (whether by scheduled maturity, required prepayment, acceleration, demand or otherwise) after giving effect to any applicable grace period; or (iii) fail to perform or observe any term, covenant or condition on its part to be performed or observed or an event of default has occurred under any agreement or instrument relating to the Debt under the Insurance Company Loan Documents or any such other Debt, when required to be performed or observed, the effect of which is to cause the Debt under the Insurance Company Loan Documents or any such other Debt to become, or to permit the Debt under the Insurance Company Loan Documents or any such other Debt to be declared to be, due and payable prior to its scheduled maturity; or

(e) Borrower or any Guarantor: (i) shall generally not, or be unable to, or shall admit in writing its inability to, pay its debts as such debts become due; or (ii) shall make an assignment for the benefit of creditors, petition or apply to any tribunal for the appointment of a custodian, receiver or trustee for it or a substantial part of its assets; or (iii) shall commence any proceeding under any bankruptcy, reorganization, arrangement, readjustment of debt, dissolution or liquidation law or statute of any jurisdiction, whether now or hereafter in effect; or (iv) shall have had any such petition or application filed or any such proceeding shall have been commenced, against it, in which an adjudication or appointment is made or order for relief is entered, or which petition, application or proceeding remains undismissed or unstayed for a period of sixty (60) days or more; or shall be the subject of any proceeding under which its assets may be subject to seizure, forfeiture or divestiture; or (v) by any act or omission shall indicate its consent to, approval of or acquiescence in any such petition, application or proceeding or order for relief or the appointment of a custodian, receiver or trustee for all or any substantial part of its property; or (vi) shall suffer any such custodianship, receivership or trusteeship to continue undischarged for a period of thirty (30) days or more; or

(f) one or more judgments, decrees or orders for the payment of money in

excess of Five Hundred Thousand (\$500,000) Dollars in the aggregate shall be rendered against Borrower or any Guarantor, and such judgments, decrees or orders shall continue unsatisfied and in effect for a period of thirty (30) consecutive days without being vacated, discharged, satisfied or stayed or bonded pending appeal; or

(g) any of the following events shall occur or exist with respect to Borrower or any Guarantor or any ERISA Affiliate: (i) any Prohibited Transaction involving any Plan; (ii) any Reportable Event shall occur with respect to any Plan; (iii) the filing under Section 4041 of ERISA of a notice of intent to terminate any Plan or the termination of any Plan; (iv) any event or circumstance exists which might constitute grounds entitling the PBGC to institute proceedings under Section 4042 of ERISA for the termination of, or for the appointment of a trustee to administer, any Plan, or the institution by the PBGC of any such proceedings; (v) complete or partial withdrawal under Section 4201 or 4204 of ERISA from a Multiemployer Plan or the reorganization, insolvency, or termination of any Multiemployer Plan; (vi) an accumulated funding deficiency (as defined in Section 302 of ERISA or Section 412 of the Code) exists with respect to a Plan, whether or not waived; and in each case above, such event or condition, together with all other events or conditions, if any, would reasonably be expected to subject Borrower or any Guarantor or any ERISA Affiliate to any tax, penalty, or other liability to a Plan, Multiemployer Plan, the PBGC, or otherwise (or any combination thereof) which in the aggregate exceeds or may exceed Three Hundred Fifty Thousand (\$300,000) Dollars; or

-57-

(h) Article V shall, at any time after the execution and delivery of this Agreement and for any reason, cease to be in full force and effect or shall be declared null and void, or the validity or enforceability thereof shall be contested by any Guarantor or any Guarantor shall deny it has any further liability or obligation under or shall fail to perform its obligations under Article V; or

(i) the occurrence of a Change of Control; or

(j) the Liens of the Agent in any of the Collateral shall for any reason fail to be perfected Liens, subject to no other Lien other than Permitted Liens and such failure shall continue for ten (10) days or more following the earlier of the time (i) an executive officer of Borrower knew or should have known of such Event of Default; or (ii) written notice of such Event of Default is given to Borrower by the Agent; or

(k) if on or before October 15, 2003, Agent shall not have entered into a licensor waiver letter, in form and substance satisfactory to Agent, with Geoffrey Beene, Inc. (and consented to by Borrower and each applicable Guarantor) with respect to the rights of Agent to use the trademark to sell or otherwise dispose of inventory sold under a licensed trademark from Geoffrey Beene, Inc.; provided, that, notwithstanding this additional Event of Default (and without limiting Agent's or any Bank's rights in connection therewith), commencing on the date of this Agreement, no inventory sold under a licensed

trademark from Geoffrey Beene, Inc. shall be included in the Borrowing Base unless and until the Agent shall have received such fully executed waiver letter.

Section 11.02 Remedies. If any Event of Default shall occur and be continuing, the Agent may and, upon request of the Required Banks, shall by notice to Borrower, (a) declare the Revolving Credit Commitment, the Trade Letter of Credit Commitment and the Standby Letter of Credit Commitment to be terminated, whereupon the same shall forthwith terminate; (b) require Borrower to provide Cash Collateral or the equivalent thereof in an aggregate amount of one hundred and five percent (105%) of all outstanding Letter of Credit Obligations; (c) declare the outstanding Notes, all interest thereon, and all other amounts payable under this Agreement, and any other Loan Documents to be forthwith due and payable, whereupon the Notes, all such interest, and all such amounts due under this Agreement, and under any other Loan Document shall become and be forthwith due and payable, without presentment, demand, protest, or further notice of any kind, all of which are hereby expressly waived by Borrower; (d) exercise any remedies provided in any of the Loan Documents; and/or (e) exercise any remedies provided by Law; provided however, that upon the occurrence of an Event of Default referred to in Section 11.01(e) hereof, the Revolving Credit Commitment, and the Trade Letter of Credit Commitment or Standby Letter of Credit Commitment shall automatically terminate and the outstanding Notes, Letters of Credit, and any other amounts payable under this Agreement or any of the other Loan Documents, and all interest on any of the foregoing shall be forthwith due and payable without presentment, demand, protest or further notice of any kind, all of which are hereby expressly waived by Borrower. Furthermore, upon and following an Event of Default, at the direction of the Required Banks, all Revolving Credit Loans, any and all accrued and unpaid interest, fee or amount due hereunder and all other Obligations, to the extent permitted by applicable law, shall bear interest (payable on demand, and in any event on the last day of each month, and computed daily on the basis of a 360-day year for actual days elapsed) at the Default Rate until paid. In no event, however, shall any amount payable hereunder be in excess of the maximum rate of interest permitted under applicable law. The obligation to so pay interest upon any Obligation shall not be construed so as to waive or limit any of the other remedies hereinabove set forth or to waive the requirement for payment on the same date that payment is to be made as set forth in this Agreement.

-58-

## ARTICLE XII

### THE AGENT AND COLLATERAL MONITOR

Section 12.01 Appointment, Powers and Immunities of Agent. Each Bank hereby irrevocably appoints and authorizes the Agent to act as its agent hereunder and under any other Loan Document with such powers as are specifically delegated to the Agent by the terms of this Agreement and any other Loan Document, together with such other powers as are reasonably incidental thereto. The Agent shall have no duties or responsibilities except those expressly set forth in this

Agreement and any other Loan Document, and shall not by reason of this Agreement be a trustee for any Bank. The Agent shall not be responsible to the Banks for any recitals, statements, representations or warranties made by Borrower or any Guarantor or any officer or official of the Borrower or any Guarantor or anyone purporting to be an Authorized Person or any other Person contained in this Agreement or any other Loan Document, or in any certificate or other document or instrument referred to or provided for in, or received by any of them under, this Agreement or any other Loan Document, or for the value, legality, validity, effectiveness, genuineness, enforceability or sufficiency of this Agreement or any other Loan Document or any other document or instrument referred to or provided for herein or therein, for the perfection or priority of any Lien securing the Obligations or for any failure by Borrower or any Guarantor to perform any of its obligations hereunder or thereunder. The Agent may employ agents and attorneys-in-fact and shall not be responsible, except as to money or securities received by it or its authorized agents, for the negligence or misconduct of any such agents or attorneys-in-fact selected by it with reasonable care. Neither the Agent nor any of its directors, officers, employees or agents shall be liable or responsible for any action taken or omitted to be taken by it or them hereunder or under any other Loan Document or in connection herewith or therewith, except for its or their own gross negligence or willful misconduct. Borrower shall pay any fee agreed to by Borrower and the Agent with respect to the Agents services hereunder at the date of this Agreement and each anniversary thereof during the term of this Agreement.

Section 12.02 Reliance by Agent. The Agent shall be entitled to rely upon any certification, notice or other communication (including any thereof by telephone, telecopy, telex, telegram or cable) reasonably believed by it to be genuine and correct and to have been signed or sent by or on behalf of the proper Person or Persons, and upon advice and statements of legal counsel, independent accountants and other experts selected by the Agent. The Agent may deem and treat each Bank as the holder of the Revolving Credit Loans made by it and Participation purchased by it for all purposes hereof unless and until a notice of the assignment or transfer thereof satisfactory to the Agent signed by such Bank shall have been furnished to the Agent but the Agent shall not be required to deal with any Person who has acquired a participation in any Revolving Credit Loan or Bank. As to any matters not expressly or any other Revolving Credit provided for by this Agreement, the Agent shall in all cases be fully protected in acting, or in refraining from acting, hereunder in accordance with instructions signed by the Required Banks, and such instructions of the Required Banks and any action taken or failure to act pursuant thereto shall be binding on all of the Banks and any other holder of all or any portion of any Revolving Credit Loan or Participation.

Section 12.03 Defaults. The Agent shall not be deemed to have knowledge of the occurrence of a Default or Event of Default, other than a payment default, unless the Agent has received notice from a Bank or Borrower or any Guarantor specifying such Default or Event of Default and stating that such notice is a "Notice of Default." In the event that the Agent receives such a notice of the

occurrence of a Default or Event of Default, the Agent shall give prompt notice thereof to the Banks. The Agent shall (subject to Section 12.08 hereof) take such action with respect to such Default or Event of Default which is continuing as shall be directed by the Required Banks; provided that, unless and until the Agent shall have received such directions, the Agent may take such action, or refrain from taking such action, with respect to such Default or Event of Default as it shall deem advisable in the best interest of the Banks; and provided further that, the Agent shall not be required to take any such action which it determines to be contrary to Law.

Section 12.04 Rights of Agent as a Bank. With respect to its Commitment and the Revolving Credit Loans provided by it and the Letters of Credit issued by it, the Agent in its capacity as a Bank hereunder shall have the same rights and powers hereunder as any other Bank and may exercise the same as though it were not acting as the Agent, and the term "Bank" or "Banks" shall, unless the context otherwise indicates, include the Agent in its capacity as a Bank. The Agent and its Affiliates may (without having to account therefor to any Bank) accept deposits from, lend money to (on a secured or unsecured basis), and generally engage in any kind of banking, trust or other business with Borrower or any Guarantor and any of their Affiliates as if it were not acting as the Agent, and the Agent may accept fees and other consideration from Borrower for services in connection with this Agreement or otherwise without having to account for the same to the Banks.

Section 12.05 Indemnification of Agent. The Banks agree to indemnify the Agent (to the extent not reimbursed under Section 13.03 hereof or under the applicable provisions of any other Loan Document, but without limiting the obligations of Borrower under Section 13.03 hereof or such provisions), for its Pro Rata Share of any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind and nature whatsoever which may be imposed on, incurred by or asserted against the Agent in any way relating to or arising out of this Agreement, any other Loan Document or any other documents contemplated by or referred to herein or the transactions contemplated hereby or thereby (including, without limitation, the costs and expenses which Borrower or any Guarantor are obligated to pay under Section 13.03 hereof) or under the applicable provisions of any other Loan Document or the enforcement of any of the terms hereof or thereof or of any such other documents or instruments; provided that, no Bank shall be liable for any of the foregoing to the extent they arise from the gross negligence or willful misconduct of the Agent.

Section 12.06 Documents. The Agent will forward to each Bank, promptly after the Agent's receipt thereof, a copy of each report, notice or other document required by this Agreement or any other Loan Document to be delivered to the Agent for such Bank.

Section 12.07 Non-Reliance on Agent and Other Banks. Each Bank agrees that it has, independently and without reliance on the Agent, HSBC or any other Bank, and based on such documents and information as it has deemed appropriate, made its own credit analysis of Borrower and each Guarantor and the decision to enter into this Agreement and that it will, independently and without reliance upon

the Agent, HSBC or any other Bank, and based on such documents and information as it shall deem appropriate at the time, continue to make its own analysis and decisions in taking or not taking action under this Agreement or any other Loan Document. The Agent shall not be required to keep itself informed as to the performance or observance by Borrower or any Guarantor of this Agreement or any other Loan Document or any other document referred to or provided for herein or

-60-

therein or to inspect the properties or books of Borrower or any guarantor. Except for notices, reports and other documents and information expressly required to be furnished to the Banks by the Agent hereunder, the Agent shall not have any duty or responsibility to provide any Bank with any credit or other information concerning the affairs, financial condition or business of Borrower or any Guarantor (or any of their Affiliates) which may come into the possession of the Agent or any of its Affiliates. The Agent shall not be required to file this Agreement, any other Loan Document or any document or instrument referred to herein or therein, for record or give notice of this Agreement, any other Loan Document or any document or instrument referred to herein or therein, to anyone; provided however, the Agent shall (a) file each Trademark Security Agreement with the United States Patent and Trademark Office, and (b) with respect to Borrower and the Restricted Subsidiaries that a parties to a Security Agreement, file financing statements (UCC-1) set forth in Section 6.01 hereof in the state where such Borrower and Restricted Subsidiary is organized.

Section 12.08 Failure of Agent to Act. Except for action expressly required of the Agent hereunder, the Agent shall in all cases be fully justified in failing or refusing to act hereunder unless it shall have received further assurances (which may include Cash Collateral) of the indemnification obligations of the Banks under Section 12.05 hereof in respect of any and all liability and expense which may be incurred by it by reason of taking or continuing to take any such action.

Section 12.09 Resignation or Removal of Agent. Subject to the appointment and acceptance of a successor Agent as provided below, the Agent may resign at any time by giving written notice thereof to the Banks, Borrower and each Guarantor, and the Agent may be removed at any time with or without cause by the Required Banks; provided that, Borrower, each Guarantor and the other Banks shall be promptly notified thereof. Upon any such resignation or removal, the Required Banks shall have the right to appoint a successor Agent, which, unless an Event of Default shall have occurred and be continuing, shall be reasonably acceptable to Borrower. If no successor Agent shall have been so appointed by the Required Banks and shall have accepted such appointment within thirty (30) days after the retiring Agent's giving of notice of resignation or the Required Banks' removal of the retiring Agent, then the retiring Agent may, on behalf of the Banks, appoint a successor Agent, which shall be a bank which has an office in New York, New York and assets in an amount not less than One Billion (\$1,000,000,000) Dollars, which, unless an Event of Default shall have occurred and be continuing, shall be reasonably acceptable to Borrower. The Required Banks or the retiring Agent, as the case may be, shall upon the appointment of a successor Agent promptly so notify Borrower and the other Banks. Upon the



acceptance of any appointment as Agent hereunder by a successor Agent, such successor Agent shall thereupon succeed to and become vested with all the rights, powers, privileges and duties of the retiring Agent, and the retiring Agent shall be discharged from its duties and obligations hereunder. After any retiring Agent's resignation or removal hereunder as Agent, the provisions of this Article XII shall continue in effect for its benefit in respect of any actions taken or omitted to be taken by it while it was acting as the Agent.

Section 12.10 Amendments Concerning Agency Function. The Agent shall not be bound by any waiver, amendment, supplement or modification of this Agreement or any other Loan Document which affects its duties hereunder or thereunder unless it shall have given its prior consent thereto.

Section 12.11 Liability of Agent. The Agent shall not have any liabilities or responsibilities to Borrower or any Guarantor on account of the failure of any Bank to perform its obligations hereunder or to any Bank on account of the failure of Borrower or any Guarantor to perform its obligations hereunder or under any other Loan Document.

Section 12.12 Transfer of Agency Function. Without the consent of Borrower, any Guarantor or any Bank, the Agent may at any time or from time to time

-61-

transfer its functions as Agent hereunder to any of its offices located in New York, New York, provided that, the Agent shall promptly notify Borrower and the Banks thereof.

Section 12.13 Withholding Taxes. Each Bank represents that it is entitled to receive any payments to be made to it hereunder without the withholding of any tax and will furnish to the Agent such forms, certifications, statements and other documents as the Agent may request from time to time to evidence such Bank's exemption from the withholding of any tax imposed by any jurisdiction or to enable the Agent to comply with any applicable laws or regulations relating thereto. Without limiting the effect of the foregoing, if any Bank is not created or organized under the laws of the United States of America or any state thereof, such Bank will furnish to the Agent Form 4224 or Form W-8BEN of the Internal Revenue Service, or such other forms, certifications, statements or documents, duly executed and completed by such Bank as evidence of such Bank's complete exemption from the withholding of U.S. tax with respect thereto. The Agent shall not be obligated to make any payments hereunder to such Bank in respect of any Revolving Credit Loan or Participation or such Bank's Revolving Credit Commitment or obligation to purchase a Participation until such Bank shall have furnished to the Agent the requested form, certification, statement or document.

Section 12.14 Collateral Monitor. Each Bank and Agent acknowledge and agree that: (i) any and all reports prepared by Collateral Monitor are being supplied to them solely to assist them in their own independent credit analysis of Borrower and its Subsidiaries and (ii) Collateral Monitor makes absolutely no representation or warranty whatsoever regarding (x) the accuracy completeness or



adequacy of such reports or (y) any financial or other information contained therein or the financial condition of Borrower and its Subsidiaries. It is further understood and agreed that Collateral Monitor shall not incur any liability to Agent or Banks whatsoever in connection with the delivery of such reports or the contents of such reports or their use thereof or reliance thereon and Agent and Banks each hereby waive any and all claims that they may now or hereafter have against Collateral Monitor in connection therewith.

Borrower and its Subsidiaries hereby waive any and all claims that they may now or hereafter have against Collateral Monitor arising in connection with such reports and/or Collateral Monitor's performance of its duties and functions as Collateral Monitor and hereby indemnifies and holds Collateral Monitor harmless from any and all loss liability or expense incurred by Borrower and its Subsidiaries as a result of such reports or the contents thereof.

Collateral Monitor's reports may contain confidential information which is non-public, confidential or proprietary in nature, and therefore is being provided to Agent and Banks on a confidential basis and is to be used for the sole purpose of assisting Agent and Banks in their independent credit analysis of Borrower and its Subsidiaries as described above.

Except as may be required by applicable law or by any federal regulator or any auditor of Agent or any Bank, each Bank and Agent will not disclose any of the contents of such reports to any person, including Borrower and its Subsidiaries, other than those officers, directors, employees, representatives and professional advisors of such Bank or Agent or who need to know the contents thereof for the purpose of such credit analysis described above.

The Collateral Monitor shall have no duties or responsibilities except those expressly set forth in this Agreement and any other Loan Document. The Collateral Monitor shall not be bound by any waiver, amendment, supplement or modification of this Agreement or any other Loan Document which affects its duties hereunder or thereunder unless it shall have given its prior written consent.

-62-

## ARTICLE XIII

### YIELD PROTECTION

Section 13.01 Additional Costs. (a) Borrower shall pay directly to the Agent from time to time on demand such amounts as any Bank may reasonably determine to be necessary to compensate it for any costs which the Bank determines are attributable to its making or maintaining any Eurodollar Loans under this Agreement or its obligation to make any such loans hereunder, or any reduction in any amount receivable by the Bank hereunder in respect of any such loans or such obligation (such increases in costs and reductions in amounts receivable being herein called "Additional Costs"), resulting from any Regulatory Change which: (i) changes the basis of taxation of any amounts payable to the Bank under this Agreement in respect of any of such loans (other

than taxes imposed on the overall net income of the Bank for any of such loans by the jurisdiction in which the Bank has its principal office or is deemed to hold the loans); or (ii) imposes or modifies any reserve, special deposit, deposit insurance or assessment, minimum capital, capital ratio or similar requirements relating to any extensions of credit or other assets of, or any deposits with or other liabilities of, the Bank (including any of such loans or any deposits referred to in the definition of "Eurodollar Base Rate"; or (iii) imposes any other condition affecting this Agreement (or any extensions of credit or liabilities), except to the extent any such Regulatory Change has previously resulted in a change in the calculation of Eurodollar Rate as a result of being included in the Reserve Requirement used in calculating such Eurodollar Rate. The Agent will notify Borrower of any event occurring after the date of this Agreement which will entitle the Bank to compensation pursuant to this Section 13.01(a) as promptly as practicable after it obtains knowledge thereof and determines to request such compensation.

(b) Without limiting the effect of the foregoing provisions of this Section 13.01, in the event that, by reason of any Regulatory Change, the Bank either (i) incurs Additional Costs based on or measured by the excess above a specified level of the amount of a category of deposits or other liabilities of the Bank which includes deposits by reference to which the interest rate on Eurodollar Loans is determined as provided in this Agreement or a category of extensions of credit or other assets of the Bank which includes Eurodollar Loans or (ii) becomes subject to restrictions on the amount of such a category of liabilities or assets which it may hold, then, if the Bank so elects by notice to Borrower, the obligation of the Bank to make or renew, and to convert loans of any other type into, loans of such type hereunder shall be suspended until the date such Regulatory Change ceases to be in effect.

(c) Without limiting the effect of the foregoing provisions of this Section 13.01 (but without duplication), Borrower shall pay directly to the Agent from time to time on request such amounts as the Agent may determine to be necessary to compensate any Bank for any costs which it determines are attributable to the maintenance by it or any of its affiliates pursuant to any Regulatory Change of any court or governmental or monetary authority of capital in respect of its loans hereunder or its obligation to make loans hereunder (such compensation to include, without limitation, an amount equal to any reduction in return on assets or equity of the Bank to a level below that which it could have achieved but for such Regulatory Change), except to the extent the Eurodollar Base Rate has been adjusted to reflect such costs. The Agent will notify Borrower if any Bank is entitled to compensation pursuant to this Section 13.01(c) as promptly as practicable after it determines to request such compensation.

-63-

(d) Determinations and allocations by the Agent or Bank for purposes of this Section 13.01 of the effect of any Regulatory Change pursuant to subsections (a) or (b), or of the effect of capital maintained pursuant to subsection (c), on its costs of making or maintaining loans or its obligation to make loans, or on amounts receivable by, or the rate of return to, it in respect of loans or such obligation, and of the additional amounts required to

compensate the Bank under this Section 13.01, shall be conclusive, provided that, such determinations and allocations are made on a reasonable basis and absent manifest error and having a retroactive effect of no more than one hundred twenty (120) days.

Section 13.02 Illegality. Notwithstanding any other provision in this Agreement, in the event that it becomes unlawful for a Bank to (a) honor its obligation to make or renew Eurodollar Loans hereunder or convert loans of any type into loans of such type, or (b) maintain Eurodollar Loans hereunder, then the Bank shall promptly notify Borrower thereof and the Bank's obligation to make or renew Eurodollar ^ Loans and to convert other types of loans into loans of such type hereunder shall be suspended until such time as the Bank may again make, renew, or convert and maintain such affected loans and the Bank's outstanding Eurodollar ^ Loans shall be converted to Prime Rate Loans at the end of the then current Interest Period unless earlier required by law.

Section 13.03 Certain Compensation. Borrower shall pay to the Agent, upon the request of the Agent, such amount or amounts as shall be sufficient (in the reasonable opinion of the Agent) to compensate any Bank for any loss, cost or expense which the Bank determines is attributable to:

(a) any payment or prepayment of a Eurodollar Loan made by the Bank on a date other than the last day of an Interest Period for such Loan (whether by reason of acceleration or otherwise); or

(b) any failure by Borrower to borrow a Eurodollar Loan to be made by the Bank on the date specified therefor in the relevant notice.

Without limiting the foregoing, such compensation shall include an amount equal to the excess, if any, of (i) the amount of interest which otherwise would have accrued on the principal amount so paid, prepaid or not borrowed for the period from and including the date of such payment, prepayment or failure to borrow to but excluding the last day of the then current Interest Period for such Loan (or, in the case of a failure to borrow, to but excluding the last day of the Interest Period for such Loan which would have commenced on the date specified therefor in the relevant notice) at the applicable rate of interest for such Loan provided for herein; over (ii) the amount of interest (as reasonably determined by the Bank) the Bank would have bid in the London interbank market for Dollar deposits for amounts comparable to such principal amount and maturities comparable to such period. A determination of the Bank as to the amounts payable pursuant to this Section 13.03 shall be conclusive absent manifest error.

#### ARTICLE XIV

#### MISCELLANEOUS

Section 14.01 Amendments and Waivers. No amendment or waiver of any provision of this Agreement or any other Loan Document nor consent to any departure by Borrower or any Guarantor therefrom, shall in any event be effective unless the same shall be in writing and signed by the Agent and the

Required Banks and then such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given; provided

-64-

however, that no amendment, waiver or consent, shall, unless in writing and signed by all Banks do any of the following: (a) increase the Revolving Credit Commitment or the Trade Letter of Credit Commitment or Standby Letter of Credit Commitment ; (b) reduce the principal of, or interest on (other than imposition of the Default Rate), the Notes; (c) postpone the date fixed for the payment of principal of, or interest on, the Notes or any other amount due hereunder or under any Loan Document, or waive any default in the payment of principal, interest or any other amount due hereunder or under any Loan Document; (d) change the definition of "Required Banks" or "Pro Rata Share"; (e) release any Guarantor or release or subordinate any Collateral (except as contemplated by the Loan Documents); (f) change the definition of Borrowing Base, or Net Borrowing Base or any defined term referenced therein or change the definition of Supplemental Amount; or (g) amend this Section 14.01 or any other provision requiring the consent of all Banks; provided further, that no amendment, waiver or consent of any matter relating to a Letter of Credit, shall be effective unless also signed by the Letter of Credit Issuing Bank that issued such Letter of Credit. No failure on the part of the Agent or any Bank to exercise, and no delay in exercising, any right hereunder shall operate as a waiver thereof or preclude any other or further exercise thereof or the exercise of any other right. The remedies herein provided are cumulative and not exclusive of any remedies provided by Law.

Section 14.02 Usury. Anything herein to the contrary notwithstanding, the obligations of Borrower and the Guarantors under this Agreement and the other Loan Documents shall be subject to the limitation that payments of interest shall not be required to the extent that receipt thereof would be contrary to provisions of Law applicable to a Bank limiting rates of interest which may be charged or collected by such Bank.

Section 14.03 Expenses; Indemnification. Borrower agrees to reimburse the Agent, Collateral Monitor and each of the Banks, on demand for all costs, expenses, and charges (including, without limitation, all reasonable fees and charges of external legal counsel for the Agent, Collateral Monitor, HSBC and each Bank) incurred by Agent, Collateral Monitor, or any Bank, in connection with the preparation of the Loan Documents. Borrower agrees to reimburse the Agent, Collateral Monitor, each Letter of Credit Issuing Bank, and each of the Banks on demand for all costs, expenses, and charges (including, without limitation, all fees and charges of external legal counsel for the Agent, Collateral Monitor, and each Bank) incurred by the Agent, Collateral Monitor, or any Bank in connection with the performance, or enforcement of this Agreement, the Notes, or any other Loan Documents. Borrower agrees to indemnify the Agent, Collateral Monitor, each Letter of Credit Issuing Bank and each Bank and their respective directors, officers, employees and agents (collectively, the "Indemnified Persons), from, and hold each of them harmless against, any and all losses, liabilities, claims, damages or expenses incurred by any of them arising out of or by reason of any investigation or litigation or other proceedings

(including any threatened investigation or litigation or other proceedings) relating to any actual or proposed use by Borrower of the proceeds of the Revolving Credit Loans or the Letters of Credit or to any violation or alleged violation of any Environmental Law by Borrower or any Guarantor, including without limitation, the reasonable fees and disbursements of counsel incurred in connection with any such investigation or litigation or other proceedings (but excluding any such losses, liabilities, claims, damages or expenses incurred by reason of the gross negligence or willful misconduct of any Indemnified Person or any other Indemnified Person of which such Indemnified Person is an affiliate or agent).

The obligations of Borrower under this Section shall survive the repayment of the Obligations and all amounts due under or in connection with any of the Loan Documents and the termination of the Commitments.

-65-

Section 14.04 Assignment; Participation; Additional Bank.

(a) This Agreement shall be binding upon, and shall inure to the benefit of, Borrower, the Guarantors, the Agent, the Letter of Credit Issuing Bank and their respective successors and permitted assigns. No Borrower or Guarantor may assign or transfer its rights or obligations hereunder (and any attempted assignment or transfer by the Borrower or any Subsidiary signatory hereto without such consent shall be null and void). Nothing in this Agreement, expressed or implied, shall be construed to confer upon any Person (other than the parties hereto) and their respective successors and assigns permitted hereby (including any Affiliate of the Letter of Credit Issuing Bank that issues any Letter of Credit) any legal or equitable right, remedy or claim under or by reason of this Agreement.

(b) Any Bank may assign to one or more assignees all or a portion of its rights and obligations under this Agreement (including all or a portion of its Commitment and the Revolving Credit Loans and other Obligations at the time owing to it); provided that (i) except in the case of an assignment to a Bank or an Affiliate of a Bank, each of the Borrower and the Agent must give their prior written consent to such assignment (which consent shall not be unreasonably withheld), (ii) except in the case of an assignment to a Bank or an Affiliate of a Bank or an assignment of the entire remaining amount of the assigning Bank's Commitment, the amount of the Commitment of the assigning Bank subject to each such assignment (determined as of the date the Assignment and Acceptance with respect to such assignment is delivered to the Agent) shall not be less than \$10,000,000 unless each of the Borrower and the Agent otherwise consent, (iii) each partial assignment shall be made as an assignment of a proportionate part of all the assigning Bank's rights and obligations under this Agreement, (iv) the parties to each assignment shall execute and deliver to the Agent an Assignment and Acceptance, together with a processing and recordation fee of \$3,500, and (v) the assignee, if it shall not be a Bank, shall deliver to the Agent an administrative questionnaire in form and substance reasonably satisfactory to the Agent; and provided further that any consent of the Borrower otherwise required under this paragraph shall not be required if an Event of

Default has occurred and is continuing. Subject to acceptance and recording thereof pursuant to paragraph (d) of this Section, from and after the effective date specified in each Assignment and Acceptance the assignee thereunder shall be a party hereto and, to the extent of the interest assigned by such Assignment and Acceptance, have the rights and obligations of a Bank under this Agreement, and the assigning Bank thereunder shall, to the extent of the interest assigned by such Assignment and Acceptance, be released from its obligations under this Agreement (and, in the case of an Assignment and Acceptance covering all of the assigning Bank's rights and obligations under this Agreement, such Bank shall cease to be a party hereto but shall continue to be entitled to the benefits of Article XIII hereof and Section 14.03 hereof). Any assignment or transfer by a Bank of rights or obligations under this Agreement that does not comply with this paragraph shall be treated for purposes of this Agreement as a sale by such Bank of a participation in such rights and obligations in accordance with paragraph (e) of this Section.

(c) The Agent, acting for this purpose as an agent of the Borrower, shall maintain at one of its offices in the City of New York a copy of each Assignment and Acceptance delivered to it and a register for the recordation of the names and addresses of the Bank's, and the Commitment of, and principal amount of the Obligations owing to, each Bank pursuant to the terms hereof from time to time (the "Register"). The entries in the Register shall be conclusive, and the Borrower, the Agent, the Letter of Credit Issuing Bank and the Banks may treat each Person whose name is recorded in the Register pursuant to the terms hereof as a Bank hereunder for all purposes of this Agreement, notwithstanding notice to the contrary. The Register shall be available for inspection by the Borrower, the Agent and any Bank, at any reasonable time and from time to time upon reasonable prior notice.

-66-

(d) Upon its receipt of a duly completed Assignment and Acceptance executed by an assigning Bank and an assignee, the assignee's completed administrative questionnaire (unless the assignee shall already be a Bank hereunder), the processing and recordation fee referred to in paragraph (b) of this Section and any written consent to such assignment required by paragraph (b) of this Section, the Agent shall accept such Assignment and Acceptance and record the information contained therein in the Register. No assignment shall be effective for purposes of this Agreement unless it has been recorded in the Register as provided in this paragraph.

(e) Any Bank may at any time grant to one or more banks or other institutions (each a "Participant") participating interests in its portion of the Revolving Credit Loans and the Participation. In the event of any such grant by a Bank of a participating interest to a Participant, such Bank shall remain responsible for the performance of its obligations hereunder, and Borrower and the Agent shall continue to deal solely and directly with such Bank in connection with such Bank's rights and obligations hereunder. Any agreement pursuant to which any Bank may grant such a participating interest shall provide that such Bank shall retain the sole right and responsibility to enforce the obligations of Borrower and the Guarantors hereunder and under any other Loan



Document including, without limitation, the right to approve any amendment, modification or waiver of any provision of this Agreement or any other Loan Document; provided that, such participation agreement may provide that such Bank will not agree to any modification, amendment or waiver of this Agreement that would require the consent of all Banks under Sections 14.01 (a) through (g) hereof without the consent of the Participant.

(f) A Participant shall not be entitled to receive any greater payment under Article XIII hereof than the applicable Bank would have been entitled to receive with respect to the participation sold to such Participant, unless the sale of the participation to such Participant is made with the Borrower's prior written consent. If a Participant is a Foreign Lender such Participant shall, for the benefit of the Borrower, comply with Section 12.13 hereof as though it were a Bank.

(g) Any Bank may at any time pledge or assign a security interest in all or any portion of its rights under this Agreement to secure obligations of such Bank, including any pledge or assignment to secure obligations to a Federal Reserve Bank, and this Section shall not apply to any such pledge or assignment of a security interest; provided that no such pledge or assignment of a security interest shall release a Bank from any of its obligations hereunder or substitute any such pledgee or assignee for such Bank as a party hereto.

Section 14.05 Notices. Unless the party to be notified otherwise notifies the other party in writing as provided in this Section, and except as otherwise provided in this Agreement, notices shall be given to the Agent by telephone, confirmed by telex, telecopy or other writing, and to the Banks and to Borrower by ordinary mail, telecopy or telex addressed to such party at its address on the signature page of this Agreement. Copies of notices mailed to Borrower should also be mailed by ordinary mail to Willkie, Farr & Gallagher, 787 Seventh Avenue, New York, NY 10019, Attention: Steven J. Gartner, counsel to Borrower. Notices shall be effective: (a) if given by mail upon receipt; and (b) if given by telex, when the telex is transmitted to the telex number as aforesaid; provided that, notices to the Agent, and the Banks shall be effective upon receipt.

Section 14.06 Setoff; Sharing. Borrower agrees that, in addition to, and without limitation of any right of setoff, bankers' lien or counterclaim a Bank

-67-

may otherwise have, each Bank shall be entitled, at its option, to offset balances (general or special, time or demand, provisional or final) held by it for the account of Borrower at any of such Bank's offices, in Dollars or in any other currency, against any amount payable by Borrower to such Bank under this Agreement or such Bank's Note, or any other Loan Document which is not paid when due (regardless of whether such balances are then due to Borrower), in which case it shall promptly notify Borrower and the Agent thereof; provided that, such Bank's failure to give such notice shall not affect the validity thereof. Each Bank agrees that to the extent any such payment is received by it as the result of a set-off or otherwise and such payment results in such Bank receiving



a greater payment than it would have been entitled to, had the total amount of such payment been paid directly to the Agent for disbursement to the Banks, then such Bank shall immediately purchase for cash from the other Banks participations in the loans sufficient in amount so that such payment shall effectively be shared pro rata with the other Banks in accordance with the amount, and to the extent, of their respective interests in all the Revolving Credit Loans; provided however, that if all or any portion of such payment is thereafter recovered from such Bank at any time, the purchase shall be rescinded and the purchase price returned to the extent of such recovery, but without interest or other return thereof.

Section 14.07 Jurisdiction; Immunities. Borrower and each Guarantor hereby irrevocably submit to the jurisdiction of any New York State or United States Federal court sitting in New York City over any action or proceeding arising out of or relating to this Agreement, the Notes, the Letters of Credit, or any other Loan Document, and Borrower and each Guarantor hereby irrevocably agree that all claims in respect of such action or proceeding may be heard and determined in such New York State or Federal court. Borrower and each Guarantor irrevocably consent to the service of any and all process in any such action or proceeding by the mailing of copies of such process to Borrower and each Guarantor at their respective addresses specified in Section 14.05 hereof. Borrower and each Guarantor agree that a final non-appealable judgment in any such action or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law. Borrower and each Guarantor further waive any objection to venue in such State and any objection to an action or proceeding in such State on the basis of forum non conveniens. Borrower and each Guarantor agree that any action or proceeding brought against the Agent or any Bank shall be brought only in New York State or United States Federal Court sitting in New York County.

Nothing in this Section 14.07 hereof shall affect the right of the Agent or any Bank to serve legal process in any other manner permitted by law or affect the right of the Agent or any Bank to bring any action or proceeding against any of Borrower or any Guarantor or their property in the courts of any other jurisdictions.

To the extent that Borrower or any Guarantor has or hereafter may acquire any immunity from jurisdiction of any court or from any legal process (whether from service or notice, attachment prior to judgment, attachment in aid of execution, execution or otherwise) with respect to itself or its property, Borrower and each Guarantor hereby irrevocably waive such immunity in respect of its obligations under this Agreement, the Notes, and any other Revolving Credit Loan Document.

Section 14.08 Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of New York applicable to agreements made and to be performed entirely within such State.

Section 14.09 Counterparts. This Agreement may be executed by the parties hereto in separate counterparts, each of which, when so executed and delivered, shall be an original, but all such counterparts shall together constitute one and the same instrument. Each counterpart may consist of a number of copies hereof, each signed by less than all, but together signed by all of the parties hereto.

Section 14.10 Exhibits and Schedules. The Exhibits and Schedules are a part of this Agreement as if fully set forth herein.

Section 14.11 Table of Contents; Headings. The headings in the Table of Contents and in this Agreement are for reference only, and shall not affect the interpretation or construction of this Agreement.

Section 14.12 Severability. If any word, phrase, sentence, paragraph, provision or section of this Agreement shall be held, declared, pronounced or rendered invalid, void, unenforceable or inoperative for any reason by any court of competent jurisdiction, governmental authority, statute or otherwise, such holding, declaration, pronouncement or rendering shall not adversely affect any other word, phrase, sentence, paragraph, provision or section of this Agreement, which shall otherwise remain in full force and effect and be enforced in accordance with its terms.

Section 14.13 Integration. The Loan Documents set forth the entire agreement among the parties hereto relating to the transactions contemplated thereby and supersede any prior oral or written statements or agreements with respect to such transactions.

Section 14.14 Jury Trial Waiver. The Agent, the Banks, Borrower and its Restricted Subsidiaries each waive any right it may have to a jury trial in any action or proceeding which pertains directly or indirectly to this Agreement, the Obligations, the Collateral or, in any way, directly or indirectly, arises out of or relates to the relationship between or among Borrower, the Restricted Subsidiaries, the Agent and the Banks.

Section 14.15 Spin-off of HIL. Notwithstanding anything to the contrary contained in this Agreement or any other Loan Document, if the Borrower at any time provides written evidence to Agent, in form and substance reasonably satisfactory to Agent, that an HIL Spin-off Transaction is expected to occur, no consent (except as qualified by the proviso set forth below) shall be required from any Bank, Letter of Credit Issuing Bank or Agent in order for Borrower to consummate such HIL Spin-off Transaction and upon consummation of such HIL Spin-off Transaction, Agent, Letter of Credit Issuing Bank and each Bank agree to (i) release HIL from its Guaranty, (ii) terminate any Lien Agent may have in the Intercompany Demand Note and in connection with such termination return the original Intercompany Demand Note in its possession to Borrower (it being understood that Borrower, in its sole and absolute discretion, may forgive such Intercompany Demand Note in connection with such transaction) and (iii) permit the Borrower to advance to HIL amounts sufficient to fund certain of HIL's unfunded commitments relating to real property owned by HIL as long as after giving effect to such advance the Borrower remains in compliance with Section

9.10(ii) hereof; provided, that, the consent provided above is conditioned on (x) Agent's being furnished a copy of an opinion as to the fairness of such transaction, which opinion shall opine, among other things, that the value of the sale is fair in light of the values attributed to HIL's underlying assets and shall otherwise be in form and substance reasonably satisfactory to Agent, (y) the Agent's receipt of a certificate from an authorized officer of the Borrower confirming that neither the Borrower nor any of its Subsidiaries shall have any guarantees (or similar contingent obligations) outstanding with respect to any obligations of HIL after the consummation of such transaction and (z) there being no Default at the time of such HIL Spin-off Transaction.

-69-

Section 14.16 HSBC. Notwithstanding the definition of the name "HSBC" and notwithstanding anything to the contrary contained in this Agreement or any other Loan Document, no obligations of HSBC Bank USA as Agent or HSBC Bank USA as Letter of Credit Issuing Bank may be delegated to any Affiliate of HSBC Bank USA (other than in compliance with Section 3.12) unless such Affiliate has the same or better credit rating as HSBC Bank USA based on the credit rating assigned by Moody's Investors Service, Inc. or Standard & Poor's Ratings Group (a division of The McGraw Hill Companies, Inc.) (or any successor or assignee of the business of each such company in the business of rating securities credit rating).

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-70-

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by the respective officers hereunder duly authorized as of the day and year first above written.

HAMPSHIRE GROUP, LIMITED, as a Borrower,  
a Letter of Credit Account Party and a Guarantor

By: /s/ Charles W. Clayton

-----  
Name: Charles W. Clayton  
Title: Secretary and Treasurer

HAMPSHIRE DESIGNERS, INC., as a Letter of Credit  
Account Party and a Guarantor

By: /s/ William W. Hodge

-----  
Name: William W. Hodge  
Title: Vice President and Chief Financial Officer

HAMPSHIRE INVESTMENTS, LIMITED,  
as a Guarantor

By: /s/ Charles W. Clayton

-----  
Name: Charles W. Clayton  
Title: Vice President, Secretary and Treasurer

GLAMOURETTE FASHION MILLS, INC.,  
as a Guarantor

By: /s/ Charles W. Clayton

-----  
Name: Charles W. Clayton  
Title: Secretary and Treasurer

S-1 to Credit Agreement and Guaranty

ITEM-EYES , INC., as a Letter of Credit  
Account Party and a Guarantor

By: /s/ William W. Hodge

-----  
Name: William W. Hodge  
Title: Vice President

Address of Borrower, each Letter of Credit Account Party  
and each Guarantor for Notices:

c/o Hampshire Group, Limited  
215 Commerce Boulevard  
Anderson, South Carolina 29625  
Attention: Charles Clayton

S-2 to Credit Agreement and Guaranty

HSBC BANK USA , as a Bank, as Letter of Credit Issuing Bank  
(for all Letters of Credit other than Existing Letters of Credit)  
and as Agent

By: /s/ Ignatius Marotta

-----  
Name: Igantius Marotta  
Title: Vice President

Address for Notices:

HSBC Bank USA  
452 Fifth Avenue  
New York, New York 1 0018  
Attention: Ignatius Marotta  
Fax Number: 212-525-5676

S-3 to Credit Agreement and Guaranty

THE CIT GROUP/COMMERCIAL SERVICES, INC.,  
as a Bank

By: /s/ Lisa Murakami

-----  
Name: Lisa Murakami  
Title: Vice President

Address for Notices:

The CIT Group/Commercial Services, Inc.  
1211 Avenue of the Americas  
New York, New York 10036  
Attention: Lisa Murakami  
Fax Number: (212) 382-6814

S-4 to Credit Agreement and Guaranty

JPMORGAN CHASE BANK, as a Bank and as Letter of Credit Issuing  
Bank (for the Existing Letters of Credit)

By: /s/ James A. Knight

-----  
Name: James A. Knight

Title: Vice President

Address for Notices:

JPMorgan Chase Bank  
1411 Broadway, 5th Floor  
New York, New York 10018  
Attention: James A. Knnight  
Fax Number: (212) 391-2102

S-5 to Credit Agreement and Guaranty

FLEET NATIONAL BANK, as a Bank

By: /s/ Cynthia Selover

-----  
Name: Cynthia Selover

Title: Vice President

Address for Notices:



Fleet National Bank  
1185 Avenue of the Americas  
New York, New York 10036  
Attention:  
Fax Number:

S-6 to Credit Agreement and Guaranty

ISRAEL DISCOUNT BANK OF NEW YORK, as a Bank

By: /s/ Matilde Reyes

-----  
Name: Matilde Reyes  
Title: Vice President

Address for Notices:

Israel Discount Bank of New York  
511 Fifth Avenue  
New York, New York 10017  
Attention: Howard Weinberg  
Fax Number: (212) 551-8720

S-7 to Credit Agreement and Guaranty

BANK OF AMERICA, N.A., as a Bank

By: /s/ Matthew S. Cardone

-----  
Name: Matthew S. Cardone  
Title: Senior Vice President

Address for Notices:

Bank of America, N.A.  
P.O. Box 608  
Greenville, South Carolina 29602-0608  
Location Code SC 2-530--04-4  
Attention: Matthew S. Cardone  
Fax Number: (864) 271-5836

S-8 to Credit Agreement and Guaranty

EXHIBIT 10.7

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HAMPSHIRE GROUP, LIMITED

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AMENDMENT NO. 3 TO NOTE PURCHASE AGREEMENTS  
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DATED AS OF AUGUST 19, 2003

\$15,000,000 SENIOR SECURED NOTES DUE JANUARY 2, 2008

Hampshire Group, Limited

\$15,000,000 Senior Secured Notes Due January 2, 2008

AMENDMENT NO. 3 TO NOTE PURCHASE AGREEMENTS

As of August 19, 2003

To each of the Current Noteholders  
Named in Annex 1 hereto:

Ladies and Gentlemen:

HAMPSHIRE GROUP, LIMITED, a Delaware corporation (together with any successors and assigns, the "Company"), HAMPSHIRE DESIGNERS, INC., a Delaware corporation, and each of HAMPSHIRE INVESTMENTS, LIMITED, a Delaware corporation (together with its permitted successors, "HIL"), GLAMOURETTE FASHION MILLS,

INC., a Delaware corporation, and ITEM EYES, INC., a Delaware corporation (the foregoing Persons other than the Company being referred to herein individually as a "Guarantor" and collectively as the "Guarantors"; the Company and the Guarantors (other than HIL) being referred to herein individually as an "Obligor" and collectively as the "Obligors"), hereby agree, jointly and severally, with each of you as follows:

1. PRIOR ISSUANCE OF NOTES, ETC.

The Company issued and sold \$15,000,000 in aggregate principal amount of its Adjustable Rate Senior Secured Notes (formerly called 7.05% Senior Secured Notes) due January 2, 2008 (as may be amended, restated or otherwise modified from time to time, the "Notes", such term to include any such notes issued in substitution therefor pursuant to Section 14 of any of the Note Purchase Agreements) pursuant to the separate Note Purchase Agreements, each dated as of May 15, 1998, among the Company, the Guarantors and the purchasers named in Schedule A thereto (the "Original Note Purchase Agreements"). The Original Note Purchase Agreements were amended by Amendment No. 1 to Note Purchase Agreements dated as of May 15, 1998 and Other Financing Documents, which amendment was dated as of September 5, 2000 ("Amendment No. 1") and by Amendment No. 2 to Note Purchase Agreements, which amendment was dated as of March 31, 2002 ("Amendment No. 2", and the Original Note Purchase Agreements as amended by Amendment No. 1 and Amendment No. 2 and as in effect immediately prior to giving effect to the amendments provided for by this Amendment No. 3 to Note Purchase Agreements (this "Agreement") are referred to herein as the "Existing Note Purchase Agreements" and, as may be amended pursuant to this Agreement and as may be further amended, restated or otherwise modified from time to time, the "Note Purchase Agreements"). The register kept by the Company for the registration and transfer of the Notes indicates that each of the Persons named in Annex 1 hereto (collectively, the "Current Noteholders") is currently a holder of the aggregate principal amount of the Notes indicated in such Annex.

2. REQUEST FOR AMENDMENTS, CONSENT AND RELEASE.

The Company requests that each of the Current Noteholders (a) agree to the amendments (the "Amendments") to the Existing Note Purchase Agreements set forth in Exhibit A hereto, (b) consent (the "Consent") to the execution and delivery by the Company and the Guarantors of that certain Credit Agreement and Guaranty (the "HSBC Credit Agreement") dated as of the date hereof among the Company and the Guarantors and HSBC Bank USA, as agent and lender, and the other lenders party thereto and substantially in the form of Exhibit B hereto to the extent that such consent is required by the terms of the Existing Note Purchase Agreements and the other Financing Documents and (c) release (the "Release") the assignments to the Collateral Agent of benefits due under life insurance policies which the Company maintains upon the lives of Martin H. Axman and Ludwig Kuttner.

3. WARRANTIES AND REPRESENTATIONS.

To induce the Current Noteholders to enter into this Agreement and to agree to the Amendments, the Consent and the Release, the Company warrants and

represents as follows (it being agreed, however, that nothing in this Section 3 shall affect any of the warranties and representations previously made by the Company in or pursuant to the Existing Note Purchase Agreements, and that all of such other warranties and representations, as well as the warranties and representations in this Section 3, shall survive the effectiveness of the Amendments, the Consent and the Release).

### 3.1. Organization; Power and Authority.

Each Obligor and HIL is a corporation, duly organized, validly existing and in good standing under the laws of its jurisdiction of incorporation, and each is duly qualified as a foreign corporation and is in good standing (to the extent such concept is recognized) in each jurisdiction in which such qualification is required by law, other than those jurisdictions as to which the failure to be so qualified or in good standing could not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect. Each Obligor and HIL has the corporate power and authority to own or hold under lease the properties it purports to own or hold under lease, to transact the business it transacts and proposes to transact, to execute and deliver this Agreement and to perform the provisions hereof.

### 3.2. Authorization, etc.

This Agreement has been duly authorized by all necessary corporate action on the part of the Company and each of the Guarantors, and this Agreement constitutes and, upon execution and delivery thereof, will constitute, a legal, valid and binding obligation of the Company and each of the Guarantors enforceable against the Company and each of the Guarantors in accordance with its terms, except as such enforceability may be limited by (i) applicable bankruptcy, insolvency, reorganization, fraudulent conveyance, moratorium or other similar laws affecting the enforcement of creditors' rights generally and (ii) general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

-2-

### 3.3. No Material Adverse Change.

Since the date of the most recent audited financial statements of the Company delivered to the Current Noteholders, there has been no change in the business operations, profits, financial condition, properties or business prospects of the Company except changes that, in the aggregate, could not reasonably be expected to have a Material Adverse Effect.

### 3.4. Full Disclosure.

Neither the financial statements and other certificates previously provided to the Current Noteholders pursuant to the provisions of the Existing Note Purchase Agreements nor the statements made in this Agreement nor any other written statements furnished by or on behalf of the Company to the Current Noteholders in connection with the proposal and negotiation of the Amendments,

the Consent or the Release, taken as a whole, contain any untrue statement of a material fact or omit a material fact necessary to make the statements contained therein and herein not misleading. There is no fact relating to any event or circumstance that has occurred or arisen since the date of the Closing that the Company has not disclosed to the Current Noteholders in writing that has had or, so far as the Company can now reasonably foresee, could reasonably be expected to have, a Material Adverse Effect.

### 3.5. Intent.

Neither the Company nor any Guarantor is entering into the transactions contemplated by this Agreement and the HSBC Credit Agreement with any intent to hinder, delay or defraud either current creditors or future creditors of the Company or any Guarantor.

### 3.6. No Defaults.

No event has occurred and no condition exists that, upon the execution and delivery of this Agreement and the effectiveness of the Amendments, the Consent and the Release, would constitute a Default or an Event of Default.

### 3.7. Guaranties of Subsidiaries.

There is no Subsidiary that, in accordance with Section 10.7 of the Existing Note Purchase Agreements, should have become a Guarantor under the Note Purchase Agreements, but has not executed and delivered the requisite documents, as required by such Section, to become a Guarantor under the Note Purchase Agreements. All Subsidiaries are listed on the signature pages hereto.

### 3.8. HSBC Credit Agreement.

The Company has delivered to each of the Current Noteholders a true and correct copy of the HSBC Credit Agreement. Each of the representations and warranties contained in Article VII of the HSBC Credit Agreement are true and correct as of the date hereof.

-3-

## 4. AMENDMENTS; CONSENT; RELEASE.

### 4.1. Amendment to Existing Note Purchase Agreements; Consent; Release.

Subject to Section 4.2 of this Agreement, the Current Noteholders and the Company hereby agree to each of the Amendments, the Consent and the Release.

### 4.2. Effectiveness of the Amendments, the Consent and the Release.

The Amendments, the Consent and the Release contemplated by Section 4.1 shall, in accordance with Section 18.1 of the Existing Note Purchase Agreements, become effective as of the date first written above (the date of such effectiveness is herein referred to as the "Effective Date"), if at all, at such



time as the Company and the Current Noteholders shall have indicated their written consent to the Amendments, the Consent and the Release by executing and delivering the applicable counterparts of this Agreement. It is understood that any Current Noteholder may withhold its consent for any reason or for no reason, and that, without limitation of the foregoing, any Current Noteholder hereby makes the granting of its consent contingent upon satisfaction of each of the following conditions:

(a) each of the Current Noteholders shall have received true and correct copies of the fully executed HSBC Credit Agreement substantially in the form of Exhibit B hereto;

(b) that certain Intercreditor Agreement dated as of the date hereof among HSBC Bank USA, each of the other lenders under the HSBC Credit Agreement and the Current Noteholders and acknowledged and agreed to by the Obligors shall have been fully executed and delivered substantially in the form of Exhibit C hereto;

(c) each of the representations and warranties set forth in Section 3 hereof shall be true and correct as of the Effective Date;

(d) each of the conditions precedent set forth in Section 6.01 of the HSBC Credit Agreement shall have been fully satisfied;

(e) the Company shall have paid the fees and disbursements of special counsel to the Current Noteholders reflected on a statement delivered in connection with the execution and delivery of this Agreement to the Company; and

(f) each of the Current Noteholders shall have received any additional information, certification or other item as such Current Noteholder shall have reasonably requested on or before the Effective Date.

#### 4.3. No Other Amendments; Confirmation.

Except as expressly provided herein, (a) no terms or provisions of any agreement are modified or changed by this Agreement, (b) the terms of this Agreement shall not operate as a waiver by any Current Noteholder of, or otherwise prejudice any Current Noteholder's rights, remedies or powers under,

-4-

the Existing Note Purchase Agreements or any other Financing Document or under any applicable law, and (c) the terms and provisions of the Existing Note Purchase Agreements and each other Financing Document shall continue in full force and effect.

#### 5. DEFINED TERMS.

Capitalized terms used herein and not otherwise defined herein shall have the meanings ascribed to them in the Existing Note Purchase Agreements.

6. EXPENSES.

Whether or not any of the Amendments, the Consent or the Release becomes effective, the Company will promptly (and in any event within thirty (30) days of receiving any statement or invoice therefor) pay all fees, expenses and costs relating to this Agreement, including, but not limited to, (a) the reasonable cost of reproducing this Agreement and the other documents delivered in connection herewith and (b) the reasonable fees and disbursements of the Current Noteholders' special counsel, Bingham McCutchen LLP, incurred in connection with the preparation, negotiation and delivery of this Agreement. This Section 6 shall not be construed to limit the Company's obligations under Section 16.1 of the Note Purchase Agreements.

7. MISCELLANEOUS.

7.1. Part of Note Purchase Agreements, Future References, etc.

This Agreement shall be construed in connection with and as a part of each of the Existing Note Purchase Agreements and, except as expressly amended by this Agreement, all terms, conditions and covenants contained in the Existing Note Purchase Agreements and the other Financing Documents are hereby ratified and shall be and remain in full force and effect. Any and all notices, requests, certificates and other instruments executed and delivered after the execution and delivery of this Agreement may refer to the Note Purchase Agreements without making specific reference to this Agreement, but nevertheless all such references shall include this Agreement unless the context otherwise requires.

7.2. Governing Law.

THIS AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED AND ENFORCED IN ACCORDANCE WITH, THE LAW OF THE STATE OF NEW YORK, UNITED STATES OF AMERICA, EXCLUDING CHOICE-OF-LAW PRINCIPLES OF THE LAW OF SUCH STATE THAT WOULD REQUIRE THE APPLICATION OF THE LAWS OF A JURISDICTION OTHER THAN SUCH STATE.

7.3. Duplicate Originals, Execution in Counterpart.

Two (2) or more duplicate originals hereof may be signed by the parties, each of which shall be an original but all of which together shall constitute one and the same instrument. This Agreement may be executed in one or more counterparts and shall become effective at the time provided in Section 4.2

-5-

hereof, and each set of counterparts that, collectively, show execution by the Company and each consenting Current Noteholder shall constitute one duplicate original. Delivery of a facsimile of an executed signature page hereto shall be effective as delivery of an original.

7.4. Binding Effect.

This Agreement shall be binding upon and shall inure to the benefit of the Company and the Current Noteholders and their respective successors and assigns.

[Remainder of page intentionally left blank. Next page is signature page.]

-6-

If this Agreement is satisfactory to you, please so indicate by signing the applicable acceptance on a counterpart hereof and returning such counterpart to the Company, whereupon this Agreement shall become binding among you, the Obligors and HIL in accordance with its terms.

Very truly yours,

HAMPSHIRE GROUP, LIMITED

By: /s/ Charles W. Clayton

-----  
Name: Charles W. Clayton

Title: Treasurer

Accepted:

PHOENIX LIFE INSURANCE COMPANY

By: /s/ Michael E. Haylon  
-----

Name: Michael E. Haylon

Title: Executive Vice President and Chief Investment Officer

THE OHIO NATIONAL LIFE INSURANCE COMPANY

By: /s/ Jed R. Martin  
-----

Name: Jed R. Martin

Title: Investment Vice President, Private Placements

[Signature Page to Amendment No. 3 to Note Purchase Agreements]

Each undersigned Guarantor hereby consents to the Amendments and confirms its obligations as Guarantor under the Note Purchase Agreements:

HAMPSHIRE DESIGNERS, INC.

By: /s/ William W. Hodge  
-----

Name: William W. Hodge

Title: Vice President

HAMPSHIRE INVESTMENTS, LIMITED

By: /s/ Charles W. Clayton  
-----

Name: Charles W. Clayton

Title: Treasurer

GLAMOURETTE FASHION MILLS, INC.

By: /s/ Charles W. Clayton  
-----

Name: Charles W. Clayton  
Title: Treasurer

ITEM-EYES, INC.  
(formerly VINTAGE III, INC.)

By: /s/ William W. Hodge

-----  
Name: William W. Hodge  
Title: Vice President

[Signature Page to Amendment No. 3 to Note Purchase Agreements]

ANNEX 1

CURRENT NOTEHOLDERS AND PRINCIPAL AMOUNTS

Name of Current Noteholder	Aggregate Principal Amount of Notes Held
-----	-----
Phoenix Life Insurance Company	\$5,625,000
-----	-----
The Ohio National Life Insurance Company	\$2,812,500
-----	-----

AMENDMENTS

1. Section 10.2 of the each of the Existing Note Purchase Agreements is hereby amended and restated in its entirety to read as follows:

10.2 Insurance.

The Company will and will cause each of its Restricted Subsidiaries to, maintain, with financially sound and reputable insurers, insurance with respect to their respective properties and businesses against such casualties and contingencies, of such types, on such terms and in such amounts (including deductibles) as is customary in the case of entities of established reputations engaged in the same or a similar business and similarly situated, provided that nothing in this Section 10.2 shall affect or reduce the obligations of the Company under section 3D of the Security Agreements with respect to the Collateral.

2. Section 11.1 of the each of the Existing Note Purchase Agreements is hereby amended and restated in its entirety to read as follows:

11.1 Transactions with Affiliates.

The Company will not and will not permit any Restricted Subsidiary to enter into directly or indirectly any Material transaction or Material group of related transactions (including, without limitation, the purchase, lease, sale or exchange of properties of any kind or the rendering of any service) with any Affiliate (other than the Company or a Restricted Subsidiary), except in the ordinary course and pursuant to the reasonable requirements of the Company's or such Restricted Subsidiary's business and upon fair and reasonable terms no less favorable to the Company or such Restricted Subsidiary than would be obtainable in a comparable arm's-length transaction with a Person not an Affiliate and except that (a) the Company may make loans and provide equity capital to HIL from time to time pursuant to the reasonable requirements of HIL's and the Company's businesses, upon such terms as the Board of Directors have determined, in good faith, are appropriate and in the best interests of HIL and the Company and so long as the making of such loans and provision of equity capital comply with the terms of Section 11.10(a) and (b) the Company may incur and have outstanding HIL Subordinated Debt.

3. Section 11.3 of the each of the Existing Note Purchase Agreements is hereby amended and restated in its entirety to read as follows:

Exhibit A-1

11.3 Consolidated Adjusted Tangible Net Worth.

The Company will not at any time permit Consolidated Adjusted Tangible Net Worth, determined as of the end of the fiscal quarter of the Company then most recently ended, to be less than the sum of

(a) \$56,000,000, plus

(b) the sum of the Fiscal Year Net Worth Increase Amounts for all fiscal years of the Company the last day of which occurred during the period beginning January 1, 2003 and ending at such time.

As used in Section 11.3, "Fiscal Year Net Worth Increase Amount" means, for any fiscal year of the Company, the greater of

(i) 50% of Consolidated Adjusted Net Income for such fiscal year and

(ii) \$0.

4. Section 11.9(a) (iii) of the each of the Existing Note Purchase Agreements is hereby amended and restated in its entirety to read as follows:

(iii) (A) such Transfer is subject to Section 11.2 and satisfies the requirements thereof or (B) the property that is the subject of such Transfer constitutes solely the capital stock or other equity interests of HIL so long as HIL has no Subsidiaries which are Restricted Subsidiaries at the time of such Transfer; or

5. Section 11.10 of each of the Existing Note Purchase Agreements is hereby amended and restated in its entirety to read as follows:

11.10 Restricted Payments and Restricted Investments.

(a) Restricted Investments. The Company will not, and will not permit any Restricted Subsidiary to, make any Restricted Investment other than (a) Restricted Investments existing and outstanding on June 30, 2003 (which the Company represents were valued at \$29,844,169 as of such date); and (b) Restricted Investments in HIL so long as (i) the aggregate cost of such Restricted Investments in HIL then outstanding does not exceed \$40,000,000 at any time and (ii) at the



time of each such Restricted Investment, HIL is a Wholly-Owned Subsidiary.

(b) Restricted Payments. The Company will not, and will not permit any Restricted Subsidiary to, declare or make any Restricted Payment, other than, (a) so long as no Default or Event of Default exists and is continuing, on or after August 31, 2003, the Company may repurchase its own stock (which upon such purchase shall be held as treasury stock) in an aggregate amount not to exceed \$1,500,000 and (b) redemption of up to 800,000 shares of the common stock of the Company in exchange for the capital stock or assets of HIL so long as (i) no Default or Event of Default exists and is continuing immediately before and/or after the consummation of such redemption

#### Exhibit A-2

and exchange and (ii) the Company shall have received (and promptly delivered a copy to each of the holders) from a recognized investment bank or other similar financial institution a customary form fairness opinion with respect to the fairness of such redemption and exchange in relation to the interests of the Company.

6. Schedule B of the Existing Note Purchase Agreements is hereby amended by amending and restating the following terms in their entirety to read as follows:

Consolidated Funded Debt -- means, at any time, the aggregate amount of all Funded Debt of the Company and the Restricted Subsidiaries determined on a consolidated basis in accordance with GAAP (including, without limitation, any HIL Subordinated Debt).

Credit Agreement -- means that certain Credit Agreement and Guaranty, dated as of August 15, 2003, among the Company, the Guarantors, HSBC Bank USA, as agent and lender, and the other lenders party thereto.

7. Schedule B of the Existing Note Purchase Agreements is hereby amended by adding the following new term in the appropriate alphabetical order to read as follows:

HIL Subordinated Debt - means Debt of the Company owing to HIL so long as (a) the aggregate principal amount of such Debt does not exceed \$10,000,000 at any time, (b) HIL is a Subsidiary of the Company at all times during which the principal of or any other amount owing under such Debt is outstanding and (c) such Debt is fully subordinated to the payment and performance obligations of the Company under this Agreement and the other Financing Documents on the terms and conditions set forth in Exhibit 11.1 hereto or on terms and conditions otherwise acceptable to the holders of all of the Notes.

8. Schedule B of the Existing Note Purchase Agreements is hereby amended by deleting therefrom the term "Key-Person Policy".

9. The Existing Note Purchase Agreements are hereby amended by adding a new Exhibit 11.1 thereto to be in the form of Exhibit D hereto.

Exhibit A-3

EXHIBIT B

[HSBC CREDIT AGREEMENT]

Exhibit B-1

EXHIBIT C

[INTERCREDITOR AGREEMENT]

Exhibit C-1

EXHIBIT D

Exhibit 11.1

Form of Subordination Provisions

Each instrument, document or agreement representing HIL Subordinated Debt shall contain the following provisions regarding subordination:

The holder of this instrument (the "Subordinated Holder") by acceptance of this instrument agrees that the indebtedness evidenced by this instrument (whether for principal, interest, premium, fees, expenses or otherwise), and any renewals or extensions thereof, shall at all times and in all respects be subordinate and junior in right of payment to all Senior Debt (as defined below). As used herein, the term "Senior Debt" shall mean all indebtedness evidenced by each of the Adjustable Rate Senior Secured Notes (formerly called 7.05% Senior Secured Notes), dated May 15, 1998 in favor of the holder named therein or any assignee or successor thereof as may be amended, modified or restated from time to time (collectively, the "Notes") in each case issued by Hampshire Group, Limited (the "Company") under and pursuant to the terms of the Company's Note Purchase Agreements (as amended by that certain Amendment No. 1 to Note Purchase Agreements dated as of May 15, 1998 and Other Financing Documents, dated as of September 5, 2000, that certain Amendment No. 2 to Note Purchase Agreements, dated as of March 31, 2002, and that certain Amendment No. 3 to Note Purchase Agreements, dated as of August 19, 2003, and as may be further amended, modified or restated from time to time, collectively, the "Note Purchase Agreement"), dated as of May 15, 1998, with Phoenix Life Insurance Company and The Ohio National Life Insurance Company and including all principal, "Make-Whole Amount" (as such term is defined in the Note Purchase Agreement), fees, costs, expenses, and interest (including all interest accruing after the commencement of any bankruptcy or insolvency proceeding of the Company, whether or not permitted as an

allowed claim in such proceeding) in respect of the Notes, and all other amounts now or hereafter owed by the Company to any holder of the Notes pursuant to the terms of the Note Purchase Agreement or any other "Financing Document" (as such term is defined in the Note Purchase Agreement) or otherwise in connection therewith (including, without limitation, fees, premiums, costs and expenses), and all renewals, extensions, refinancings and refundings of any of such indebtedness.

Without limiting the effect of the foregoing, "subordinate" and "junior" as used herein shall include within their meanings the following:

that

(a) notwithstanding anything else to the contrary contained in this instrument or otherwise, so long as any Senior Debt is outstanding:

Exhibit D-1

(i) this instrument shall not be secured by any lien or security interest on property of the Company, any "Guarantor" (as such term is defined in the Note Purchase Agreement) or any other direct or indirect subsidiary of the Company; and

(ii) no payments or prepayments of principal, interest, costs, fees, expenses or any other amounts shall be due or payable on or in respect of this instrument and the Company shall not make any such payments or prepayments, at any time

(A) after the occurrence of a "Default" or an "Event of Default" (as such terms are defined in the Note Purchase Agreement), or if the effect of such payment was to create a Default or an Event of Default, unless such Default or Event of Default shall have been cured or waived or shall have ceased to exist and at least one hundred eighty (180) days shall have elapsed since the date such Default or Event of Default shall have been cured or waived or shall have ceased to exist, or

(B) after any such payment would be prohibited by the terms of any of the Note Purchase Agreement;

(b) in the event of any dissolution, winding up, liquidation, arrangement, reorganization, adjustment, protection, relief or composition of the Company, or any of its debts, whether voluntary or involuntary, in any bankruptcy, insolvency, arrangement, reorganization, receivership, relief or other similar case or proceeding under any federal or state bankruptcy or similar law or upon an assignment for the benefit of creditors or any other marshaling of the assets and liabilities of the Company,

then all principal, Make-Whole Amount, if any, and interest to the date of payment on all Senior Debt (including, without limitation, interest thereon accruing after the commencement of any such case or proceedings whether or not permitted as an allowed claim in such case or proceedings) shall first be finally and indefeasibly paid in full in cash before any payment (regardless of the form thereof) on account of principal, or premium, if any, or interest or other amount is made upon the indebtedness evidenced by this instrument and in such case or proceedings any payment or distribution of any kind or character, whether in cash or property or securities, that may be payable or deliverable in respect of this instrument shall be paid or delivered directly to the holders of Senior Debt for application, on a ratable basis, in payment thereof, unless and until all principal, Make-Whole Amount, if any, fees, costs, expenses and interest to the date of payment on all such Senior Debt shall have been finally and indefeasibly paid and satisfied in full (including, without limitation, interest thereon accruing after the commencement of any such case or proceedings, whether or not allowed as a claim in such case or proceedings) in cash;

Exhibit D-2

(c) in the event that any Senior Debt shall become and be due and payable before its expressed maturity for any reason (and by way of confirmation of clause (a) above), the Subordinated Holder shall be entitled to payment only after there shall first have been finally and indefeasibly paid in full in cash the Senior Debt outstanding at such time (including, without limitation, principal, interest, Make-Whole Amount, fees, costs, expenses and other amounts due in respect thereof); and

(d) unless final and indefeasible payment in full in cash shall have first been made on all Senior Debt (including, without limitation, principal, interest, Make-Whole Amount, fees, costs, expenses and other amounts due in respect thereof), the Subordinated Holder shall not

(i) institute any suit or make any demand for payment in respect of this instrument (and if any such suit or demand shall have been commenced or made, it shall immediately be suspended or withdrawn),

(ii) accelerate this instrument or otherwise implement or exercise any remedy it may have in respect of this instrument, or

(iii) institute against the Company, any Guarantor or

any other direct or indirect subsidiary of the Company, any bankruptcy, reorganization, arrangement, insolvency or liquidation case or proceedings, or any other case or proceedings under any United States federal or state bankruptcy or similar law.

In the event that, notwithstanding the provisions of this instrument prohibiting such payment or distribution, the Subordinated Holder shall receive or retain in violation of such provisions any payment or distribution of any kind or character (including, without limitation, any collateral), whether in cash, property or securities, including any such payment or distribution that may be payable or deliverable by reason of the payment of any other indebtedness of the Company subordinated to the indebtedness evidenced by this instrument, before all Senior Debt is finally and indefeasibly paid in full in cash, then and in such event such payment or distribution shall be received and held by the Subordinated Holder in trust for the benefit of the holders of Senior Debt, and shall be paid over or delivered, in the same form as so received (with any necessary endorsements), forthwith to the holders of Senior Debt, ratably in accordance with their respective interests, for application to the payment or prepayment in full of all Senior Debt remaining unpaid, to the extent necessary to pay all Senior Debt in full, after giving effect to any concurrent payment or distribution to or for the holders of Senior Debt.

In the event that the Subordinated Holder does not file, within thirty (30) days before the expiration of the time for such filing, a proof of claim or other appropriate proof of debt in any insolvency or bankruptcy case or proceedings involving the Company, the holders of at least fifty-one percent

#### Exhibit D-3

(51%) in aggregate outstanding principal amount of the Senior Debt (or any trustee acting on their behalf) are hereby irrevocably authorized and empowered to file such proof of claim for or on behalf of the Subordinated Holder and to take any necessary action to collect any amounts due in respect of such claim in such case or proceeding. The holders of Senior Debt shall have the right, at their option, to vote any claim or claims in respect of this instrument in connection with any insolvency or bankruptcy case or proceedings involving the Company.

The Subordinated Holder shall be subrogated to the rights of the holders of Senior Debt at the time outstanding to receive payments and distributions of cash, property and securities applicable to the Senior Debt under these subordination provisions until all amounts payable for or on account of this instrument shall be paid in full; provided, however, that no payment or distribution to any holder of Senior Debt pursuant to these subordination provisions shall entitle the Subordinated Holder to exercise any rights of subrogation in respect thereof until all Senior Debt shall have been finally and indefeasibly paid in full in cash. For purposes of such subrogation, no payments or distributions to the holders of Senior Debt of any cash, property or securities to which the Subordinated Holder would be entitled except for these subordination provisions, shall, as among the Company, its creditors other than

holders of Senior Debt and the Subordinated Holder, be deemed to be a payment or distribution by the Company to or on account of Senior Debt.

No right of any present or future holder of any Senior Debt to enforce its rights under the subordination provisions of this instrument shall at any time in any way be prejudiced or impaired by any act or failure to act on the part of the Company or by any act or failure to act, in good faith, by any such holder, or by any non-compliance by the Company with the terms, provisions and covenants of this instrument or of any other instrument or document, regardless of any knowledge thereof any such holder may have or be otherwise charged with. Without in any way limiting the generality of the foregoing sentence, the holders of Senior Debt (or any trustee or other person acting on their behalf, including, without limitation, the "Collateral Agent" (as such term is defined in the Note Purchase Agreement)) may, at any time and from time to time, without the consent of or notice to the Subordinated Holder, without incurring responsibility to the Subordinated Holder and without impairing or releasing the subordination provided in this instrument or the obligations hereunder of the Subordinated Holder to the holders of Senior Debt, do any one or more of the following:

(1) change the manner, place or terms of payment or extend the time of payment of, or renew or alter, all or any of the Senior Debt, or otherwise amend or supplement in any manner any Senior Debt or any instrument evidencing the same or the Note Purchase Agreement or any other agreement under which Senior Debt is outstanding;

(2) sell, exchange, release, not perfect or otherwise deal with any property pledged, assigned or mortgaged to secure, or otherwise securing, Senior Debt;

Exhibit D-4

(3) release or substitute any Guarantor or any other guarantor of any of the Senior Debt;

(4) as holders of Senior Debt, exercise or refrain from exercising any rights against the Company, any Guarantor, any direct or indirect subsidiary of the Company or any other person; and

(5) apply or cause to be applied any sums from time to time received to the payment of the Senior Debt.

The Subordinated Holder, by its acceptance hereof, shall be conclusively presumed to have agreed that

(A) all holders of Senior Debt, in determining to acquire and retain Senior Debt, have relied upon the subordination of this instrument to the Senior Debt, and

(B) promptly upon request of any holder of Senior Debt, the Subordinated Holder shall execute and deliver to such holder of Senior Debt a written instrument by which such Subordinated Holder confirms



and agrees that this instrument is subordinate and junior in right of payment to such Senior Debt on the terms and conditions provided herein and take such other action as may be reasonably requested to protect the rights of the holders of Senior Debt.

The foregoing subordination provisions are solely for the purpose of defining the relative rights of the holders of Senior Debt on the one hand, and the Subordinated Holder on the other hand, and nothing herein shall impair, as between the Company and the Subordinated Holder, the obligation of the Company, which is unconditional and absolute, to pay to the Subordinated Holder the principal and interest on this instrument in accordance with its terms.

For the avoidance of doubt, any payment on or in respect of the Senior Debt other than in cash recovered or received by any holder of Senior Debt shall be treated as having not been paid for the purposes of this instrument.

The Company agrees, and the Subordinated Holder by accepting this instrument agrees, to the subordination and other provisions herein contained and each of the Company and the Subordinated Holder agrees that none of the terms or provisions of this instrument may be amended, modified or restated except as expressly permitted by, or in accordance with any waiver or consent granted pursuant to, the Note Purchase Agreement.

The Company and the Subordinated Holder acknowledge and agree that a violation of any of the terms of this instrument by either the Company or the Subordinated Holder will cause the holders of the Senior Debt irreparable injury for which adequate remedy at law is not available. Therefore, the Company and

#### Exhibit D-5

the Subordinated Holder agree that the holders of Senior Debt shall be entitled to an injunction, restraining order or other equitable relief from any court of competent jurisdiction, restraining the Company or the Subordinated Holder from committing any violations of the provisions of this instrument.

The Company and the Subordinated Holder hereby waive notice of (i) acceptance of this instrument and (ii) the occurrence of a Default or Event of Default under the Note Purchase Agreement and generally, all demands and notices of every kind in connection with the Note Purchase Agreement.

EACH OF THE HOLDERS OF SENIOR DEBT MAY ENFORCE ANY CLAIM ARISING OUT OF THIS INSTRUMENT IN ANY STATE OR FEDERAL COURT HAVING SUBJECT MATTER JURISDICTION AND LOCATED IN THE CITY OF NEW YORK, STATE OF NEW YORK. FOR THE PURPOSE OF ANY ACTION OR PROCEEDING INSTITUTED WITH RESPECT TO ANY SUCH CLAIM, THE COMPANY AND THE SUBORDINATED HOLDER HEREBY IRREVOCABLY SUBMIT TO THE JURISDICTION OF SUCH COURTS. THE COMPANY AND THE SUBORDINATED HOLDER IRREVOCABLY CONSENT TO THE SERVICE OF PROCESS OUT OF SAID COURTS BY MAILING A COPY THEREOF, BY REGISTERED MAIL, POSTAGE PREPAID, TO THE SUBORDINATED HOLDER AND AGREE THAT SUCH SERVICE, TO THE FULLEST EXTENT BY LAW, (I) SHALL BE DEEMED IN EVERY RESPECT EFFECTIVE SERVICE OF PROCESS UPON IT IN ANY SUCH SUIT, ACTION OR PROCEEDING AND (II) SHALL BE TAKEN AND HELD TO BE VALID PERSONAL SERVICE UPON AND PERSONAL DELIVERY TO IT.

NOTHING HEREIN CONTAINED SHALL AFFECT THE RIGHT OF ANY OF THE HOLDERS OF SENIOR DEBT TO SERVE PROCESS IN ANY OTHER MANNER PERMITTED BY LAW OR PRECLUDE ANY OF THE HOLDERS OF SENIOR DEBT FROM BRINGING AN ACTION OR PROCEEDING IN RESPECT HEREOF IN ANY OTHER COUNTRY, STATE OR PLACE HAVING JURISDICTION OVER SUCH ACTION. EACH OF THE COMPANY AND THE SUBORDINATED HOLDER HEREBY IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY LAW, ANY OBJECTION WHICH IT MAY HAVE OR HEREAFTER HAVE TO THE LAYING OF THE VENUE OF ANY SUCH SUIT, ACTION OR PROCEEDING BROUGHT IN ANY SUCH COURT LOCATED IN THE CITY OF NEW YORK, STATE OF NEW YORK AND ANY CLAIM THAT ANY SUCH SUIT, ACTION OR PROCEEDING BROUGHT IN SUCH COURT HAS BEEN BROUGHT IN ANY INCONVENIENT FORUM.

Exhibit D-6

EXHIBIT 31.1

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I, Ludwig Kuttner, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Hampshire Group, Limited;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to

record, process, summarize and report financial information; and

- b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date November 6, 2003

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/s/ Ludwig Kuttner

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Ludwig Kuttner  
Chief Executive Officer

EXHIBIT 31.2

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I, William W. Hodge, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Hampshire Group, Limited;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to

record, process, summarize and report financial information; and

- b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date November 6, 2003  
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/s/ William W. Hodge  
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William W. Hodge  
Chief Financial Officer

EXHIBIT 32

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Ludwig Kuttner, Chief Executive Officer of Hampshire Group, Limited and William W. Hodge, Chief Financial Officer of Hampshire Group, Limited, certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- 1) the Quarterly Report on Form 10-Q for the quarterly period ended September 27, 2003 which this statement accompanies fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and
- 2) the information contained in the Quarterly Report on Form 10-Q for the quarterly period ended September 27, 2003 fairly presents, in all material respects, the financial condition and results of operations of Hampshire Group, Limited.

Date November 6, 2003

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/s/ Ludwig Kuttner

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Ludwig Kuttner  
Chief Executive Officer

/s/ William W. Hodge

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William W. Hodge  
Chief Financial Officer