FORM 10-K

Annual report pursuant to section 13 and 15(d)

Filing Date: **1999-07-27** | Period of Report: **1999-04-30**
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FILER

HLM DESIGN INC

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SIC: **8700** Engineering, accounting, research, management

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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K
FOR ANNUAL AND TRANSITION REPORTS PURSUANT TO
SECTIONS 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

(MARK ONE)

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended April 30, 1999

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 number 001-14137

HLM DESIGN, INC.
(Exact Name of Registrant as Specified in Its Charter)

DELAWARE	56-2018819
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
121 WEST TRADE STREET SUITE 2950 CHARLOTTE, NORTH CAROLINA	28202
(Address of Principal Executive Offices)	(Zip Code)

(704) 358-0779
(Registrant's telephone number, including area code)

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

TITLE OF EACH CLASS	NAME OF EACH EXCHANGE ON WHICH REGISTERED
None	None

Securities registered pursuant to Section 12(g) of the Act:
$.001 Par Value Common Stock
(Title of Class)

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

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

At July 19, 1999, the aggregate market value of the voting stock held by non-affiliates was $5,400,094, based on the closing sales price of the registrant's Common Stock on that date, of $3.75 per share. As of July 19, 1999, the registrant had a total of 2,084,531 shares of Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE. Portions of the registrant's proxy statement for the annual meeting of stockholders to be held September 22, 1999 have been incorporated by reference in Part III of this Form 10-K.

FORM 10-K TABLE OF CONTENTS

FORWARD-LOOKING STATEMENTS

The forward-looking statements included in the "Business" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" sections, which reflect management's best judgment based on factors currently known, involve risks and uncertainties. Words such as "expects," "anticipates," "believes," "intends," and "hopes," variations of such words and similar expressions are intended to identify such forward-looking statements. Actual results could differ materially from those anticipated in these forward-looking statements as a result of a number of factors, including but not limited to, the factors discussed in such sections and those set forth in the cautionary statements contained in Exhibit 99.1 to this Form 10-K. (See Exhibit 99.1 -- Safe Harbor Under the Private Securities Litigation Reform Act of 1995.) Forward-looking information provided by the Registrant in such sections pursuant to the safe harbor established under the Private Securities Litigation Reform Act of 1995 should be evaluated in the context of these factors.

EXPLANATORY NOTE

Unless otherwise indicated, all information in this report gives effect to (a) an effective 12.75-to-1 stock split (effected in a series of transactions) (the "Stock Split") of the Registrant's common stock, par value $.001 per share (the "Common Stock") completed, and (b) the exercise of certain warrants (as defined herein) exercised prior to the consummation of the Registrant's initial public offering as described herein (the "IPO" or "Offering") in June 1998. Unless the context otherwise requires, references herein to the "Company" mean HLM Design, Inc.; references to a "Management and Services Agreement" mean a long-term agreement between the Company and an architectural, engineering and planning firm (an "AEP Firm") as described herein; and references to the "Managed Firms" mean HLMNA, HLMSE, HLMNW, HLMMW, HLMMA, HLMNE, JPJ and GAIH (each as defined below) and such other AEP Firms with which the Company shall, from time to time, enter into Management and Services Agreements. "HLM" is a registered trademark of the Company.

PART I

ITEM 1. BUSINESS

OVERVIEW

HLM Design, Inc., formed in March 1997, provides management services to architecture, engineering, and planning firms. The management services result in operating efficiencies and provide geographic and service diversification for clients of the Managed Firms.

The Managed Firms provide a broad spectrum of design services to public and private clients in the United States and internationally. At the end of the Company's last fiscal year, the Managed Firms were as follows:

- o HLM Design of North America, Inc. ("HLMNA")
- o HLM Design of the Southeast, P.C. ("HLMSE")
- o HLM Design of the Northwest Architecture, Engineering and Planning, P.C. ("HLMNW")
- o HLM Design of the Midwest, Inc. ("HLMMW")
- o HLM Design of the Midatlantic, P.C. ("HLMMA")
- o HLM Design of the Northeast Architecture, Engineering and Planning, P.C. ("HLMNE")
- o JPJ Architects, Inc. ("JPJ")
- o G.A. Design International Holdings, Ltd. ("GAIH")

JPJ and GAIH are subsidiaries of the Company.

These firms operated in 12 offices located in Atlanta, Georgia; Iowa City, Iowa; Chicago, Illinois; Orlando, Florida; Bethesda, Maryland; Denver, Colorado; Sacramento, California; Dallas, Texas; Philadelphia, Pennsylvania; Portland, Oregon; Charlotte, North Carolina; and London, UK. The Company is headquartered in Charlotte, North Carolina. THE COMPANY IS NOT ITSELF ENGAGED IN THE PRACTICE OF ARCHITECTURE, ENGINEERING, AND PLANNING.

THE MANAGED FIRMS

The Company's full service Managed Firms provide a spectrum of services to clients through a broad range of professionals, including architects, mechanical, electrical, structural and civil engineers, landscape architects, interior designers, and construction administration personnel. The Company has focused its efforts on the management of full-service AEP Firms because it believes these firms offer a competitive advantage -- the ability to provide a full line of high-quality, cost-effective services. The Company believes that its management strategy will assist in attracting new AEP Firms as a result of two major trends: (1) the increasing complexity, cost and competitiveness of the design practice conducted by AEP Firms requiring operating and cost efficiencies and (2) AEP Firms' need for access to a wider pool of geographically dispersed professionals in order to provide solutions for the evolving needs of their clients.

MARKETS

The professionals at the Managed Firms specialize in the design of large complex projects in the healthcare, justice (courts and correctional facilities), research, corporate/commercial, education, and hospitality markets. Design experience of professionals employed by the Managed Firms includes corporate headquarters, hospitals, physician office buildings, investment office buildings, multi-use office complexes, laboratories, courthouses, schools, and related facilities. The Managed Firm's professionals maintain full control over their architectural and engineering practices, determine which projects to pursue, and set their own standards of practice in order to promote high-quality provision of services and retain ownership of all contracts with clients.

The following more fully describes the markets and depth of experience of the Managed Firms.

HEALTHCARE:

- o 362 healthcare clients
- o 204 health facility master plans
- o 120 ambulatory care centers
- o 77 ambulatory surgery centers
- o 119 academic medical centers and teaching hospitals
- o 65 cancer centers
- o 69 women's facilities
- o 14 replacement hospitals
- o 46 medical office buildings

JUSTICE:

- Nearly 6 million square feet of courts and associated agency space
- Almost 300 courtrooms: appeals, district, magistrate, and bankruptcy
- Over 10 juried awards for Excellence in Justice Architecture
- 10 million square feet of prisons and jails
- More than $700 million in construction of prisons and jails
- In excess of 75,000 inmate beds designed by individuals in the firm

RESEARCH/HIGH TECHNOLOGY:

- Over 40 major facilities
- Over 4,000,000 square feet
- Totaling over $600,000,000 in construction

CORPORATE/COMMERCIAL:

- 76 corporate office buildings totaling more than 21,000,000 square feet
- 136 facilities for financial institutions totaling over 30,500,000 square feet
- Over 380 interior design and renovation projects
- 26 data centers totaling 3,330,000 square feet

EDUCATION:

- Over 69 projects for 39 colleges, community colleges, and universities
- Over 220 primary and secondary school projects

HOSPITALITY:

- 131 hospitality projects
- 76 international projects
- 95 hotels

OPERATING STRATEGY

As a management company, the Company's relationship with the Managed Firms is contractual. It has no ownership interest in the Managed Firms except for GAIH and JPJ. As a result, stockholders in the Company will have no direct or indirect ownership interest in the Managed Firms except for GAIH and JPJ.

The Company's strategy is to expand revenues through (1) the development of new long-term Management and Services Agreements with full-service AEP firms throughout the United States and internationally and (2) the expansion of services by Managed Firms to existing clients.

The creation of a management relationship between the Company and a Managed Firm involves, among other things, the signing of a Management and Services Agreement between the Company and the Managed Firm. Under the terms of the Management and Services Agreement, the Company is the sole and exclusive manager and administrator of all of the Managed Firm's day-to-day business functions. These functions include: financial planning, facilities, equipment and supplies, managed and administrative services (including bookkeeping and accounts), general administrative services, contract negotiation and administration for all non-architectural and non-engineering aspects of all agreements pertaining to the provision of architectural and engineering services by Managed Firms to third parties, personnel, security and maintenance, architectural and engineering recruiting and training, insurance, billing, and marketing support. In connection with these services, the Company receives all but 1% of the firm's positive cash flow (as determined in accordance with generally accepted accounting principles applied on a consistent basis). See " -- HLM Design Operations -- Management and Services Agreements."

In addition to the Management and Services Agreement, the Company requires individual stockholders of Managed Firms to enter into Stockholders' Agreements, which provide the stockholders of those entities with nominee stockholder status. Generally, the Stockholders' Agreements provide for the following: (i) the repurchase by the Managed Firm of the stockholder's stock upon such stockholder's death, (ii) restrictions on transferability of the stock, (iii) a "call-right" on the stock by the Managed Firm and (iv) a voting agreement among the stockholders and the Managed Firm. See " -- HLM Design Operations -- Stockholders' Agreements."

Joseph M. Harris and Vernon B. Brannon, executive officers and stockholders of the Company, are also the principal stockholders of most of the Managed Firms and are the principal officers of all the Managed Firms. As officers, they caused the Managed Firms to enter into Management and Services Agreements with the Company, and as stockholders of certain of the Managed Firms they entered into Stockholders' Agreements (as described below).

GROWTH STRATEGY

During the current fiscal year the Company implemented an aggressive, yet disciplined, expansion program by pursuing Management and Services Agreements with (i) large "regional" AEP Firms with established operating histories located in large metropolitan and high-growth suburban geographic markets that the Company does not currently serve and (ii) small firms that provide operational diversity in geographic areas that will complement the services that are either currently provided by the Company in such geographic areas or that are intended to be provided in the future. The Company believes its approach is attractive to these large and small AEP Firms because it provides these firms with economies of scale and the synergies that result from increased purchasing power, a greater breadth of services, an increased pool of professionals and geographical diversity. Furthermore, this strategy will give these regional and local AEP Firms, as a part of the Company, the ability to provide services to existing and future clients with national operations that might otherwise have turned to "non-local" firms to service their needs. The goal is for the Company to be the single source provider for large national clients with geographically diverse operations.

During the current fiscal year, the Company completed two acquisitions:

- On October 30, 1998, the acquisition of JPJ was completed. JPJ's focus in the corporate, education and university markets broadens the Managed Firms' existing client base and adds a geographic region to its operating base. The Company purchased all the issued and outstanding shares of JPJ for $2.4 million in cash, an aggregate of 240,000 shares of Common Stock (to be issued on a delayed delivery basis) and subordinated promissory notes in the aggregate principal amount of $1.2 million.

- On January 30, 1999, the acquisition of GAIH was completed. GAIH's business has encompassed work for commercial clients in a variety of countries (England, Ireland, Egypt, Hungary, Greece, Switzerland, Norway, Denmark, Finland, Spain, Lebanon, Jordan, Italy, Zaire, Kenya, Dubai, France, Japan and Australia) which brings an international focus to the Managed Firms' already strong United States operations. The Company purchased 95 percent of the issued and outstanding common stock of GAIH for a combination of cash, 27,667 shares of Common Stock (to be issued on a delayed delivery basis) and promissory notes for a total consideration of approximately $1,037,000.

The Company generally expects that AEP Firms that sign Management and Services Agreements will retain existing high-quality professional staff and continue to operate in an effective and efficient manner with personnel who understand the local market. Additionally, management believes it is positioned to pursue larger, well-established AEP Firms as a result of the depth of the Company's management team, its capital structure and the reputation of the management team in the design industry. Management also believes these goals can be achieved at less cost than that which would be incurred by AEP Firms operating on a stand-alone basis.

HLM DESIGN OPERATIONS

Pursuant to its Management and Services Agreements, the Company manages all aspects of the Managed Firm other than the provision of professional architectural, engineering and planning services. The provision of these services is controlled by the Managed Firms themselves. The Company enhances firm growth by assisting in the recruitment of new professionals and by expanding and adding ancillary services.

One of the Company's goals is to negotiate national arrangements and provide cost savings to Managed Firms through economies of scale in areas such as malpractice insurance, supplies, equipment and business functions.

MANAGEMENT AND SERVICES AGREEMENTS

The Management and Services Agreements with the Managed Firms are for a period of forty years. Although these agreements are terminable by the Company, with or without cause, upon 60 days' notice to the Managed Firms (with the approval of a majority of the Board of Directors and a majority of its independent directors), they cannot be terminated by the Managed Firms without a material default or bankruptcy by the Company. Under these agreements, the Company is appointed as the sole and exclusive manager and administrator of all of the Managed Firms' day-to-day business functions. The Company has no authority, directly or indirectly, to perform any of the Managed Firms' operations that are required by law to be performed by duly licensed architects and engineers. The Managed Firms retain ownership of all contracts with clients. Additionally, the Company has the authority to approve or deny, on behalf of the Managed Firm, any and all proposals by stockholders of such firm to encumber, sell, pledge, give or otherwise transfer the capital stock of the Managed Firm, as well as the authority to approve issuance of common stock or incurrence of indebtedness.

STOCKHOLDERS' AGREEMENTS

Individual stockholders of Managed Firms (not including JPJ and GAIH, which are subsidiaries of the Company) have entered into Stockholders' Agreements, which generally restrict the ability of these stockholders to exercise certain rights commonly associated with ownership of common stock and effectively provide stockholders of such entities with nominee stockholder status. Generally, such Stockholders' Agreements provide that:

(i) upon the death of a stockholder, the Managed Firm will purchase, and the personal representative of such stockholder's estate will sell to the Managed Firm, all the stock owned by such deceased stockholder; provided, however, in certain circumstances the sale of such stockholder's stock may be made to one or more third parties, subject to the approval of the Managed Firm;

(ii) stockholders may not sell, pledge, give or otherwise transfer any or all of their stock to any third party, either voluntarily or involuntarily, without first obtaining the Managed Firm's written approval of such transfer, provided, that if the Managed Firm denies such approval, it shall purchase such stock;

(iii) the Managed Firm has the right at any time to purchase all, but not less than all, of the stock then owned by any or all of the stockholders; and

(iv) the stockholders agree that with respect to all matters submitted to stockholder vote (and, to the extent that all or any of the stockholders serve as a director of the Managed Firm, then also with respect to all matters submitted to a vote of the board of directors), the stockholders will, if not in unanimous agreement, follow specified procedures to achieve unity in voting among all stockholders.

In addition, the Stockholders' Agreements contain an acknowledgment on the part of each stockholder that it is in the parties' best interest that certain of the Managed Firm's administrative and managerial functions be performed pursuant to a Management and Services Agreement with the Company and that in order to ensure consistency and continuity in the management of the firm's business and affairs, with respect to all matters pertaining to the initiation of stock "calls" and the approval or denial of proposed stock transfers, the Managed Firm will in all cases act in accordance with the written recommendation of the Company. The Stockholders' Agreements provide that they may be terminated upon the occurrence of any of the following events:

(i) cessation of the Managed Firm's business,

(ii) bankruptcy, receivership or dissolution of the Managed Firm, or

(iii) the voluntary agreement of all parties bound by the terms of such Stockholders' Agreement.

It is anticipated that Stockholders' Agreements among individual stockholders of the AEP Firms with whom the Company enters into Management and Services Agreements in the future will have similar terms.

COMPETITION

The architectural and engineering services industry is highly fragmented and very competitive. As a result, in each specific market area the Company competes with many architectural and engineering consulting firms, several of which are substantially larger than the Company and possess greater financial resources. No firm currently dominates any significant portion of the Company's market areas. Competition is based on quality of service, expertise, price, reputation and local presence. The Company believes that the Managed Firms compete favorably with respect to each of these factors in the market areas it serves. The Company is not aware of any other company actively pursuing a strategy of contracting for firms' administrative and management functions, but believes that additional companies with similar objectives could be organized in the future.

GOVERNMENTAL REGULATIONS AND ENVIRONMENTAL MATTERS

Each state has enacted legislation governing the registration of architects and engineers, and, in some cases, landscape architects, fire protection engineers and interior designers. These state laws and regulations impose licensing requirements and standards upon individual design professionals and architectural-engineering firms that are overseen by a registration board. In general, the state laws and regulations define the practice of architecture and engineering, restrict the use of the titles ARCHITECT and ENGINEER to licensed individuals, establish rules for entry into the profession, explain how professionals licensed in other states may become reciprocally registered to practice in the jurisdiction and define and enforce standards of professional conduct and misconduct.

The state laws, or the regulations established by a registration board, may also establish requirements for the practice of architecture or engineering by a corporation or partnership. A few states do not permit the practice of architecture or engineering in a corporate form. Some states require design professionals who want to incorporate to do so as a professional corporation authorized and certified by the secretary of state. Most states permit practice through either a professional corporation or a general business corporation. Even if a state permits practice in a corporate form, the state may require that a certain number of principals in the corporation must be registered architects or engineers. Some states specify that a certain percentage of the principals, directors or stockholders of a corporate entity must be registered architects or engineers in order to practice in the state. A corporation seeking to practice in a state other than that in which it is incorporated must register as a foreign corporation in the other state and satisfy all of the registration requirements.

There can be no assurance that the regulatory environment in which the Company operates will not change significantly in the future.

Federal, state and local environmental laws and regulations have not historically had a material impact on the operations of the Company; however, the Company cannot predict the effect on its operations of possible future environmental legislation or regulations.

EMPLOYEES

As of April 30, 1999, the Company and the Managed Firms together employed approximately 280 persons of which approximately 100 were registered professionals (engineers, architects and others). None of the Company's employees or the Managed Firm's employees is represented by a labor union. The Company considers its relations with its employees and the employees of the Managed Firms to be satisfactory.

The registered professional architects and engineers generally have degrees from accredited architecture or engineering schools, several years of work experience and have passed licensing examinations. Both registered and degreed architects have either a five year architectural degree or a four year degree and a two year advanced architectural degree. The Company's degreed professionals who are not registered have not yet passed the required licensing examinations.

ITEM 2. PROPERTIES

The Company's principal executive offices are located at 121 West Trade Street, Suite 2950, Charlotte, North Carolina, where the Company leases 7,254 square feet. Its telephone number is (704) 358-0779. Its lease of such offices is for a term of 5 years and expires in 2000. Currently, the Company is negotiating for additional office space for the anticipated growth for the next fiscal year. In addition to the Company's principal executive offices, the Company or the Managed Firms lease office space in Sacramento, California; Denver, Colorado; Orlando, Florida; Atlanta, Georgia; Iowa City, Iowa; Chicago, Illinois; Bethesda, Maryland; Portland, Oregon; Philadelphia, Pennsylvania; Dallas, Texas and London, UK.

ITEM 3. LEGAL PROCEEDINGS

From time to time the Company or one or more of the Managed Firms are named in legal proceedings involving contractual disputes or other matters arising in the ordinary course of business. Currently, no legal proceedings are pending against or involve the Company or any of the Managed Firms that, in the opinion of management, when considering insurance coverage, could reasonably be expected to have a material adverse effect on the business, financial condition or results of operations of the Company.

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

No matters were submitted to a vote of security holders during the fiscal quarter ended April 30, 1999.

PART II

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

Prior to June 12, 1998, the Company was privately held and there was no market for the Common Stock. Effective June 12, 1998, the Common Stock began trading on the NASDAQ Small Cap Market under the symbol "HLMD". As of July 19, 1999, 2,084,531 shares of Common Stock were outstanding and issued to a total of approximately 720 record and beneficial holders.

The Company has never declared or paid a dividend on its Common Stock. The Company intends to retain all of its earnings to finance the growth and development of its business, including through the execution of new Management and Services Agreements, and does not anticipate paying any cash dividends on its Common Stock for the foreseeable future. Any future change in the Company's dividend policy will be made at the discretion of the Board of Directors of the Company and will depend upon the Company's operating results, financial condition, capital requirements, general business conditions and such other factors as the Board of Directors deems relevant.

1999	HIGH	LOW
First Quarter (Since June 12, 1998)	$ 6.25	$ 5.00
Second Quarter	$ 6.25	$ 3.88
Third Quarter	$ 5.63	$ 4.25
Fourth Quarter	$ 5.13	$ 3.38

RECENT SALES OF UNREGISTERED SECURITIES; USE OF PROCEEDS

There have been no sales of unregistered securities by the Company in fiscal 1999. However, as of October 30, 1998 in connection with the acquisition of JPJ and as of January 29, 1999 in connection with the acquisition of GAIH the Company agreed to issue to the respective sellers 240,000 shares and 27,667 shares of Common Stock, respectively, on a delayed delivery basis. In each case, such shares will be issued in reliance upon the private placement exemption from the registration requirements of the Securities Act of 1933, as amended, provided in Section 4(2) thereof.

For additional information concerning such transactions and for information concerning the use of proceeds of the Company's IPO (Registration Statement No. 333-40617, effective June 12, 1998), see "Mangement's Discussion and Analysis of Financial Condition and Results of Operations" and Note 2 to the Financial Statements included elsewhere herein.

ITEM 6. SELECTED FINANCIAL DATA

The following selected financial data for the Predecessor Company (as defined below) for each of the three fiscal years ended April 25, 1997 are derived from audited financial statements. The selected financial data (Predecessor Company) for the one month ended May 30, 1997 are derived from the unaudited financial statements of HLMNA. The selected financial data for the year ended May 1, 1998 are derived from the audited consolidated financial statements of the Company, which reflect the results of operations of the Company for twelve months and the results of operations of HLMNA, HLMSE and HLMNW for the eleven month period from May 31, 1997 to May 1, 1998. The selected financial data for the year ended April 30, 1999 are derived from audited consolidated financial statements of the Company and the Managed Firms. All of the data set forth below should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Financial Statements and related notes included elsewhere herein.

<TABLE>
<CAPTION>

	(PREDECESSOR COMPANY) (1)		
	FOR THE YEAR ENDED		
	APRIL 30, 1995	APRIL 26, 1996	APRIL 25, 1997
<S>	<C>	<C>	<C>
Revenue	$ 29,122,557	$ 28,554,424	$ 26,754,710
Costs and Expenses:			
Direct cost of revenue	15,685,671	14,261,952	13,376,251
Operating costs	14,098,729	13,104,278	12,414,739
ESOP expenses	573,837	584,202	408,765
Amortization on intangible assets	5,952	99,145	107,670
Total costs and expenses	30,364,189	28,049,577	26,307,425
Income (loss) from operations	(1,241,632)	504,847	447,285
Other income (expense)			
Net interest	(142,744)	(383,552)	(396,007)
Non-operating income (expense)	428,475	850,273	285,635
Total other income (expense)	285,731	466,721	(110,372)
Income (loss) before income taxes, minority interest and extraordinary item	(955,901)	971,568	336,913
Income tax expense (benefit)	(360,080)	435,459	219,799
Net income (loss) before minority interest and extraordinary item	(595,821)	536,109	117,114
Minority interest in earnings	--	--	--
Net income (loss) before extraordinary item	(595,821)	536,109	117,114
Extraordinary item for early extinguishment of debt, net of tax of $171,842	--	--	--
Net income (loss)	$ (595,821)	$ 536,109	$ 117,114
NET INCOME PER SHARE (3)			
Basic			
Diluted			
NET INCOME PER SHARE BEFORE EXTRAORDINARY ITEM			
Basic			
Diluted			
NUMBER OF SHARES USED TO COMPUTE PER SHARE DATA			
Basic			
Diluted			
SUPPLEMENTAL NET INCOME PER SHARE (6):			
NET INCOME PER SHARE BEFORE EXTRAORDINARY ITEM			
Basic			
Diluted			
NET INCOME PER SHARE			
Basic			
Diluted			
NUMBER OF SHARES USED TO COMPUTE PER SHARE DATA			
Basic			
Diluted			
BALANCE SHEET DATA:			
Working capital (deficiency)	$ (1,029,547)	$ (1,620,488)	$ (1,902,363)
Total assets	10,519,859	12,577,992	12,874,503
Long-term debt	840,302	564,577	103,792
Deferred income taxes			
Total liabilities	10,690,072	11,819,796	11,670,962
Minority interest			
Warrants outstanding			
Stockholders' equity (deficiency) (5)	(170,213)	758,196	1,203,541

<CAPTION>

<S>	(PREDECESSOR COMPANY) (1) ONE MONTH ENDED MAY 30, 1997 <C>	HLM DESIGN CONSOLIDATED FOR THE YEAR ENDED MAY 1, 1998 (2) <C>	APRIL 30, 1999 <C>
Revenue	$ 2,233,036	$29,296,690	$37,757,653
Costs and Expenses:			
Direct cost of revenue	898,979	13,124,743	17,911,395
Operating costs	1,163,141	13,465,102	16,848,453
ESOP expenses			
Amortization on intangible assets	9,571	147,269	262,275
Total costs and expenses	2,071,691	26,737,114	35,022,123
Income (loss) from operations	161,345	2,559,576	2,735,530
Other income (expense)			
Net interest	(36,951)	(1,027,368)	(719,611)
Non-operating income (expense)	--	(69,955)	--
Total other income (expense)	(36,951)	1,097,323	(719,611)
Income (loss) before income taxes, minority interest and extraordinary item	124,394	1,462,253	2,015,919
Income tax expense (benefit)	43,000	683,897	942,707
Net income (loss) before minority interest and extraordinary item	81,394	778,356	1,073,212
Minority interest in earnings	--	--	326
Net income (loss) before extraordinary item	81,394	778,356	1,072,886
Extraordinary item for early extinguishment of debt, net of tax of $171,842	--	--	280,849
Net income (loss)	$ 81,394	$ 778,356	$ 792,037
NET INCOME PER SHARE (3)			
Basic		$ 1.12	$ 0.39
Diluted		$ .91	$ 0.39
NET INCOME PER SHARE BEFORE EXTRAORDINARY ITEM			
Basic			$ 0.52
Diluted			$ 0.52
NUMBER OF SHARES USED TO COMPUTE PER SHARE DATA			
Basic		697,255	2,315,878
Diluted		854,453	2,315,878
SUPPLEMENTAL NET INCOME PER SHARE (6):			
NET INCOME PER SHARE BEFORE EXTRAORDINARY ITEM			
Basic		$ 0.78	
Diluted		$ 0.70	
NET INCOME PER SHARE			
Basic		$ 0.57	
Diluted		$ 0.51	
NUMBER OF SHARES USED TO COMPUTE PER SHARE DATA			
Basic		1,305,774	
Diluted		1,462,976	
BALANCE SHEET DATA:			
Working capital (deficiency)	$ (2,238,531)	$ (273,084)	$ 5,121,975
Total assets	17,639,673	17,582,948	27,474,242
Long-term debt	2,476,008	4,164,401	5,672,379
Deferred income taxes			1,325,138
Total liabilities	16,354,738	16,503,261	18,470,172

Minority interest			21,930
Warrants outstanding		114,932(4)	1,200
Stockholders' equity (deficiency) (5)	1,284,935	964,755	8,980,940

</TABLE>

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(1) The "Predecessor Company" is HLMNA.

(2) Includes information for HLMNA, HLMSE and HLMNW for the eleven months from May 31, 1997 to May 1, 1998 on a consolidated basis. The Company's operations for the month ended May 30, 1997 reflected herein include no revenues or expenses.

(3) Historical net income per share is not presented, as the historical capital structure of the Company prior to the Offering is not comparable with the capital structure of the Company after the Offering.

(4) Reflects in part Warrants held by Pacific Capital, L.P. ("Pacific") as of May 1, 1998. Pacific exercised its Warrants in June 1998 immediately prior to the effective date of the Registration Statement with respect to the Offering.

(5) Neither the Company nor the Predecessor Company has paid cash dividends from May 1, 1992 to May 1, 1998.

(6) Supplemental net income per share has been prepared based upon the shares outstanding giving effect to the issuance of common stock related to the Offering pro rata for Common Stock used to pay certain indebtedness. In addition, net income has been adjusted to give effect to the Offering and the May 1997 merger transaction described in Note 2 to Consolidated Financial Statements as if the transactions had occurred at the beginning of fiscal 1998.

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

The following discussion of the results of operations and financial condition of the Company should be read in conjunction with the Company's financial statements and the Predecessor Company's financial statements and the related notes thereto included elsewhere herein.

OVERVIEW

The Company is a management company which enters into management and services relationships with full-service architectural, engineering and planning firms. Currently, the Company has entered into Management and Services Agreements with eight Managed Firms. These Managed Firms operate in twelve offices, Atlanta, Georgia, Iowa City, Iowa, Chicago, Illinois, Orlando, Florida, Bethesda, Maryland, Denver, Colorado, Sacramento, California, Dallas, Texas, Philadelphia, Pennsylvania, Portland, Oregon, Charlotte, North Carolina and London, UK. The Company is headquarted in Charlotte, North Carolina. A full service AEP Firm provides a spectrum of services in various specialties to customers through a broad range of professionals, including architectural, mechanical, electrical, structural and civil engineers, landscape architects, interior designers and construction administration personnel.

RESULTS OF OPERATIONS

As a result of the acquisition of HLMNA and the consummation of the Company's Management and Services Agreements and Stockholders' Agreements, the discussion and analysis of results of operations for the years ended May 1, 1998 and April 25, 1997 are presented on a pro forma basis that reflects the acquisition of the assets of HLMNA and the consummation of the Management and Services Agreements and Stockholders' Agreements as though they occurred at the beginning of the respective periods.

<TABLE>
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	PRO FORMA APRIL 25, 1997	PRO FORMA MAY 1, 1998	APRIL 30, 1999

<S> <C> <C> <C>

Revenue	$ 26,754,710	$ 31,529,726	$ 37,757,653
Consultant and project expenses	6,757,958	6,689,555	9,771,935
Net production income	19,996,752	24,840,171	27,985,718
Direct labor	6,618,293	7,334,167	8,139,460
Operating costs	12,031,739	14,638,291	16,848,453
Amortization of intangible assets	168,000	172,124	262,275
Total costs and expenses	18,818,032	22,144,582	25,250,188
Income from operations	1,178,720	2,695,589	2,735,530
Other income (expense)			
Interest expense	(1,096,509)	(1,124,357)	(719,611)
Non-operating income	292,137	--	--
Total other expense	(804,372)	(1,124,357)	(719,611)
Income before income taxes, minority interest and extraordinary item	374,348	1,571,232	2,015,919
Income tax expense	298,378	714,897	942,707
Net income before minority interest and extraordinary item	75,970	856,335	1,073,212
Minority interest in earnings	--	--	326
Net income before extraordinary item	75,970	856,335	1,072,886
Extraordinary item for early extinguishment of debt, net of tax of $171,842	--	--	280,849
Net income	$ 75,970	$ 856,335	$ 792,037

</TABLE>

FISCAL 1999 COMPARED TO FISCAL 1998

Revenues were $37.8 million in fiscal 1999 as compared to $31.5 million in fiscal 1998, which is a 19.8% increase. This increase is attributable primarily to the acquisition of JPJ in October 1998. This increase is partially offset by the Company's change in its fiscal year end date from the last Friday in April to the Friday nearest the end of April. This change resulted in one week less revenues for the fiscal year 1999 as compared to the fiscal year 1998.

Direct costs primarily include consultant costs and reimbursable project expenses. Direct costs were $9.8 million, or 25.9% of revenues, in fiscal 1999 as compared to $6.7 million, or 21.2% of revenues, in fiscal 1998. This increase as a percent of revenues is due to the Company's increased use of consultant expenses to meet project requirements. The increase is primarily due to JPJ's use of consultants in the period from November 1998 to April 1999. Management believes that JPJ will continue to use consultants which will cause direct costs as a percent of revenues to increase in future periods as JPJ consultant expenses are reflected for a twelve month period.

Direct labor cost was $8.1 million, or 29.1% of net production income, in fiscal 1999 as compared to $7.3 million, or 29.5% of net production income, in fiscal 1998. This decrease as a percent of net production income is principally due to continued improvement in productivity as a result of the Company's increased focus on cost containment for each project.

Operating costs were $16.8 million, or 60.2% of net production income, in fiscal 1999 as compared to $14.6 million, or 58.9% of net production income, in fiscal 1998. This increase as a percent of net production income is principally due to expenses associated with being a public company and depreciation and amortization expenses associated with property and equipment, partially offset by a decrease in legal expenses.

Amortization of intangible assets was $0.3 million in fiscal 1999 as compared to $0.2 million in fiscal 1998. This increase is attributable to amortization expense arising from the acquisition of JPJ and GAIH in October 1998 and January 1999, respectively. See Note 2 to the Consolidated Financial Statements included elsewhere herein.

Interest expense was $0.7 million in fiscal 1999 and $1.1 million in fiscal 1998. This decrease is principally due to the Company's IPO in June 1998 whereby the Company repaid approximately $3.0 million in debt from the proceeds of the Offering. This decrease is partially offset by increased borrowings in the last six months of fiscal 1999 as a result of the Company's acquisition of JPJ and GAIH in October 1998 and January 1999, respectively.

Income tax expense was $0.9 million and $0.7 million for fiscal 1999 and fiscal 1998, respectively. The effective income tax rate was 47% and 46% for fiscal 1999 and fiscal 1998, respectively. The effective rate is higher primarily due to increased goodwill amortization.

Extraordinary item for early extinguishment of debt was $0.3 million in fiscal 1999. In June 1998, the early extinguishment of indebtedness to Pacific, Equitas, L.P. and Berthel Fisher & Company Financial Services, Inc. resulted in an extraordinary charge of $280,849, net of income taxes of $171,842, that consisted of write-off of related unamortized financing costs.

FISCAL 1998 COMPARED TO FISCAL 1997

Revenues were $31.5 million in fiscal 1998 as compared to $26.8 million in fiscal 1997, which is an increase of 17.8%. This increase is attributable to management's stronger focus on marketing efforts during the fiscal year ended 1998.

Direct costs primarily include consultant cost and reimbursable project expenses. Direct costs were $6.7 million, or 21.2% of revenues, in fiscal 1998 as compared to $6.8 million, or 25.3% of revenues, in fiscal 1997. This decrease as a percent of net production income is principally due to a decrease in consultant costs to meet project requirements.

Direct labor cost was $7.3 million, or 29.5% of net production income, in fiscal 1998 as compared to $6.6 million, or 33.1% of net production income, in fiscal 1997. This decrease as a percent of net production income is due to improved productivity as a result of management's closer monitoring of each project.

Operating expenses were $14.6 million, or 58.9% of net production income, in fiscal 1998 as compared to $12.0 million, or 60.2% of net production income in fiscal 1997. The decrease as a percent of net production income is primarily due to decreased professional and general insurance costs during fiscal 1998.

Amortization of intangible assets were $0.2 million in both fiscal 1998 and 1997. The amortization expense relates to the goodwill arising from the acquisition of HLMNA. See Note 2 to the Consolidated Financial Statements included elsewhere herein.

Interest expense was $1.1 million in both fiscal 1998 and 1997.

Non-operating income was $0.3 million in fiscal 1997. The Company reported no non-operating income in fiscal 1998. Non-operating income in 1997 is principally due to the gain on a lease termination as a result of the cumulative excess of lease expense over the lease payments made as of the termination dates. In fiscal 1997, terminated facility leases resulted in a gain of $0.3 million.

Income tax expense was $0.7 million in fiscal 1998 as compared to $0.3 million in fiscal 1997. The effective income tax rate was 46% in fiscal 1998 as compared to 80% in fiscal 1997. The effective income tax rate was higher in fiscal 1997 principally due to nondeductible penalties in fiscal 1997.

LIQUIDITY AND CAPITAL RESOURCES

At April 30, 1999, the Company's current assets of $16.6 million exceeded current liabilities of $11.5 million resulting in working capital of $5.1 million. During the year ended April 30, 1999, the Company used $0.9 million in cash from operating activities, primarily related to the increase in costs and estimated earnings in excess of compared to billings on uncompleted contracts and decreases in income taxes and accounts payable that were partially offset by decreases in accounts receivable and prepaid and other assets. The Company used $2.5 million for investing activities, primarily the cash payment for the purchase of JPJ, net of cash acquired, and to a lesser extent, the purchase of equipment and the acquisition of GAIH. On October 30, 1998, the Company purchased all the issued and outstanding stock of JPJ for $2.4 million in cash ($1.3 million net of cash acquired), promissory notes bearing interest at seven percent in the aggregate principal amount of $1.2 million and an aggregate of 240,000 shares of Common Stock (to be issued on a delayed delivery basis). In addition, on January 29, 1999, the Company purchased GAIH for $0.4 million in cash, promissory notes bearing interest at seven percent in the aggregate principal amount of $0.7 million and an aggregate of 27,667 shares of Common Stock (to be issued on a delayed delivery basis). The Company generated $3.6 million from financing activities, primarily from the completion of its IPO. The Company received $5.92 million in net proceeds after giving effect to payment of underwriters' discount and

other expenses) from the sale of 1,200,000 of Common Stock sold at an aggregate price of $7.2 million. The net proceeds were used to repay certain indebtedness of $0.75 million due to Berthel Fisher & Company Leasing, Inc., $2.0 million due to Pacific and Equitas, L.P., and $0.2 million due to employee stockholders. The Company used the remaining net proceeds of $2.97 million for the acquisition of JPJ and GAIH as described above, and to a lesser extent, for general corporate purposes.

The Company's growth and operating strategy will require substantial capital and may result in the Company incurring additional debt, issuing equity securities or obtaining additional bank financing. As the management company, the Company will be responsible for the financing of working capital growth, capital growth and other cash needs of the Managed Firms. See "Business -- HLM Design Operations -- Management and Services Agreements". On March 26, 1999, the Company increased its revolving line of credit with First Charter National Bank from $3.0 million to $5.0 million. At April 30, 1999, the Company had outstanding borrowings thereunder of $3.1 million. The revolving line of credit is secured by, among other things, a security interest in all accounts receivable. Any outstanding balance under this loan bears interest at prime plus one percent. This loan matures on June 30, 2000.

The Company believes that for present operations, the existing line of credit and anticipated funds from future operations will be sufficient to meet the Company's operating needs for at least the next twelve months. However, in order to continue its expansion program through acquisitions, the Company will require additional capital. If the Company is unable to obtain additional capital, its ability to implement its growth strategy will be adversely affected.

The Company's operations are professional services and as such are not capital intensive. However, in order to enhance productivity, the Company has increased its purchase of computer hardware and software. The Company currently has no material commitments for purchases of additional equipment. Capital expenditures during fiscal 1999 were $0.8 million.

SEASONALITY

The Company's operations are not seasonal in nature.

EFFECTS OF INFLATION

Due to the relatively low levels of inflation in fiscal years 1997, 1998 and 1999, inflation did not have a significant effect on the Company's results of operations for those periods.

YEAR 2000 COMPLIANCE

Many computer systems will not be able to process dates beyond 1999 and will need to be modified or replaced prior to the year 2000. Many of the Company's information technology purchases were made after January 1997 and management believes the Company's internal software and hardware systems will function properly with respect to dates in the year 2000 and thereafter. Year 2000 issues are also addressed as the Company's network and internal systems are upgraded in the normal course of business. As of April 30, 1999, the Company's expenditures towards year 2000 compliance has been minimal and it does not expect its additional expenditures directly related to year 2000 compliance to exceed $100,000. Management continually reassesses the estimated costs and status of the Company's year 2000 compliance effort.

The Company began conducting verification testing of all its internal information technology and information systems in 1998. The testing is a multi-phased process which includes, but is not limited to, simulating several key dates and times in the year 2000 and performing normal daily activities. The infrastructure, servers and workstations, as well as primary software systems, have been tested and validated using this process. The final phase of testing is scheduled to be completed in October 1999.

While management believes that its hardware and software applications are year 2000 compliant, there can be no assurance until the year 2000 occurs that all systems will then function adequately. The Company is monitoring all key vendors and suppliers for year 2000 compliance by various methods including, but not limited to, gathering information from a detailed survey sent by the Company to each key vendor. Most of the Company's significant suppliers and vendors have advised the Company that they are, or anticipate being, year 2000 compliant. If, however, other software applications of other suppliers or of local exchange carriers, long distance carriers, service providers, competitive access providers, or others on whose services the Company depends are not year 2000 compliant, a material adverse effect on the Company's financial condition and results of operations could result. The Company is not aware of any significant vendor who may be unable to provide services to the Company as a result of year 2000 non-compliance. The Company currently has a disaster recovery plan in place which will serve as a foundation for its contingency plan in the event some suppliers and vendors are not year 2000 compliant. The full contingency plan is currently being developed and will be complete late in 1999.

SIGNIFICANT MATERIALITY OF GOODWILL

Goodwill represents the excess purchase price over the estimated fair value of tangible and separately measurable intangible net assets acquired. The cumulative amount of goodwill at May 1, 1998 was $2.4 million and at April 30, 1999 was $7.3 million. As a percentage of total assets and stockholders' equity, goodwill, net of accumulated amortization, represented 13.6% and 251.5%, respectively, at May 1, 1998, and 27.6% and 81.8%, respectively, at April 30, 1999. Generally accepted accounting principles require that goodwill and all other intangible assets be amortized over the period benefited. We have determined that the period benefited by the goodwill will be no less than 15 years. Accordingly, we are amortizing goodwill over a 15 year period for HLMNA and a 25 year period for both JPJ and GAIH. Earnings reported in periods immediately following an acquisition would be overstated if the Company attributed a 15 or 25 year benefit to an intangible asset that should have had a shorter benefit period. In later years, the Company would be burdened by a continuing charge against earnings without the associated benefit to income valued by management in arriving at the price paid for the businesses acquired. Earnings in later years also could be significantly affected if management then determined that the remaining balance of goodwill was impaired. We periodically compare the carrying value of goodwill with the anticipated undiscounted future cash flows from operations of the businesses we have acquired in order to evaluate the recoverability of goodwill. We have concluded that the anticipated future cash flows associated with intangible assets recognized in our acquisitions will continue indefinitely and there is no persuasive evidence that any material portion will dissipate over a period shorter than 15 and 25 years, respectively. We expect to incur additional goodwill in future acquisitions.

NEW ACCOUNTING STANDARDS

In June 1997, the Financial Accounting Standard Board issued Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information." Effective April 30, 1999, the Company adopted SFAS No. 131 which redefines how operating segments are determined and requires disclosure of certain financial and descriptive information about a company's operating segments. The Company operates in one segment which provides architectural, engineering and planning services.

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instrument and Hedging Activities." This Standard establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and hedging activities. The Statement will become effective for the Company beginning April 2001. However, the Company has elected earlier application of all of the provisions of this Statement beginning January 30, 1999. The implementation of the provisions of this Statement did not have an impact on the Company's financial statements for the year ended April 30, 1999.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company has limited exposure to interest rate risk related to certain instruments entered into for other than trading purposes. Specifically, the Company has in place a $5,000,000 line of credit, which bears interest at the prime rate of the lender plus one percent. At April 30, 1999, the Company had borrowings under this line of credit of $3,118,336 and the effective interest rate at that date was 8.75%. While changes in the prime rate could affect the cost of funds borrowed in the future, the Company believes the effect, if any, of reasonably forseeable near-term changes in interest rates on the Company's financial conditions, results of operations and cash flows would not be material.

The Company has no other material exposure to market risk sensitive instruments.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

See Index to Financial Information which appears on F-1 herein.

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

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Information required by this item with respect to the Company's directors and executive officers and compliance by the Company's directors, executive officers and certain beneficial owners of the Company's Common Stock with Section 16(a) of the Securities Exchange Act of 1934 is furnished by incorporation by reference of all information under the captions entitled "Election of Directors", "Executive Officers" and "Compliance with Section 16(a) of the Securities Exchange Act of 1934" in the Proxy Statement (to be filed hereafter) for the Company's Annual Meeting of the Stockholders to be held on September 22, 1999 (the "Proxy Statement").

ITEM 11. EXECUTIVE COMPENSATION

The information required by this item is furnished by incorporation by reference of all information under the caption entitled "Executive Compensation" in the Proxy Statement.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required by this item is furnished by incorporation by reference of all information under the caption "General -- Equity Security Ownership" in the Proxy Statement.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this item is furnished by incorporation by reference of all information under the caption "Certain Transactions" in the Proxy Statement.

PART IV

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

The exhibits and other documents filed as part of this Annual Report on Form 10-K, including those exhibits which are incorporated by reference herein to documents previously filed as exhibits to other filings with the Commission, are:

(a) (1) Financial Statements

See the Index to Financial Information which appears on page F-1 herein.

(2) Financial Statement Schedules

No financial statement schedules are required to be filed as part of this Annual Report on Form 10-K.

(3) Exhibits:

Exhibits required in connection with this Annual Report on Form 10-K are listed below. Certain of such exhibits, indicated by an asterisk (*), are incorporated by reference to documents previously filed as exhibits to other filings with the Commission.

(b) The Company has not filed any reports on Form 8-K during the last quarter of the period covered by this report.

<TABLE>
<CAPTION>

EXHIBIT NO.	DESCRIPTION
<S>	<C>
3.1*	Certificate of Incorporation of the Company, as amended to date (incorporated by reference to Exhibit 3.1 to the Registration Statement on Form S-1 (SEC File No. 333-40617) (the "Form S-1")).
3.2*	Bylaws of the Registrant, as amended to date (incorporated by reference to Exhibit 3.2 to the Form S-1).
4.1*	Form of Common Stock Certificate (incorporated by reference to Exhibit 4.1 to the Form S-1).
4.2*	Form of Common Stock Purchase Warrant (incorporated by reference to Exhibit 4.2 to the Form S-1).
4.3*	Registration Rights Agreement dated as of May 30, 1997 by and among the Company, Pacific Capital, L.P. and Equitas, L.P. (incorporated by reference to Exhibit 4.3 to the Form S-1).
4.4*	Registration Rights Agreement dated as of September 10, 1997 by and among the Company and Berthel Fisher & Company Leasing, Inc. (incorporated by reference to Exhibit 4.4 to the Form S-1).
10.1*1	Management and Services Agreement dated as of May 29, 1997 by and between Hansen Lind Meyer Inc. (now HLMNA) and the Company (incorporated by reference to Exhibit 10.1 to the Form S-1).
10.2*1	Management and Services Agreement dated as of May 29, 1997 by and between HLM of North Carolina, P.C. (now HLMSE) and the Company (incorporated by reference to Exhibit 10.2 to the Form S-1).
10.3*1	Management and Services Agreement dated as of May 29, 1997 by and between HLM of Oregon, Architecture and Planning, P.C. (now HLMNW) and the Company (incorporated by reference to Exhibit 10.3 to the Form S-1).
10.4*2	Stockholders' Agreement dated as of May 29, 1997 by and among Joseph M. Harris, Vernon B. Brannon and Hansen Lind Meyer Inc. (now HLMNA) (incorporated by reference to Exhibit 10.4 to the Form S-1).
10.5*2	Stockholders' Agreement dated as of May 29, 1997, by and among Joseph M. Harris, Vernon B. Brannon, Phillip J. Antis and HLM of North Carolina, P.C. (now HLMSE) (incorporated by reference to Exhibit 10.5 to the Form S-1).
10.6*2	Stockholders' Agreement dated as of May 29, 1997 by and among Joseph M. Harris, Vernon B. Brannon, Viktor A. Lituczy and HLM of Oregon, Architecture and Planning, P.C. (now HLMNW) (incorporated by reference to Exhibit 10.6 to the Form S-1).
10.7*	Security Escrow Agreement among the Company, certain security holders and First Union National Bank, as escrow agent (incorporated by reference to Exhibit 10.7 to the Company's Annual Report on Form 10-K for the fiscal year ended May 1, 1998 (the "1998 Form 10-K")).
10.8*	Note Purchase Agreement dated as of May 30, 1997 by and among the Company, Hansen Lind Meyer Inc., BBH Corp., Pacific Capital, L.P., and Equitas, L.P. (incorporated by reference to Exhibit 10.8 to the Form S-1).
10.9*	Promissory Note A-1 dated as of May 30, 1997 by the Company, in favor of Pacific Capital, L.P. (incorporated by reference to Exhibit 10.9 to the Form S-1).
10.10*	Promissory Note A-2 dated as of May 30, 1997 by the Company in favor of Equitas, L.P. (incorporated by reference to Exhibit 10.10 to the Form S-1).
10.11*	Collateral Assignment of Contract Rights dated as of May 30, 1997 by and between the Company, and Pacific Capital, L.P. and Equitas, L.P. (incorporated by reference to Exhibit 10.11 to the Form S-1).
10.12*	Security Agreement dated as of May 30, 1997 by and between the Company, and Pacific Capital, L.P. and Equitas, L.P. (incorporated by reference to Exhibit 10.12 to the Form S-1).
10.13*	Affiliate Promissory Note dated May 30, 1997 by BBH Corp. in favor of the Company (incorporated by reference to Exhibit 10.13 to the Form S-1).
10.14*	Collateral Assignment of Promissory Note dated as of May 30, 1997 by and between the Company, and Pacific Capital, L.P. and Equitas, L.P. (incorporated by reference to Exhibit 10.14 to the Form S-1).
10.15*	Unconditional Guaranty dated as of May 30, 1997 by and between Hansen Lind Meyer Inc. and BBH Corp. in favor of Pacific Capital, L.P. and Equitas, L.P. (incorporated by reference to Exhibit 10.15 to the Form S-1).
10.16*	Guaranty dated as of May 30, 1997 by Joe Harris in favor of Pacific Capital, L.P. and Equitas, L.P. (incorporated by reference to Exhibit 10.16 to the Form S-1).
10.17*	Guaranty dated as of May 30, 1997 by Vernon Brannon in favor of Pacific Capital, L.P. and Equitas, L.P. (incorporated by reference to Exhibit 10.17 to the Form S-1).
10.18*	Noncompetition Agreement dated as of May 30, 1997 by and between the Company, Hansen Lind Meyer Inc. and Joseph M. Harris (incorporated by reference to Exhibit 10.18 to the Form S-1).
10.19*	Noncompetition Agreement dated as of May 30, 1997 by and between the Company, Hansen Lind Meyer Inc. and Vernon B. Brannon (incorporated by reference to Exhibit 10.19 to the Form S-1).
10.20*	Guaranty (Limited in Amount) dated as of May 30, 1997 by and among Vernon B. Brannon, Joseph M. Harris, and a former director (incorporated by reference to Exhibit 10.20 to the Form S-1).
10.20.1*	Addendum B to Lease Agreement dated as of May 30, 1997 by and between Berthel Fisher & Company Leasing, Inc. and Hansen Lind Meyer, Inc. (incorporated by reference to Exhibit 10.20.1 to the Form S-1).
10.20.2*	Letter Agreement dated as of January 9, 1998 amending the Berthel Lease (incorporated by reference to Exhibit 10.20.2 to the Form S-1).

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EXHIBIT NO.	DESCRIPTION
<S>	<C>
10.21*	Security Agreement dated as of May 30, 1997 by and between Berthel Fisher & Company Leasing, Inc. and Hansen Lind Meyer Inc. (incorporated by reference to Exhibit 10.21 to the Form S-1).
10.22*	Lease Agreement dated as of May 30, 1997 by and between Berthel Fisher & Company Leasing, Inc. and Hansen Lind Meyer Inc. (the "Berthel Lease") (incorporated by reference to Exhibit 10.22 to the Form S-1).
10.23*	HLM Design, Inc. Stock Option Plan (incorporated by reference to Exhibit 10.23 to the 1998 Form 10-K).
10.24*	HLM Design, Inc. Employee Stock Purchase Plan (incorporated by reference to Exhibit 10.24 to the 1998 Form 10-K).
10.25*	Employment Agreement between the Company and Joseph M. Harris, as amended to date (incorporated by reference to Exhibit 10.25 to the Form S-1).
10.26*	Employment Agreement between the Company and Vernon B. Brannon, as amended to date (incorporated by

	reference to Exhibit 10.26 to the Form S-1).
10.27*	Promissory Note dated as of May 30, 1997 issued by the Company in favor of First Charter National Bank (incorporated by reference to Exhibit 10.27 to the Form S-1).
10.28*	First Amendment to Management and Services Agreement dated as of May 29, 1997 by and between HLM Design of Northamerica, Inc. (formerly Hansen Lind Meyer Inc.) and the Company (incorporated by reference to Exhibit 10.28 to the Form S-1).
10.29*	First Amendment to Management and Services Agreement dated as of May 29, 1997 by and between HLM Design of the Southeast, P.C. (formerly HLM of North Carolina, P.C.) and the Company (incorporated by reference to Exhibit 10.29 to the Form S-1).
10.30*	First Amendment to Management and Services Agreement dated as of May 29, 1997 by and between HLM Design of the Northwest, Architecture, Engineering and Planning, P.C. (formerly HLM of Oregon Architecture and Planning, P.C.) and the Company (incorporated by reference to Exhibit 10.30 to the Form S-1).
10.31*	Statutory Incentive Stock Option Agreement and Grant pursuant to HLM Design, Inc. 1998 Stock Option Plan between the Company and Joseph M. Harris (incorporated by reference to Exhibit 10.31 to the 1998 Form 10-K).
10.32*	Statutory Incentive Stock Option Agreement and Grant pursuant to HLM Design, Inc. 1998 Stock Option Plan between the Company and Vernon B. Brannon (incorporated by reference to Exhibit 10.32 to the 1998 Form 10-K).
10.33*	Nonstatutory Stock Option Agreement and Grant pursuant to HLM Design, Inc. 1998 Stock Plan between the Company and Joseph M. Harris (incorporated by reference to Exhibit 10.33 to the 1998 Form 10-K).
10.34*	Nonstatutory Stock Option Agreement and Grant pursuant to HLM Design, Inc. 1998 Stock Option Plan between the Company and Vernon B. Brannon (incorporated by reference to Exhibit 10.34 to the 1998 Form 10-K).
10.35*	Stockholders Agreement dated as of July 29, 1997 among the Company, Joseph M. Harris, Vernon B. Brannon, Pacific Capital, L.P., Equitas, L.P., Clay Caroland, Shannon LeRoy, and a former director (incorporated by reference to Exhibit 10.35 to the Form S-1).
10.36*	Promissory Note dated as of December 10, 1996 issued by Hansen Lind Meyer, Inc. in favor of First Charter National Bank (incorporated by reference to Exhibit 10.36 to the Form S-1).
10.37*	Modification and Extension Agreement dated as of June 2, 1997 between First Charter National Bank and Hansen Lind Meyer, Inc. (incorporated by reference to Exhibit 10.37 to the Form S-1).
10.38*	Commercial Guaranty dated as of May 30, 1997 by Hansen Lind Meyer, Inc. in favor of First Charter National Bank (incorporated by reference to Exhibit 10.38 to the Form S-1).
10.39*	Security Agreement dated as of June 2, 1997 between Hansen Lind Meyer, Inc. and First Charter National Bank (incorporated by reference to Exhibit 10.39 to the Form S-1).
10.40*	Commercial Security Agreement dated as of May 30, 1997 between Hansen Lind Meyer, Inc. and First Charter National Bank (incorporated by reference to Exhibit 10.40 to the Form S-1).
10.41*	Subordination Agreement dated as of May 30, 1997 among Berthel Fisher & Company Leasing, Inc., First Charter National Bank, the Company and Hansen Lind Meyer, Inc. (incorporated by reference to Exhibit 10.41 to the Form S-1).
10.42*	Note and Security Agreement dated as of September 10, 1997 by and among the Company, Hansen Lind Meyer, Inc., certain individual guarantors and Berthel Fisher & Company Leasing, Inc., as amended to date (incorporated by reference to Exhibit 10.42 to the Form S-1).
10.43*	Note and Security Agreement dated as of September 16, 1997 by and among the Company, Hansen Lind Meyer, Inc., certain individual guarantors and Berthel Fisher & Company Leasing, Inc., as amended to date (incorporated by reference to Exhibit 10.43 to the Form S-1).
10.44*	Intercreditor Agreement dated as of September 10, 1997 between and among Berthel Fisher & Company Leasing, Inc., Pacific Capital, L.P. and Equitas L.P. (incorporated by reference to Exhibit 10.44 to the Form S-1).
10.45*	Commercial Guaranty dated as of May 30, 1997 by Joseph M. Harris in favor of First Charter National Bank (relating to Promissory Note of the Company of even date therewith) (incorporated by reference to Exhibit 10.45 to the Form S-1).

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EXHIBIT NO.	DESCRIPTION
<S>	<C>
10.46*	Commercial Guaranty dated as of May 30, 1997 by Vernon B. Brannon in favor of First Charter National Bank (relating to Promissory Note of the Company of even date therewith) (incorporated by reference to Exhibit 10.46 to the Form S-1).
10.47*	Modification and Extension Agreement dated as of May 30, 1998 between First Charter National Bank and the Company (incorporated by reference to Exhibit 10.47 to the Form S-1).
10.48*	Modification and Extension Agreement dated as of May 30, 1998 between First Charter National Bank and Hansen Lind Meyer, Inc. (incorporated by reference to Exhibit 10.48 to the Form S-1).
10.49*	Lease Agreement dated as of December 18, 1995 between CTHL Properties and Hanson Lind Meyer, Inc. (incorporated by reference to Exhibit 10.49 to the Form S-1).
10.50*	Promissory Note dated as of March 20, 1997 issued by Hansen Lind Meyer, Inc. in favor of Joseph M. Harris, as extended to date (incorporated by reference to Exhibit 10.50 to the Form S-1).
10.51*	Promissory Note dated as of March 20, 1997 issued by Hansen Lind Meyer, Inc. in favor of Vernon B. Brannon, as extended to date (incorporated by reference to Exhibit 10.51 to the Form S-1).
10.52*	Guaranty dated as of December 10, 1996 by Joseph M. Harris in favor of First Charter National Bank (relating to Promissory Note of Hansen Lind Meyer, Inc. of even date therewith) (incorporated by reference to Exhibit 10.52 to the Form S-1).
10.53*	Guaranty dated as of December 10, 1996 by Vernon B. Brannon in favor of First Charter National Bank (relating to Promissory Note of Hansen Lind Meyer, Inc. of even date therewith) (incorporated by reference to Exhibit 10.53 to the Form S-1).
10.54*	Common Stock Purchase Warrant dated as of May 30, 1997 issued to Pacific Capital, L.P. (incorporated by reference to Exhibit 10.54 to the Form S-1).
10.55*	Second Amendment to Management and Services Agreement dated as of June 5, 1998 by and between HLM

	Design of Northamerica, Inc. and the Company (incorporated by reference to Exhibit 10.55 to the Form S-1).
10.56*	Second Amendment to Management and Services Agreement dated as of June 5, 1998 by and between HLM Design of the Southeast, P.C. and the Company (incorporated by reference to Exhibit 10.56 to the Form S-1).
10.57*	Second Amendment to Management and Services Agreement dated as of June 5, 1998 by and between HLM Design of the Northwest, Architecture, Engineering and Planning, P.C. and the Company (incorporated by reference to Exhibit 10.57 to the Form S-1).
10.58*	Letter Agreement among Messrs. Harris and Brannon, Berthel Leasing and the Company (incorporated by reference to Exhibit 10.58 to the 1998 Form 10-K).
10.59	Nonstatutory Stock Option Agreement and Grant pursuant to HLM Design, Inc. 1998 Stock Option Plan between the Company and Fred Pounds.
10.60	Promissory Note made by the Company in favor of First Charter National Bank dated as of March 26, 1999.
10.61*	Stock Purchase Agreement dated as of October 30, 1998 among the Company, Bill D. Smith, FAIA, Walter J. Viney, AIA, Richard E. Morgan, AIA, Weldon W. Nash, Jr., FCSI, Ken G. Rowley, AIA, Douglas R. Bissell, AIA, Paul H. Woodard, AIA, Jan G. Blackmon, FAIA, and JPJ Architect, Inc. (incorporated by reference to Exhibit 99.1 to the Company's Form 8-K filed on November 16, 1998).
21.1	Subsidiaries of the Company.
23	Consent of Deloitte & Touche LLP.
27	Financial Data Schedule.
99.1	Safe Harbor Under the Private Securities Litigation Reform Act of 1995.

</TABLE>

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* Incorporated by reference to documents previously filed as exhibits to other filings with the Commission.

1 The Company has entered into substantially identical Management and Services Agreements with each of its other Managed Firms -- HLMMW, HLMMA, HLMNE, JPJ and GAIH (in addition to those filed as Exhibits 10.1, 10.2 and 10.3).

2 The other Managed Firms -- HLMMW, HLMMA and HLMNE (but not including JPJ and GAIH, which are subsidiaries of the Company) have entered into substantially identical Stockholders' Agreements with their respective individual stockholders (in addition to those filed as Exhibits 10.4, 10.5 and 10.6).

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INDEPENDENT AUDITORS' REPORT

BOARD OF DIRECTORS
HLM DESIGN, INC.
Charlotte, North Carolina

We have audited the accompanying consolidated balance sheets of HLM Design, Inc. (the "Company") and Affiliates as of May 1, 1998 and April 30, 1999, and the related statements of income, stockholders' equity, and cash flows, for each of the years ended May 1, 1998 and April 30, 1999, and the statement of stockholders equity for the period from inception March 6, 1997 (inception) to April 25, 1997. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of May 1, 1998 and April 30, 1999 and the changes in stockholders' equity for the period from March 6, 1997 (inception) to May 1, 1998 and the year ended April 30, 1999 as well as the results of its operations and cash flows for each of the years ended May 1, 1998 and April 30, 1999 in conformity with generally accepted accounting principles.

DELOITTE & TOUCHE LLP
June 21, 1999
Charlotte, North Carolina

INDEPENDENT AUDITORS' REPORT

BOARD OF DIRECTORS
HANSEN LIND MEYER INC.
Charlotte, North Carolina

We have audited the accompanying statements of income, stockholders' equity, and cash flows of Hansen Lind Meyer Inc. ("HLMNA") for the year ended April 25, 1997. These financial statements are the responsibility of HLMNA's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the HLMNA financial statements referred to above present fairly, in all material respects, the results of its operations and its cash flows for the year ended April 25, 1997 in conformity with generally accepted accounting principles.

DELOITTE & TOUCHE LLP
October 31, 1997
Charlotte, North Carolina

HLM DESIGN, INC. AND AFFILIATES

BALANCE SHEETS

MAY 1, 1998 AND APRIL 30, 1999

<TABLE>
<CAPTION>

<S>	MAY 1, 1998 (NOTE 1) <C>	APRIL 30, 1999 (NOTE 1) <C>
ASSETS		
CURRENT ASSETS:		
Cash	$ 17,369	$ 250,575
Trade and other receivables, less allowance for doubtful accounts at May 1, 1998 and April 30, 1999 of $150,000 and $341,692, respectively	6,089,929	8,311,068
Costs and estimated earnings in excess of billings on uncompleted projects (Note 3)	5,234,468	7,550,247
Prepaid expenses	724,010	397,245
Refundable income taxes	--	85,495
Total current assets	12,065,776	16,594,630

OTHER ASSETS:		
Deferred income taxes (Note 8)	465,601	557,845
Goodwill, less amortization at May 1, 1998 and April 30, 1999 of 147,269 and $409,544, respectively (Note 2)	2,426,598	7,442,301
Other noncurrent assets	825,018	668,064
Total other assets	3,717,217	8,668,210
PROPERTY AND EQUIPMENT:		
Leasehold improvements	782,609	1,114,337
Furniture and fixtures	1,786,250	2,929,676
Total property and equipment	2,568,859	4,044,013
Less accumulated depreciation	(768,904)	(1,832,611)
Property and equipment, net	1,799,955	2,211,402
TOTAL ASSETS	$17,582,948	$27,474,242
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Notes payable (Note 4)	$ 2,250,000	
Accounts payable	3,041,859	$ 4,853,283
Accrued expenses	1,649,306	1,855,364
Income taxes payable	215,950	--
Billings in excess of costs and estimated earnings on uncompleted projects (Note 3)	3,008,023	3,179,882
Deferred income taxes (Note 8)	1,517,146	529,757
Current maturities of long-term debt (Note 4)	656,576	1,054,369
Total current liabilities	12,338,860	11,472,655
LONG-TERM DEBT (Note 4)	4,164,401	5,672,379
Deferred Income Taxes (Note 8)	--	1,325,138
TOTAL LIABILITIES	16,503,261	18,470,172
MINORITY INTEREST (Note 1)	--	21,930
WARRANTS OUTSTANDING (Note 4)	114,932	1,200
COMMITMENTS AND CONTINGENCIES (Note 5 and 6)		
STOCKHOLDERS' EQUITY:		
Capital Stock		
Common, $ .001 par value, voting, authorized 9,000,000 shares; issued 776,134 and 2,345,077, respectively (April 30, 1999, 267,667 shares will be issued on a delayed delivery schedule - Note 2)	776	2,345
Preferred, $.10 par value, voting, authorized 1,000,000 shares, no shares outstanding		
Additional paid in capital	185,623	7,408,864
Retained earnings	778,356	1,570,393
Foreign currency translation	--	(662)
Total stockholders' equity	964,755	8,980,940
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$17,582,948	$27,474,242

</TABLE>

See Notes to Consolidated Financial Statements.

HLM DESIGN, INC. AND AFFILIATES

STATEMENTS OF INCOME

YEAR ENDED APRIL 25, 1997,
ONE MONTH ENDED MAY 30, 1997 (PREDECESSOR) AND
YEARS ENDED MAY 1, 1998 AND APRIL 30, 1999 (CONSOLIDATED)

<TABLE>
<CAPTION>

	(PREDECESSOR)	(NOTE 1)
	YEAR ENDED	ONE MONTH ENDED

<S> <C> <C>

	APRIL 25, 1997	MAY 30, 1997 (UNAUDITED)
REVENUES (Note 1):		
Fee Income	$24,839,560	$1,998,611
Reimbursable income	1,915,150	234,425
Total revenues	26,754,710	2,233,036
CONSULTANT EXPENSES	4,857,891	192,862
PROJECT EXPENSES:		
Direct expenses	716,449	35,404
Reimbursable expenses	1,183,618	68,617
Total project expenses	1,900,067	104,021
NET PRODUCTION INCOME	19,996,752	1,936,153
DIRECT LABOR	6,618,293	602,096
INDIRECT EXPENSES	12,931,174	1,172,712
OPERATING INCOME	447,285	161,345
OTHER INCOME (EXPENSE):		
Interest income	6,502	54
Interest expense	(402,509)	(37,005)
Gain on lease termination (Note 5)	344,059	
Loss on sale of property	(58,424)	
Total other income (expense), net	(110,372)	(36,951)
INCOME BEFORE INCOME TAXES, MINORITY INTEREST AND EXTRAORDINARY ITEM	336,913	124,394
INCOME TAXES (Note 8):		
Current tax expense (benefit)	(4,461)	(11,907)
Deferred tax expense	224,260	54,907
Total income tax expense	219,799	43,000
NET INCOME BEFORE MINORITY INTEREST AND EXTRAORDINARY ITEM	117,114	81,394
MINORITY INTEREST IN EARNINGS (NOTE 1)		
NET INCOME BEFORE EXTRAORDINARY ITEM	117,114	81,394
EXTRAORDINARY ITEM FOR EARLY EXTINGUISHMENT OF DEBT, NET OF TAX BENEFIT OF $171,842		
NET INCOME	$ 117,114	$ 81,394
NET INCOME PER SHARE (NOTE 1)		
Basic		
Diluted		
NET INCOME PER SHARE BEFORE EXTRAORDINARY ITEM		
Basic		
Diluted		
NUMBER OF SHARES USED TO COMPUTE PER SHARE DATA (NOTE 1)		
Basic		
Diluted		
SUPPLEMENTAL NET INCOME PER SHARE (NOTE 1):		
NET INCOME PER SHARE BEFORE EXTRAORDINARY ITEM		
Basic		
Diluted		
NET INCOME PER SHARE		
Basic		
Dilute		
NUMBER OF SHARES USED TO COMPUTE PER SHARE DATA		
Basic		
Diluted		

<CAPTION>

<S> <C> <C>

	YEAR ENDED MAY 1, 1998 (NOTE 1)	YEAR ENDED APRIL 30, 1999 (NOTE 1)
REVENUES (Note 1):		
Fee Income	$ 27,401,122	$29,299,883
Reimbursable income	1,895,568	8,457,770

Total revenues	29,296,690	37,757,653
CONSULTANT EXPENSES	4,664,605	7,525,208
PROJECT EXPENSES:		
Direct expenses	890,873	742,633
Reimbursable expenses	837,194	1,504,094
Total project expenses	1,728,067	2,246,727
NET PRODUCTION INCOME	22,904,018	27,985,718
DIRECT LABOR	6,732,071	8,139,460
INDIRECT EXPENSES	13,626,956	17,110,728
OPERATING INCOME	2,544,991	2,735,530
OTHER INCOME (EXPENSE):		
Interest income	2,983	39,486
Interest expense	(1,030,351)	(759,097)
Gain on lease termination (Note 5)		
Loss on sale of property	(55,370)	
Total other income (expense), net	(1,082,738)	(719,611)
INCOME BEFORE INCOME TAXES, MINORITY INTEREST AND EXTRAORDINARY ITEM	1,462,253	2,015,919
INCOME TAXES (Note 8):		
Current tax expense (benefit)	323,035	697,201
Deferred tax expense	360,862	245,506
Total income tax expense	683,897	942,707
NET INCOME BEFORE MINORITY INTEREST AND EXTRAORDINARY ITEM	778,356	1,073,212
MINORITY INTEREST IN EARNINGS (NOTE 1)		326
NET INCOME BEFORE EXTRAORDINARY ITEM	778,356	1,072,886
EXTRAORDINARY ITEM FOR EARLY EXTINGUISHMENT OF DEBT, NET OF TAX BENEFIT OF $171,842		280,849
NET INCOME	$ 778,356	$ 792,037
NET INCOME PER SHARE (NOTE 1)		
Basic	$ 1.12	$ 0.39
Diluted	$ .91	$ 0.39
NET INCOME PER SHARE BEFORE EXTRAORDINARY ITEM		
Basic		$ 0.52
Diluted		$ 0.52
NUMBER OF SHARES USED TO COMPUTE PER SHARE DATA (NOTE 1)		
Basic	697,255	2,048,974
Diluted	854,453	2,048,974
SUPPLEMENTAL NET INCOME PER SHARE (NOTE 1):		
NET INCOME PER SHARE BEFORE EXTRAORDINARY ITEM		
Basic	$ 0.78	
Diluted	$ 0.70	
NET INCOME PER SHARE		
Basic	$ 0.57	
Dilute	$ 0.51	
NUMBER OF SHARES USED TO COMPUTE PER SHARE DATA		
Basic	1,305,774	
Diluted	1,462,976	

</TABLE>

See Notes to Consolidated Financial Statements.

HLM DESIGN, INC. AND AFFILIATES

STATEMENTS OF STOCKHOLDERS' EQUITY

YEAR ENDED APRIL 25, 1997,
ONE MONTH ENDED MAY 30, 1997 (PREDECESSOR), AND
INCEPTION MARCH 6, 1997 TO APRIL 25, 1997 AND THE
YEARS ENDED MAY 1, 1998 AND APRIL 30, 1999 (CONSOLIDATED)

HANSEN LIND MEYER INC. (PREDECESSOR)

<TABLE>
<CAPTION>

	COMMON STOCK CLASS A	COMMON STOCK CLASS B	RETAINED EARNINGS	ESOP DEBT GUARANTEE (NOTES 4 AND 9)	TOTAL STOCKHOLDERS' EQUITY
<S>	<C>	<C>	<C>	<C>	<C>
BALANCE, APRIL 26, 1996	$ 560	$ 7	$1,140,403	$ (382,774)	$ 758,196
Net Income			117,114		117,114
Retirement of 927 shares of common stock		(9)	(54,534)		(54,543)
Payments on Employee Stock Ownership Plan debt ..				382,774	382,774
Class A common stock exchanged for Class B common stock	(13)	13			
BALANCE, APRIL 25, 1997	547	11	1,202,983		1,203,541
Net income			81,394		81,394
BALANCE, MAY 30, 1997 (unaudited)	$ 547	$ 11	$1,284,377	$	$ 1,284,935

</TABLE>

HLM DESIGN, INC.

<TABLE>
<CAPTION>

	COMMON STOCK SHARES	COMMON STOCK AMOUNT	ADDITIONAL PAID IN CAPITAL
<S>	<C>	<C>	<C>
ORGANIZATION OF HLM DESIGN MARCH 6, 1997		$	$
Issuance of HLM Design, Inc. shares (subscription receivable)	618,375	618	2,382
BALANCE, APRIL 25, 1997	618,375	618	2,382
Payment for common stock (subscription receivable) HLM Design	157,759	158	183,241
Net Income			
BALANCE, MAY 1, 1998	776,134	776	185,623
Issuance of Common Stock (Note 9)	1,298,953	1,299	6,036,342
Issuance of Common Stock for purchase of JPJ Architects, Inc. (Note 2)	240,000	240	1,070,760
Issuance of Common Stock, for purchase of GA Design International Limited (Note 2)	27,667	28	108,737
Issuance of Common Stock under the employee stock purchase plan	2,323	2	7,402
Foreign Currency Translation			
Net Income			
BALANCE, APRIL 30, 1999	2,345,077	$ 2,345	$ 7,408,864

<CAPTION>

	RETAINED EARNINGS	STOCK SUBSCRIPTION RECEIVABLE	FOREIGN CURRENCY TRANSLATION	TOTAL STOCKHOLDERS' EQUITY

<S>	<C>	<C>	<C>	<C>
ORGANIZATION OF HLM DESIGN MARCH 6, 1997	$	$	$	$
Issuance of HLM Design, Inc. shares (subscription receivable)		(3,000)		
BALANCE, APRIL 25, 1997		(3,000)		
Payment for common stock (subscription receivable) HLM Design		3,000		186,399
Net Income	778,356			778,356
BALANCE, MAY 1, 1998	778,356			964,755
Issuance of Common Stock (Note 9)				6,037,641
Issuance of Common Stock for purchase of JPJ Architects, Inc. (Note 2)				1,071,000
Issuance of Common Stock, for purchase of GA Design International Limited (Note 2)				108,765
Issuance of Common Stock under the employee stock purchase plan				7,404
Foreign Currency Translation			(662)	(662)
Net Income	792,037			792,037
BALANCE, APRIL 30, 1999	$1,570,393	$	$ (662)	$ 8,980,940

</TABLE>

See Notes to Consolidated Financial Statements.

HLM DESIGN, INC. AND AFFILIATES

STATEMENTS OF CASH FLOWS

YEAR ENDED APRIL 25, 1997 AND
ONE MONTH ENDED MAY 30, 1997 (PREDECESSOR),
AND YEARS ENDED MAY 1, 1998 AND APRIL 30, 1999 (CONSOLIDATED)

<TABLE>
<CAPTION>

	(PREDECESSOR) (NOTE 1)	
	YEAR ENDED	ONE MONTH ENDED
	APRIL 25, 1997	MAY 30, 1997
		(UNAUDITED)
<S>	<C>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income	$ 117,114	$ 81,394
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Extraordinary item for early extinguishment of debt-net of tax benefit		
Depreciation	671,877	55,544
Amortization of goodwill	107,670	9,571
Amortization of deferred loan fees		
Deferred rent	(356,803)	
Deferred income taxes	224,260	54,907
Other	(15,000)	
Minority Interest		
Changes in certain working capital items:		
(Increase) decrease in trade and other receivables	1,343,508	(1,500,472)
(Increase) decrease in costs and estimated earnings compared to billings on uncompleted contracts, net	(883,880)	1,199,028
(Increase) decrease in refundable income taxes	72,056	(11,157)
(Increase) decrease in prepaid expenses and other assets	(258,403)	(11,579)
Increase (decrease) in accounts payable	(352,617)	233,659
Increase (decrease) in accrued expenses	(218,959)	(278,500)

Increase (decrease) in income taxes payable		
Increase in other non-current liabilities		15,000
Net cash (used in) provided by operating activities	450,823	(152,605)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(601,120)	(2,023)
Note receivable from officer		
Payment for purchase of GA Design International Holdings Ltd.		
Payment for purchase of JPJ Architects, Inc., net of cash acquired		
Net cash used in investing activities	(601,120)	(2,023)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net borrowings on line of credit	410,000	(2,360,000)
Net proceeds from issuance of common stock		
Proceeds from issuance of common stock under the employee stock purchase plan		
Proceeds from long-term borrowings	145,000	2,800,000
Net decrease in short-term borrowings		
Payments on long-term borrowings	(410,952)	(285,372)
Payment of deferred loan fees		
Payment on ESOP buyback		
Proceeds from issuance of notes payable to shareholders		
Proceeds from the issuance of warrants		
Proceeds from the exercise of warrants		
Proceeds from the issuance of common stock		
Retirement of common stock	(2,560)	
Proceeds from payment of stock subscription receivable		
Net cash provided by financing activities	141,488	154,628
INCREASE (DECREASE) in Cash	(8,809)	--
CASH BALANCE:		
Beginning of year	11,130	2,321
End of year	$ 2,321	$ 2,321
SUPPLEMENTAL DISCLOSURES:		
Cash paid (received) during the year for:		
Interest	$ 370,167	$ 6,827
Interest on Employee Stock Ownership Plan debt	$ 24,243	
Income tax payments (refunds)	$ (86,091)	$ (750)
Noncash investing and financing transactions:		
Retirement of common stock through issuance of note payable	$ 51,983	
Reduction of ESOP debt	$ 382,774	
Issuance of warrants to certain debt holders		
Acquisition of JPJ Architects, Inc.:		
Notes payable issued to JPJ Architects, Inc. shareholders		
Fair value of assets acquired and liabilities assumed, net		
Common stock to be issued on delayed delivery schedule		
Acquisition of GA Design Holdings International Ltd:		
Notes payable issued to GAIH shareholders		
Fair value of assets acquired and liabilities assumed, net		
Common stock to be issued on delayed delivery schedule		

<CAPTION>

<S>	<C> YEAR ENDED MAY 1, 1998 (NOTE 1)	<C> YEAR ENDED APRIL 30, 1999 (NOTE 1)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income	$ 778,356	$ 792,037
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Extraordinary item for early extinguishment of debt-net of tax benefit		280,849
Depreciation	468,556	675,924
Amortization of goodwill	147,269	262,275
Amortization of deferred loan fees	172,905	86,628
Deferred rent		
Deferred income taxes	(48,432)	251,379
Other	14,585	(662)
Minority Interest		326
Changes in certain working capital items:		
(Increase) decrease in trade and other receivables	(373,675)	609,861
(Increase) decrease in costs and estimated earnings compared to billings on uncompleted contracts, net	(184,513)	(2,549,431)
(Increase) decrease in refundable income taxes	485,047	

(Increase) decrease in prepaid expenses and other assets	(742,948)	222,069
Increase (decrease) in accounts payable	(1,418,834)	(539,268)
Increase (decrease) in accrued expenses	1,112,959	(475,238)
Increase (decrease) in income taxes payable	215,950	(497,117)
Increase in other non-current liabilities		
Net cash (used in) provided by operating activities	627,225	(880,368)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(737,356)	(815,668)
Note receivable from officer	30,000	
Payment for purchase of GA Design International Holdings Ltd.		(357,830)
Payment for purchase of JPJ Architects, Inc., net of cash acquired		(1,332,030)
Net cash used in investing activities	(707,356)	(2,505,528)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net borrowings on line of credit		1,618,336
Net proceeds from issuance of common stock		5,922,709
Proceeds from issuance of common stock under the employee stock purchase plan		7,407
Proceeds from long-term borrowings	6,712,307	
Net decrease in short-term borrowings		(688,630)
Payments on long-term borrowings	(3,584,491)	(3,241,920)
Payment of deferred loan fees	(56,300)	
Payment on ESOP buyback	(3,221,824)	
Proceeds from issuance of notes payable to shareholders	182,308	
Proceeds from the issuance of warrants	24,757	1,200
Proceeds from the exercise of warrants	(77)	
Proceeds from the issuance of common stock	34,899	
Retirement of common stock		
Proceeds from payment of stock subscription receivable	3,600	
Net cash provided by financing activities	95,179	3,619,102
INCREASE (DECREASE) in Cash	15,048	233,206
CASH BALANCE:		
Beginning of year	2,321	17,369
End of year	$ 17,369	$ 250,575
SUPPLEMENTAL DISCLOSURES:		
Cash paid (received) during the year for:		
Interest	833,674	$ 1,130,214
Interest on Employee Stock Ownership Plan debt		
Income tax payments (refunds)	47,194	$ 992,916
Noncash investing and financing transactions:		
Retirement of common stock through issuance of note payable		
Reduction of ESOP debt		
Issuance of warrants to certain debt holders	$ 238,752	
Acquisition of JPJ Architects, Inc.:		
Notes payable issued to JPJ Architects, Inc. shareholders		$ 872,320
Fair value of assets acquired and liabilities assumed, net		$ 180,150
Common stock to be issued on delayed delivery schedule		$ 1,071,000
Acquisition of GA Design Holdings International Ltd:		
Notes payable issued to GAIH shareholders		$ 605,920
Fair value of assets acquired and liabilities assumed, net		$ 21,004
Common stock to be issued on delayed delivery schedule		$ 108,765

</TABLE>

See Notes to Consolidated Financial Statements.

HLM DESIGN, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

INCEPTION MARCH 6, 1997 TO APRIL 25, 1997 AND THE YEAR ENDED APRIL 25, 1997 (PREDECESSOR), THE ONE MONTH PERIOD ENDED MAY 30, 1997 (UNAUDITED) (PREDECESSOR) AND THE YEARS ENDED MAY 1, 1998 AND APRIL 30, 1999

1. DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION AND BUSINESS -- HLM Design, Inc. ("the Company or HLM Design") is a management services company incorporated March 6, 1997 for the purpose of providing management and services to architectural, engineering and planning design entities under long term management services agreements ("MSAs").

In May 1997, HLM Design executed long term MSAs with HLM Design of North

America, Inc. ("HLMNA"), HLM of the Southeast, P. C. ("HLMSE") and HLM of the Northwest, Architecture, Engineering and Planning, P.C. ("HLMNW"). HLMSE and HLMNW, organized in 1996 and have had no operations through May 1, 1998. In July 1998, HLM Design entered into an MSA with each of HLM Design of the Midwest, Inc. ("HLMMW"), HLM Design of the Midatlantic, P. C. ("HLMMA") and HLM Design of the Northeast, Architecture, Engineering and Planning, P. C. ("HLMNE"). In October 1998, HLM Design entered into an MSA with JPJ Architects, Inc. ("JPJ"). In January 1999, HLM Design entered into an MSA with G.A. Design International Holdings, Ltd. ("GAIH"). HLMNA, HLMSE, HLMNW, HLMMW, HLMMA, HLMNE, JPJ and GAIH are referred to herein collectively as "Managed Firms".

The MSAs are for a term of 40 years. HLM Design is the sole and exclusive manager and administrator of all of the Managed Firms' day-to-day business functions including financial planning, facilities, equipment and supplies and management and administrative services (bookkeeping and accounts, general administration services, contract negotiation and administration for all non-architectural and non-engineering aspects of all agreements, personnel, security and maintenance, architectural and engineering recruiting and training, insurance, issuance of debt and capital stock and billing and collections). For these services, HLM Design receives all but 1% of the AEP's net income and positive cash flow (as determined in accordance with generally accepted accounting principles applied on a consistent basis).

In May 1997, HLMNA entered into a merger agreement with BBH Corp., a newly formed entity controlled by the principal shareholders of HLM Design, whereby HLM Design loaned BBH Corp. $3.2 million which BBH Corp. utilized to buy common stock in HLMNA. Under the merger agreement, BBH Corp. merged into HLMNA with HLMNA being the surviving entity. As a part of the merger agreement, HLMNA redeemed previously outstanding common stock of HLMNA from its Employee Stock Ownership Plan ("ESOP") and other shareholders that represented over 90% of the pre-merger voting interest. As a result of the change in control, the assets and liabilities of HLMNA were fair valued using purchase accounting principles and the excess of the fair value over the identified tangible net assets was reflected as goodwill.

FINANCIAL STATEMENT PRESENTATION

The financial statements included herein reflect the following:

- HLM Design, Inc. as of April 25, 1997, HLM Design, Inc. had no operations or cash flows from March 6, 1997, date of inception, to April 25, 1997.

- HLMNA (Predecessor) for the one month ended May 30, 1997 (unaudited), for the year ended April 25, 1997 (Predecessor).

- The Company consolidated with Managed Firms, from May 31, 1997 the effective date of the original MSAs and shareholders agreements and, as of May 1, 1998 and April 30, 1999 and for the years then ended, including JPJ and GAIH from their respective dates of acquisition. All significant balances and transactions between the Company and the Managed Firms have been eliminated in the consolidated financial statements.

HLMNA provides architectural and engineering consulting and design services from offices in Iowa City, Iowa, Chicago, Illinois, Denver, Colorado, Orlando, Florida, Dallas, Texas, Atlanta, Georgia, Bethesda, Maryland, Philadelphia, Pennsylvania, Portland, Oregon, Sacramento, California, Charlotte, North Carolina and London, U.K.

FISCAL YEAR-END POLICY -- Prior to April 28, 1997, the Company used a 52-53 week fiscal year for accounting purposes which defined the fiscal year-end date as the last Friday in April. In fiscal 1998, the Company changed its year-end to the Friday nearest the end of April, which is May 1, 1998 and contains 53 weeks. In fiscal 1999, the year end is April 30, 1999 which contains 52 weeks.

1. DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -- (Continued)

OPERATING CYCLE -- Assets and liabilities related to long-term contracts are included in current assets and current liabilities in the accompanying balance sheets, as they will be liquidated in the normal course of contract completion, although this may require more than one year.

REVENUE RECOGNITION -- Revenue is recognized, at estimated collectible amounts, in the period the services are performed. More specifically, the

Company recognizes revenues either on the percentage-of-completion method whereby the extent of the contract performance is measured by the percentage of cost incurred to date to estimated total cost for each contract, or based upon actual hours spent on the project times the agreed upon hourly rate. Consultant expenses, project expenses, direct labor and indirect expenses are charged to expense as incurred. Provisions for estimated losses on uncompleted projects are made in the period in which such losses are first subject to reasonable estimation. Unanticipated changes in project performance, project conditions and estimated profitability may result in revisions to costs and income and are recognized in the period in which the revisions are determined.

The asset "costs and estimated earnings in excess of billings on uncompleted projects" represents revenues recognized in excess of amounts billed. The liability "billings in excess of costs and estimated earnings on uncompleted projects" represents billings in excess of revenues recognized.

USE OF ESTIMATES -- The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The most significant estimate impacting the accompanying financial statements relates to revenue recognition.

PROPERTY AND EQUIPMENT -- Leasehold improvements and equipment are stated at cost. Depreciation is computed using the double-declining balance or straight-line method over the estimated useful lives of the assets or the lease term, including anticipated renewals. The estimated useful lives of property and equipment for financial reporting purposes are as follows:

	PREDECESSOR	CONSOLIDATED
Computer equipment and software	5 years	3-5 years
Furniture	7 years	5 years
Leasehold improvements	Lease term, not to exceed the useful life of the asset	Lease term, not to exceed the useful life of the asset

LONG-LIVED ASSETS -- The Company reviews the carrying value of its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of these assets may not be recoverable. Measurement of any impairment would include a comparison of estimated undiscounted future operating cash flows anticipated to be generated during the remaining life of the assets with their net carrying value. An impairment loss would be recognized as the amount by which the carrying value of the assets exceeds their fair value.

GOODWILL -- Goodwill represents the excess purchase price over the estimated fair value of the tangible and separately measurable intangible net assets acquired. The cumulative amount of goodwill at May 1 1998 was $2.4 million and at April 30, 1999 was $7.3 million. As a percentage of total assets and stockholders' equity, goodwill, net of accumulated amortization represented 13.6% and 251.5%, respectively at May 1, 1998 and 27.6% and 81.8%, respectively, at April 30, 1999. Generally accepted accounting principles require that goodwill and all other intangible assets be amortized over the period benefited. We have determined that the period benefited by the goodwill will be no less than 15 years. Accordingly, we are amortizing goodwill for the Managed Firms over a 15 to 25 year period. In later years, the Company would be burdened by a continuing charge against earnings without the associated benefit to income valued by management in arriving at the price paid for the businesses acquired. Earnings in later years also could be significantly affected if management then determined that the remaining balance of goodwill was impaired. We periodically compare the carrying value of goodwill with the anticipated undiscounted future cash flows from operations of the businesses we have acquired in order to evaluate the recoverability of goodwill. We have concluded that the anticipated future cash flows associated with intangible assets recognized in our acquisitions will continue indefinitely, and there is no pervasive evidence that any material portion will dissipate over a period shorter than 15 and 25 years, respectively. We will incur additional goodwill in future acquisitions.

1. DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING

DEFERRED INCOME TAXES -- Deferred income tax assets and liabilities are calculated based upon differences between the financial statement and tax basis of assets and liabilities that will result in taxable or deductible amounts in the future. Such deferred income tax asset or liability computations are based on enacted tax laws and rates applicable to periods in which the differences are expected to affect taxable income.

FINANCIAL INSTRUMENTS -- The carrying amount of cash, accounts receivable, accounts payable and accrued liabilities approximates their fair value because of the short maturities of these instruments. The Company's bank borrowings approximate fair value because of interest rates that are based on variable reference rates. See Note 4 as to fair value of certain obligations.

NEW ACCOUNTING PRONOUNCEMENTS -- In June 1997, the Financial Accounting Standard Board issued Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information." Effective April 30, 1999, the Company adopted SFAS No. 131 which redefines how operating segments are determined and requires disclosure of certain financial and descriptive information about a company's operating segments. The Company operates in one segment, which provides architectural, engineering and planning services.

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instrument and Hedging Activities." This Standard establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and hedging activities. The Statement will become effective for the Company beginning April 29, 2001. However, the Company has elected earlier application of all of the provisions of this Statement beginning January 30, 1999. The implementation of the provisions of this Statement did not have an impact on the Company's financial statements for the year ended April 30, 1999.

NET INCOME PER SHARE -- The calculation of diluted net income per share considers the potential dilutive effect of warrants to purchase shares of common stock at $0.01 per share which were outstanding from May 30, 1997 to April 30, 1999.

SUPPLEMENTAL PER SHARE DATA -- Supplemental net income per share in the accompanying financial statements has been prepared based upon the shares outstanding giving effect to the issuance of common stock related to the initial public offering pro rata for common stock used to pay certain indebtedness as discussed in Note 9. In addition, net income has been adjusted to give effect to the initial public offering (the "Offering") and the fiscal 1998 business acquisition (as discussed in Note 2) as if the transactions had occurred at the beginning of the year.

RECLASSIFICATIONS -- Certain reclassifications have been made to fiscal 1997 and 1998 to conform to fiscal 1999 presentation.

2. BUSINESS ACQUISITIONS

HLMNA AND BBH CORP. MERGER:

Effective May 23, 1997, HLM Design of North America, Inc. sold 50,000 newly issued shares to BBH Corp., a Delaware corporation, for approximately $3.2 million. On May 23, 1997, BBH Corp. merged into HLM Design of North America, Inc. and each BBH Corp. share outstanding at the time of merger was converted into one share of HLM Design of North America, Inc.'s stock. All HLM Design of North America, Inc. shares held by BBH Corp. were canceled and retired.

Effective as of May 31, 1997, HLM Design of North America, Inc. repurchased all 46,858 shares of its common stock from the ESOP for $64 per share as part of a merger agreement with BBH Corp. As a result of this transaction, the ESOP will effectively cease once the proceeds of the sale have been distributed by the Trustee to the ESOP's participants following IRS approval of the ESOP's termination.

The total purchase price, including direct acquisition costs has been allocated to the assets acquired and the liabilities assumed at their estimated fair values at acquisition date as follows:

Working capital deficiency	$ (7,045,092)
Property and equipment	1,531,155
Other assets	6,320,087
Goodwill	2,573,867
Total	$ 3,380,017

The following unaudited pro forma financial data is presented as if the transaction had occurred at the beginning of the respective year.

	YEAR ENDED MAY 1, 1998
Revenues	$ 31,529,729
Net Income	$ 856,335
Earnings Per Share	
Basic	$ 1.23
Diluted	$ 1.00

The pro forma information presented above is not necessarily indicative of the operating results that would have occurred had the transaction occurred at the beginning of the respective periods. These results are also not necessarily indicative of the results of future operations.

JPJ ARCHITECTS, INC. ACQUISITION:

On October 30, 1998, the Company purchased all the issued and outstanding common stock of JPJ Architects, Inc. ("JPJ") for $2.4 million in cash, an aggregate of 240,000 shares of the Company's common stock, and subordinated promissory notes bearing interest at 7 percent in the aggregate principal amount of $1,160,000. The purchase agreement specifies delivery of 30 percent of the aggregate shares of the Company's stock and the principal amount of the promissory notes on each of October 30, 2000 and October 30, 2001 and delivery of the remaining 40 percent of the aggregated shares of stock and the principal amount of the promissory notes on October 30, 2002. Following the purchase, the Company and JPJ entered into Management Services Agreement whereby the Company will manage all aspects of JPJ other than the provisions of professional architectural services.

The acquisition has been accounted for using the purchase method of accounting. The purchase price has been allocated to the assets and liabilities acquired based on their estimated fair value at the acquisition date.

Working capital	$ 444,585
Property and equipment	158,266
Other assets	143,020
Goodwill	3,597,449
Total	$4,343,320

2. BUSINESS ACQUISITIONS -- (Continued)

The following unaudited pro forma financial data is presented as if the transaction occurred as of the beginning of the respective years:

	YEAR ENDED	
	MAY 1, 1998	APRIL 30, 1999
Revenues	$45,677,796	$ 45,265,496
Net Income	$ 1,233,688	$ 957,421
Earnings Per Share:		
Basic		$ 0.43
Diluted		$ 0.43

G A DESIGN INTERNATIONAL HOLDINGS LTD.

On January 29, 1999, the Company purchased 95 percent of the issued and outstanding common stock of G A Design International Holdings Ltd. ("GAIH") for a combination of cash, 27,667 shares of HLM Design common stock and promissory notes for a total of approximately $1,037,000. The purchase agreement specifies delivery of 33.3% of the aggregate shares of the stock on each of January 29, 2000, January 2001 and January 2002. The acquisition has been accounted for using the purchase method of accounting. The purchase price has been allocated to the assets and liabilities acquired based on their estimated fair value at the acquisition date resulting in an allocation of goodwill of approximately $1,042,000. The pro forma effect, assuming purchase at the beginning of the year would not be material to the results of operations or earnings per share.

3. CONTRACTS IN PROGRESS

Information relative to contracts in progress is as follows:

	MAY 1, 1998	APRIL 30, 1999
Costs incurred on uncompleted projects (excluding overhead)	$45,830,792	$ 52,092,171
Estimated earnings thereon	45,335,896	49,678,268
Total	91,166,688	101,770,439
Less billings to date	88,940,243	97,400,073
Net underbillings	$ 2,226,445	$ 4,370,366

Net underbillings are included in the accompanying balance sheets as follows:

	MAY 1, 1998	APRIL 30, 1999
Costs and estimated earnings in excess of billings on uncompleted projects	$ 5,234,468	$ 7,550,248
Billings in excess of costs and estimated earnings on uncompleted projects	(3,008,023)	(3,179,882)
Net underbillings	$ 2,226,445	$ 4,370,366

4. FINANCING ARRANGEMENTS

A summary of financing arrangements at April 30, 1999 is as follows:

Notes Payable -- Revolving Line of Credit

Prior to August 31, 1998, the Company maintained a financing facility with First Charter National Bank, which provides a line of credit of up to $1,500,000. On August 31, 1998, the Company increased its revolving line of credit with First Charter National Bank from $1,500,000 to $3,000,000. In addition, on March 26, 1999, the Company increased its revolving line of credit with the same lender from $3,000,000 to $5,000,000. At April 30, 1999, the Company had borrowings of $3,118,336. The revolving line of credit is secured by, among other things, a security interest in all accounts receivable. This loan bears interest at prime plus one percent and matures on June 30, 2000.

Notes Payable -- Other

In September 1997, the Company entered into debt agreements with Berthel Fisher, an underwriter of the Offering, of $250,000 and $500,000. Interest was charged at 12% and monthly interest payments were due through July 1, 1998. The final payment for all accrued interest and principal was due on July 1, 1998. The Company repaid this obligation from the net proceeds of the Initial Public Offering (the "Offering") in June 1998.

A summary of long-term debt is as follows:

<TABLE>
<CAPTION>

<S>	MAY 1, 1998 <C>	APRIL 30, 1999 <C>
Revolving credit facility to First Charter National Bank, payable June 30, 2000 including interest at prime plus 1% (8.75% at April 30, 1999)		$3,118,336
Notes payable of $1,160,000 to former JPJ Architect, Inc. shareholders, (fair value of $901,003) due in annual installments of $348,000 beginning October 2000, plus interest at 7%, with final payment due October 2002 of $464,000....................................		918,720
Notes payable to former GA Design International Holdings Limited shareholder (fair value of $405,100) due in installments of $221,500, plus interest at 7%, in August 1999 and $82,500, plus interest at 7% due in annual installments with final payment in August 2002		416,895
Notes payable to former GA Design International Holdings Limited shareholder due in various installments with final payment due January 2001		187,550
Notes payable to Messrs. Harris and Brannon at 15%, with a final payment due July 31, 1998	$ 27,000	$ --
Notes payable to a former stockholder, due in annual payments of $49,522, plus interest at the prime rate of Chase Manhattan Bank as of the date each installment is due (8.25% at April 25, 1997); collateralized by 3,088 shares of HLMNA's unissued common stock, with a final payment due April 2000	148,567	49,522
Notes payable to former stockholders, due in installments plus interest at prime plus 1% at various dates to October 1999	4,755	4,746
Notes payable, MPB Architects, due in annual payments, including interest at a rate of 10.5%, with a final payment due April, 1998	64,850	--
Notes payable to Pacific Capital/Equitas, payable June, 2002 including interest of 13.5% due in monthly payments	1,980,000	--
Notes payable to HLM Design, Inc. shareholders at 6% with final payment due at various dates to August 2002	165,260	--
Lease financing with Berthel Fisher, due in monthly payments of $64,501, including interest at 14.07%, with final lease and interest payments due on April 2002 (fair value of $2,905,000 at April 30, 1999)....................................	2,430,545	1,969,609
Other		61,370
Total long-term debt	4,820,977	6,726,748
Less current maturities	656,576	1,054,369
Long-term portion	$4,164,401	$5,672,379

</TABLE>

4. FINANCING ARRANGEMENTS -- (Continued)

In May 1997, HLMNA entered into a financing arrangement, in the form of a capital lease agreement, with Berthel Leasing, a subsidiary of Berthel Fisher, for $2.8 million. The substance of such agreement is a financing arrangement and has been presented as such in the financial statements.

Substantially all assets are pledged under financing agreements described above.

Annual principal payments of the various financing agreements are as follows:

Fiscal 2000	$1,054,369
Fiscal 2001	4,086,703
Fiscal 2002	1,059,465
Fiscal 2003	526,211
Total	$6,726,748

5. LEASE COMMITMENTS

The total minimum rental commitment under non-cancelable operating leases at April 30, 1999, which has been reduced by minimum rentals to be received under subleases, are as follows:

Fiscal 2000	$1,509,422
Fiscal 2001	1,459,282
Fiscal 2002	1,488,068
Fiscal 2003	1,312,075
Fiscal 2004	1,147,975
Thereafter	1,972,700
Total	$8,889,522

In 1997, HLMNA terminated facility leases that were being accounted for as operating leases, resulting in a gain of $344,059. The recorded gain represents the cumulative excess of lease expense over the lease payments made as of the termination date.

6. CONTINGENCIES

The Company is involved in various disputes and legal actions related to contract operations. In the opinion of Company management, the ultimate resolution of these actions will not have a material effect on the Company's financial position, future results of operations or cash flows.

7. RELATED PARTY TRANSACTIONS

During the year ended April 30, 1999, the Company incurred $40,000 in consulting fees for services provided by a director. During the year ended May 1, 1998, the Company incurred $22,911 in financing advisory fees related to debt financings for services provided by a director. During the year ended April 25, 1997, HLMNA incurred $257,017 in financing advisory fees related to debt financing arranged by a director. Such director resigned effective October, 1997.

8. INCOME TAXES

The provision for income taxes is as follows:

	(PREDECESSOR) YEAR ENDED	YEAR ENDED

	APRIL 25, 1997	MAY 1, 1998	APRIL 30, 1999
Current expense (benefit):			
Federal	$ (3,903)	$190,424	$581,665
State	(558)	132,611	115,536
Deferred	224,260	360,862	245,506
Total income tax expense	$219,799	$683,897	$942,707

The reconciliation of the statutory federal income tax rate with the Company's overall effective federal and state income rate is as follows:

	(PREDECESSOR) YEAR ENDED	YEAR ENDED	
	APRIL 25, 1997	MAY 1, 1998	APRIL 30, 1999
Statutory federal rate	35.0%	34.0%	34.0%
State income taxes, net of federal benefit	3.3	4.0	4.7
Penalties	17.4	1.9	1.7
Meals and entertainment	9.3	2.0	0.8
Goodwill		3.8	4.4
Other	.3	.4	1.2
Effective Tax Rates	65.3%	46.1%	46.8%

The tax effect of temporary differences giving rise to deferred income tax assets and liabilities as of May 1, 1998 and April 30, 1999 is as follows:

	MAY 1, 1998	APRIL 30, 1999
Deferred income tax liabilities -- difference between the accrual basis and cash basis of accounting related to certain assets and liabilities	$ (1,517,146)	$ (1,881,680)
Prepaid expenses		(68,568)
Total deferred tax liabilities	(1,517,146)	(1,950,248)
Deferred income tax assets:		
Contribution carry forwards	42,554	--
Property and equipment	258,908	268,105
Net operating loss carry forwards	76,273	--
Deferred state taxes	60,280	--
Allowances		385,093
Other deferred assets	27,586	
Total deferred income tax assets	465,601	653,198
Deferred income tax liabilities, net	$ (1,051,545)	$ (1,297,050)

Management believes it is probable that the Company will realize the tax benefits of the deductible differences that were available as of April 30, 1999.

The Company, and its Managed Firms, except JPJ, file separate federal and state income tax returns. The Company and JPJ file a consolidated federal income tax return.

9. STOCKHOLDERS' EQUITY

PUBLIC OFFERING OF COMMON STOCK -- The Company completed the Offering of 1,200,000 shares of its common stock on June 12, 1998 at a price of $6.00 per share. Net proceeds of the Offering of $5.92 million (after underwriting discount and other offering expenses) were used to repay certain indebtedness consisting of: (a) $2.0 million due under Pacific Capital/Equitas, and (b) $0.75 million term loan from Berthel Leasing and $0.2 million to employee stockholders (See Note 4 -- Financing Arrangements). Remaining net proceeds were used for development of new business and other general corporate purposes.

The early extinguishment of the Pacific Capital, L.P., Equitas, L.P. and Berthel Fisher & Company Financial Services, Inc. debt resulted in an extraordinary charge of $280,849, net of income taxes of $171,842, that consisted of write-off of related unamortized financing costs.

PREFERRED STOCK -- The Company's Certificate of Incorporation authorizes the Board of Directors of the Company to issue 1,000,000 shares of preferred stock with such designations, rights and preferences as may be determined from time to time by the Board of Directors. Accordingly, the Board of Directors is empowered, without stockholder approval, to issue preferred stock with dividend, liquidation, conversion, voting or other rights that could adversely effect the voting power or other rights of the holders of the Company's Common Stock. No shares of preferred stock have been issued.

WARRANTS -- In May 1997, warrants to purchase 183,244 shares of HLM Design common stock (as adjusted for subsequent stock splits) were attached to the notes issued to Pacific Capital and Equitas. In addition, warrants to purchase 43,631 shares of HLM Design common stock (as adjusted for subsequent stock splits) were attached to the notes issued to Berthel Fisher in September 1997 and in December 1997. Each warrant allows holders to purchase a share of common stock for $.01 per share for a five year period. At April 30, 1999, all of the warrants held by Berthel Fisher, Pacific Capital and Equitas were exercised.

In connection with the Offering, the Company sold to Berthel Fisher, for a price of $0.01 per warrant, warrants to purchase 120,000 shares of common stock exercisable at $6.00 per share. At April 30, 1999, all of these Berthel Fisher warrants were outstanding.

10. EMPLOYEE BENEFIT PLANS

401(K) PLAN -- Substantially all employees are eligible to participate in a 401(k) plan. Contribution expense for the year ended May 1, 1998, and April 30, 1999 were $27,933 and $53,886, respectively. Prior to fiscal 1998, there was no company contribution.

EMPLOYEE STOCK PURCHASE PLAN -- In February 1998, the Board of Directors and stockholders of the Company adopted the HLM Design Inc. Employee Stock Purchase Plan (the "ESPP"). A total of 57,954 shares of common stock has been reserved under the ESPP, provided that the number of shares issued or issuable under the ESPP and under the Stock Option Plan (discussed below) shall not exceed in the aggregate 10% of the total number of shares of common stock outstanding. On January 1 of each year, all eligible employees electing to participate will be granted options to purchase shares of Common Stock. The purchase price of common stock purchased through the ESPP will be 85% of the lesser of (i) the fair market value of the common stock on the applicable Grant Date and (ii) the fair market value of the common stock on the applicable exercise date. Options will expire on the last exercise date of the calendar year in which granted. As of April 30, 1999, 2,323 shares have been granted or issued under the ESPP.

STOCK OPTION PLAN -- In February 1998, the Board of Directors and stockholders of the Company adopted the HLM Design, Inc. Stock Option Plan (the "Stock Option Plan") with respect to common stock in order to attract and retain key personnel. Under the Stock Option Plan, options to purchase an aggregate of 159,955 shares of common stock may be granted to key employees of HLM Design and its Managed Firms and to officers, directors, consultants and other individuals providing services to the Company. The Board of Directors of HLM Design has approved the grant of 115,908 shares of common stock to two key employees.

The Company measures the compensation cost of its stock option plan under the provisions of Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees", as permitted under Statement of Financial Accounting Standards (SFAS) No. 123, "Accounting for Stock-Based Compensation". Under the provisions of APB No. 25,

10. EMPLOYEE BENEFIT PLANS -- (Continued)

compensation cost is measured based on the intrinsic value of the equity instrument awarded. Under the provisions of SFAS No. 123, compensation cost is measured based on the fair value of the equity instrument awarded.

Of the options outstanding as of April 30, 1999, 115,908 are currently exercisable and have an exercise price from $4.50 to $6.60 per share. The remaining contractual life of the options outstanding at April 30, 1999 ranges from 4.1 years to 9.3 years. The average fair value of options granted was $3.75 per share in 1999. The fair value of each option grant is estimated on the date of grant using the Black-Sholes option pricing model with the following assumptions: expected volatility of 60%; risk-free interest rate of 5.2%; and expected life of 8 years. The model reflects that no dividends were declared in 1999 and assumes that no dividends will be declared in the future.

Had compensation cost for the options been determined consistent with SFAS No. 123, the Company's net income and net income per share would approximate the pro forma amounts of $562,000 and $0.27 respectively.

11. HLM DESIGN FINANCIAL INFORMATION (UNAUDITED)

HLM Design's balance sheet as of May 1, 1998 and April 30, 1999 and income statement for the years ended May 1, 1998 and April 30, 1999 are as follows:

	MAY 1, 1998	APRIL 30, 1999
BALANCE SHEET		
Current assets	$ 122,150	$ 5,796,744
Non-current assets	5,639,400	18,694,315
Total assets	$5,761,550	$24,491,059
Current liabilities	$2,073,271	$11,262,327
Non-current liabilities	2,723,524	4,247,792
Total liabilities	4,796,795	15,510,119
Total stockholders' equity	964,755	8,980,940
Total liabilities & stockholders' equity	$5,761,550	$24,491,059
INCOME STATEMENT		
Revenue		$ 8,095,095
Equity in earnings of affiliates	$1,443,958	1,058,872
Consultant, project and direct labor expense		5,788,134
Net interest, tax and other expense	665,602	2,573,796
Net income	$ 778,356	$ 792,037

12. UNAUDITED QUARTERLY FINANCIAL DATA

	1999			
	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER
Net Production Income	$6,344,991	$ 6,243,102	$ 7,271,359	$ 8,126,266
Operating Income	$ 557,129	$ 576,811	$ 612,439	$ 989,986
Net Income (Loss)	$ (89,227)	$ 249,785	$ 205,389	$ 426,090

Net Income (Loss) Per Common Share (A)	$ (.06)	$ .12	$ .09	$ .18

	1998			
	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER
Net Production Income	$4,103,553	$6,201,331	$6,061,029	$6,538,105
Operating Income	$ 348,384	$ 901,829	$ 569,082	$ 740,281
Net Income	$ 47,201	$ 331,914	$ 177,496	$ 221,745

(A) In the first quarter 1999, as a result of the Offering, certain debt was repaid resulting in an extraordinary charge of $280,849, net of income taxes of $171,842, that consisted of write-off of related unamortized financing costs. Net income before such extraordinary item was $1,072,886 and net income per share was $0.13.

SIGNATURE PAGE

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

HLM DESIGN, INC.

By: /s/ VERNON B. BRANNON

VERNON B. BRANNON
SENIOR VICE PRESIDENT, TREASURER AND CHIEF FINANCIAL OFFICER

Date: July 27, 1999

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

SIGNATURE	TITLE	DATE
/s/ JOSEPH M. HARRIS JOSEPH M. HARRIS	President, Chief Executive Officer (principal executive officer) and Chairman	July 27, 1999
/s/ VERNON B. BRANNON VERNON B. BRANNON	Senior Vice President, Treasurer, Chief Financial Officer (principal financial and accounting officer) and Director	July 27, 1999
/s/ L. FRED POUNDS L. FRED POUNDS	Director	July 27, 1999

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

This Nonstatutory Stock Option Agreement and Grant is entered into as of the 1st day of September , 1998 between HLM Design, Inc., a Delaware corporation (the "Company"), and Fred Pounds (the "Optionee").

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

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

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

1. DEFINITIONS.

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

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

(b) "BOARD" shall mean the Board of Directors of the Company; provided, that Optionee shall decline to vote with respect to any issue involving this Option.

(c) "CAUSE" shall mean any act, action or series of acts or actions or any omission, omissions, or series of omissions which result in, or which have the effect of resulting in, (i) the commission of a crime by the Optionee involving moral turpitude, which crime has a material adverse impact on the Company or any Subsidiary, (ii) gross negligence or willful misconduct which is continuous and results in material damage to the Company or any Subsidiary, or (iii) any conduct which, in the judgment of the Committee, involves a breach of fiduciary duty by the Optionee or other conduct detrimental to the Company.

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

(e) "COMMITTEE" shall mean the committee of members of the Board that is designated by the Board to administer the Plan; provided that, if

Optionee is a member of the Committee, then Optionee shall decline to vote with respect to any issue involving this Option. In the event that no such Committee exists or is appointed, "COMMITTEE" shall mean the Board.

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

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

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

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

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

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

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

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

(n) "OPTION PERIOD" shall mean the period commencing from the date of this Option Agreement and ending at the close of business ten years from the date of this Option Agreement or such earlier date as when this Option Agreement may be terminated by its terms.

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

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

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

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

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

(s) "RETIREMENT" shall mean, with respect to the Optionee, retirement from the Board in accordance with the Board's retirement policy as may be in effect from time to time.

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

(u) "TERMINATION" shall mean the cessation, for any reason, of the Optionee's status as a member of the Board.

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

2. GRANT OF OPTION. Effective upon the date hereof, and subject to the terms and conditions set forth herein, the Company hereby grants to the Optionee the Option to purchase from the Company, at an exercise price of $ 4.50 (but not less than 100% of the Fair Market Value on the date of the grant of this Option

per share), up to but not exceeding in the aggregate Ten Thousand (10,000) shares of Common Stock.

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

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

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

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

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

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

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

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

(a) The expiration of the Option Period.

(b) The Termination of the Optionee's status as a director of the Company for any reason other than the Optionee's death, Disability or Involuntary Termination Without Cause.

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

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

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

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

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

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

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

6. PAYMENT OF WITHHOLDING TAXES. Upon the Optionee's exercise of his or her Option with respect to any of the Option Shares in accordance with the provisions of paragraph 3 above, the Optionee shall pay to the Company upon exercise of the Option the amount of any federal, state or local income tax withholding or other tax that may be due upon such exercise. The determination of the amount of any such federal, state or local income tax withholding or other tax due in such event shall be made by the Company and shall be binding upon the Optionee. Nothing in this Section or Agreement shall be construed to impose on the Company a duty to withhold where applicable law does not require such withholding, or to imply that the Optionee is an employee or anything other than an independent director of the Company.

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

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

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

The existence of this Option shall not affect in any way the right or power of the Company or its shareholders to make or authorize any or all adjustments, dividends, stock dividends, recapitalization, reorganizations or other changes in the Company's capital structure or its business, or any merger or consolidation of the Company, or any issue of bonds, debentures, preferred or other stocks with preference ahead of or convertible into, or otherwise affecting, the Common Stock or the rights thereof, or the dissolution or liquidation of the Company, or any sale or transfer of all or any part of its assets or business, or any other corporate act or proceeding, whether of a similar character or otherwise.

8. NO REGISTRATION RIGHTS. Anything in this Option Agreement to the contrary notwithstanding, if, at any time specified herein for the issuance of Option Shares, any law, regulation or requirements of any governmental authority having jurisdiction in the premises shall require either the Company or the Optionee, in the opinion of the Company's counsel, to take any action in connection with the shares then to be issued, the issue of such shares shall be deferred until such action shall have been taken. Nothing in this Option Agreement shall be construed to obligate the Company at any time to file or maintain the effectiveness of a registration statement under the Act, or under the securities laws of any state or other jurisdiction, or to take or cause to be taken any action which may be necessary in order to provide an exemption from the registration requirements of the Act under Rule 144 or any other exemption with respect to the Option Shares or otherwise for resale or other transfer by the Optionee (or by the executor or administrator of such Optionee's estate or a person who is a Permitted Transferee or who acquired the Option or any Option Shares or other rights by bequest or inheritance or by reason of the death of the Optionee) as a result of the exercise of an Option granted pursuant to this Option Agreement.

9. RESOLUTION OF DISPUTES. Any dispute or disagreement that arises under, or as a result of, or pursuant to, this Option Agreement shall be determined by the Committee in its absolute and uncontrolled discretion, and any such determination or other determination by the Committee under or pursuant to this Option Agreement, and any interpretation by the Committee of the terms of this Option Agreement, shall be final, binding and conclusive on all parties affected thereby.

10. COMPLIANCE WITH THE ACT. Notwithstanding any provision herein or in the Plan to the contrary, the Company shall be under no obligation to issue any shares of Common Stock to the

Optionee upon exercise of the Option granted hereby unless and until the Company has determined that such issuance is either exempt from registration, or is registered, under the Act and is either exempt from registration and qualification, or is registered or qualified, as applicable, under all applicable state securities or "blue sky" laws.

11. MISCELLANEOUS.

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

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

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

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

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

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

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

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

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

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

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

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

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

HLM DESIGN, INC.

By: /s/ SIGNATURE ILLEGIBLE

Title: CEO

OPTIONEE: FRED POUNDS

/s/ Fred Pounds (SEAL)

TYPE: EX-10
DESCRIPTION: EXHIBIT 10.60

EXHIBIT 10.60

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PROMISSORY NOTE

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$5,000,000	03-26-99	06-30-2000	2069136	004A	905		GRS	

References in the shaded area are for Lender's use only and do not limit the applicability of this document to any particular loan or item.

Borrower:	HLM DESIGN, INC. (TIN: 56-2018819) 121 West Trade Street, Suite 2950 Charlotte, NC 28202	Lender:	First Charter National Bank P. O. Box 228 Concord, NC 28026-0228

Principal Amount: $5,000,000.00 Initial Rate: 8.75% Date of Note: March 26, 1999
</TABLE>

PROMISE TO PAY. HLM DESIGN, INC. ("BORROWER") PROMISES TO PAY TO FIRST CHARTER NATIONAL BANK ("LENDER"), OR ORDER, IN LAWFUL MONEY OF THE UNITED STATES OF AMERICA, THE PRINCIPAL AMOUNT OF FIVE MILLION & 00/100 DOLLARS ($5,000,000.00) OR SO MUCH AS MAY BE OUTSTANDING, TOGETHER WITH INTEREST ON THE UNPAID OUTSTANDING PRINCIPAL BALANCE OF EACH ADVANCE. INTEREST SHALL BE CALCULATED FROM THE DATE OF EACH ADVANCE UNTIL REPAYMENT OF EACH ADVANCE.

PAYMENT. BORROWER WILL PAY THIS LOAN IN ONE PAYMENT OF ALL OUTSTANDING PRINCIPAL PLUS ALL ACCRUED UNPAID INTEREST ON JUNE 30, 2000. IN ADDITION, BORROWER WILL PAY REGULAR MONTHLY PAYMENTS OF ACCRUED UNPAID INTEREST BEGINNING APRIL 10, 1999. AND ALL SUBSEQUENT INTEREST PAYMENTS ARE DUE ON THE SAME DAY OF EACH MONTH AFTER THAT. The annual interest rate for this Note is computed on a 365/360 basis; that is, by applying the ratio of the annual interest rate over a year of 360 days, multiplied by the outstanding principal balance, multiplied by the actual number of days the principal balance is outstanding. Borrower will pay Lender at Lender's address shown above or at such other place as Lender may designate in writing. Unless otherwise agreed or required by applicable law, payments will be applied first to accrued unpaid interest, then to principal, and any remaining amount to any unpaid collection costs and late charges.

VARIABLE INTEREST RATE. The interest rate on this Note is subject to change from time to time based on changes in an independent index which is the Prime Rate as published in the Wall Street Journal. When a range of rates has been published, the higher of the rates will be used (the "Index"). The Index is not necessarily the lowest rate charged by Lender on its loans. If the index becomes unavailable during the term of this loan, Lender may designate a substitute Index after notice to Borrower. Lender will tell Borrower the current Index rate upon Borrower's request. Borrower understands that Lender may make loans based on other rates as well. The interest rate change will not occur more often than each day. THE INDEX CURRENTLY IS 7.750% PER ANNUM. THE INTEREST RATE TO BE APPLIED TO THE UNPAID PRINCIPAL BALANCE OF THIS NOTE WILL BE AT A RATE OF 1.000 PERCENTAGE POINT OVER THE INDEX, RESULTING TO THE INITIAL RATE OF 8.750% PER ANNUM. NOTICE: Under no circumstances will the interest rate on this Note be more than the maximum rate allowed by applicable law.

PREPAYMENT. Borrower may pay without penalty all or a portion of the amount owed earlier than it is due. Early payments will not, unless agreed to by Lender in writing, relieve Borrower of Borrower's obligation to continue to make payments of accrued unpaid interest. Rather, they will reduce the principal balance due.

LATE CHARGE. If a payment is 15 DAYS OR MORE LATE, Borrower will be charged 4.00% OF THE REGULARLY SCHEDULED PAYMENT.

DEFAULT. Borrower will be in default if any of the following happens: (a) Borrower fails to make any payment when due. (b) Borrower breaks any promise Borrower has made to Lender, or Borrower fails to comply with or to perform when due any other term, obligation, covenant, or condition contained in this Note or any agreement related to this Note, or in any other agreement or loan Borrower has with Lender* (c) Any representation or statement made or furnished to Lender by Borrower or on Borrower's behalf is false or misleading in any material respect either now or at the time made or furnished. (d) Borrower becomes insolvent, a receiver is appointed for any part of Borrower's property, Borrower makes an assignment for the benefit of creditors, or any proceeding is commenced either by Borrower or against Borrower under any bankruptcy or insolvency laws. (e) Any creditor tries to take any of Borrower's property on or in which Lender has a lien or security interest. This includes a garnishment of any of Borrower's accounts with Lender. (f) Any guarantor dies or any of the other events described in this default section occurs with respect to any guarantor of this Note. (g) A material adverse change occurs in Borrower's financial condition, or Lender believes the prospect of payment or performance of the indebtedness is impaired. (h) Lender in good faith deems itself insecure. *after Borrower shall have received written notice of such default and not cured such default within thirty (30) days.

LENDER'S RIGHTS. Upon default, Lender may declare the entire unpaid principal balance on this Note and all accrued unpaid interest immediately due, without notice, and then Borrower will pay that amount. Lender may hire or pay someone else to help collect this Note if Borrower does not pay. Borrower also will pay Lender that amount. This includes, subject to any limits under applicable law, Lender's reasonable attorneys' fees and Lender's legal expenses whether or not there is a lawsuit, including reasonable attorneys' fees and legal expenses for bankruptcy proceedings (including efforts to modify or vacate any automatic stay or injunction), appeals, and any anticipated post-judgment collection services. If not prohibited by applicable law, Borrower also will pay any court costs, in addition to all other sums provided by law. THIS NOTE HAS BEEN DELIVERED TO LENDER AND ACCEPTED BY LENDER IN THE STATE OF NORTH CAROLINA. IF THERE IS A LAWSUIT, BORROWER AGREES UPON LENDER'S REQUEST TO SUBMIT TO THE JURISDICTION OF THE COURTS OF CABARRUS COUNTY, THE STATE OF NORTH CAROLINA. THIS NOTE SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NORTH CAROLINA.

RIGHT OF SETOFF. Borrower grants to Lender a contractual security interest in, and hereby assigns, conveys, delivers, pledges, and transfers to Lender all Borrower's right, title and interest in and to, Borrower's accounts with Lender (whether checking, savings, or some other account), including without limitation all accounts Borrower may open in the future, excluding however all IRA and Keogh accounts, and all trust accounts for which the grant of a security interest would be prohibited by law. Borrower authorizes Lender, to the extent permitted by applicable law, to charge or setoff all sums owing on this Note against any and all such accounts, and, at Lender's option, to administratively freeze all such accounts to allow Lender to protect Lender's charge and setoff rights provided on this paragraph.

COLLATERAL. This Note is secured by: ALL PRESENTLY EXISTING AND FUTURE ACCOUNTS, ACCOUNTS RECEIVABLE, RECEIVABLES, CONTRACTS, CONTRACT RIGHTS, BOOK DEBTS, GENERAL INTANGIBLES, CHECKS, NOTES, DRAFTS, INSTRUMENTS, CHATTEL PAPER, DOCUMENTS, ACCEPTANCES, CHOSES IN ACTION AND ALL OTHER OBLIGATIONS FOR THE PAYMENT OF MONEY CREATED BY THE DEBTOR FROM THE SALE OF INVENTORY OR DELIVERY OF SERVICES AND FURTHER PROCEEDS THEREOF WITH THE CONTINUING GUARANTY OF HLM DESIGN OF NORTHAMERICA, INC., HLM DESIGN OF THE SOUTHEAST, P.C., HLM DESIGN OF THE NORTHWEST, ARCHITECTURE, ENGINEERING AND PLANNING, P.C. AND JPJ ARCHITECTS, INC.

LINE OF CREDIT. This Note evidences a revolving line of credit. Advances under this Note may be requested orally by Borrower or by an authorized person. Lender may, but need not, require that all oral requests be confirmed in writing. All communications, instructions, or directions by telephone or otherwise to Lender are to be directed to Lender's office shown above. The following party or parties are authorized to request advances under the line of credit until Lender receives from the Borrower at Lender's address shown above written notice of revocation of their authority: JOSEPH M. HARRIS, PRESIDENT; AND VERNON B. BRANNON, CFO. Borrower agrees to be liable for all sums either: (a) advanced in accordance with the instructions of an authorized person or (b) credited to any of Borrower's accounts with Lender. The unpaid principal balances owing on this Note at any time may be evidenced by endorsements on this Note or by Lender's internal records, including daily computer print-outs. Lender will have no obligation to advance funds under this Note if: (a) Borrower or any guarantor is in default under the terms of this Note or any agreement that Borrower or any guarantor has with Lender, including any agreement made in connection with the signing of this Note; (b) Borrower or any guarantor ceases doing business or is insolvent; (c) any guarantor seeks, claims or otherwise attempts to limit, modify or revoke such guarantor's guarantee of this Note or any other loan with Lender; (d) Borrower has applied funds provided pursuant to this Note for purposes other than those authorized by Lender; or (e) Lender in good faith deems itself insecure under this Note or any other agreement between Lender and Borrower.

GENERAL PROVISIONS. Lender may delay or forgo enforcing any of its rights or remedies under this Note without losing them. Borrower and any other person who signs, guarantees or endorses this Note, to the extent allowed by law, waive presentment, demand for payment, protest and notice of dishonor. Upon any change in the terms of this Note, and unless otherwise expressly stated in writing, no party who signs this Note, whether as maker, guarantor, accommodation maker or endorser, shall be released from liability. All such parties agree that Lender may renew or extend (repeatedly and for any length of time) this loan, or release any party or guarantor or collateral; or impair, fail to realize upon or perfect Lender's security interest in the collateral; and take any other action deemed necessary by Lender without the consent of or notice to anyone. All such parties also agree that Lender may modify this loan without the consent of or notice to anyone other than the party with whom the modification is made.

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PRIOR TO SIGNING THIS NOTE, BORROWER READ AND UNDERSTOOD ALL THE PROVISIONS OF THIS NOTE, INCLUDING THE VARIABLE INTEREST RATE PROVISIONS. BORROWER AGREES TO THE TERMS OF THE NOTE AND ACKNOWLEDGES RECEIPT OF A COMPLETED COPY OF THE NOTE.

BORROWER:

HLM DESIGN, INC.

By: /s/ Vernon B. Brannon (SEAL)

VERNON B. BRANNON, CFO

Exhibit 21.1

Subsidiaries of the Registrant

JPJ Architects, Inc.
G.A. Design International Holdings, Ltd.

Exhibit 23

INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in the Registration Statement No. 333-75131 of HLM Design, Inc. on Form S-8 of our report dated June 21, 1999, appearing in this Annual Report on Form 10-K of HLM Design, Inc. for the year ended April 30, 1999.

Charlotte, North Carolina
July 26, 1999

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<DEPRECIATION>		768,904	(1,832,611)
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<TOTAL-LIABILITY-AND-EQUITY>		17,582,948	27,474,242
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<INCOME-PRETAX>		1,462,253	2,015,919
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<INCOME-CONTINUING>		778,356	1,072,886
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</TABLE>

EXHIBIT 99.1

SAFE HARBOR UNDER THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

The Private Securities Litigation Reform Act of 1995 (the "Act") provides a "safe harbor" for forward-looking statements to encourage companies to provide prospective information about their companies, so long as those statements are identified as forward-looking and are accompanied by meaningful cautionary statements identifying important factors that could cause actual results to differ materially from those discussed in the statement. HLM Design, Inc. (the "Company") desires to take advantage of the "safe harbor" provisions of the Act. Certain information, particularly information regarding future economic performance, finances and management's plans and objectives, contained in this report is forward-looking. In some cases information regarding certain important factors that could cause actual results to differ materially from any such forward-looking statement appear together with such statement. Also, the following factors, in addition to other possible factors not listed, could affect the Company's actual results and cause such results to differ materially from those expressed in forward-looking statements:

INNOVATIVE STRATEGY

The Company's operating and growth strategies are predicated upon its ability to contract with architectural, engineering and planning firm ("AEP Firm") operations and to generate profits from those firms. The process of identifying suitable AEP Firm candidates for entering into Management and Services Agreements and proposing, negotiating and implementing economically feasible affiliations with AEP Firms is lengthy and complex. Such strategies require intense management direction in a dynamic marketplace that is increasingly subject to cost containment and other competitive pressures. There can be no assurance that these strategies will be successful or that modifications to the Company's strategies will not be required.

MANAGEMENT AND SERVICES AGREEMENTS WITH A LIMITED NUMBER OF FIRMS

The Company's revenues are derived solely from its contractual relationships with the Managed Firms (for whom, as indicated below, the Company will also provide required financing). Currently, the Company has Management and Services Agreements with two recently acquired subsidiaries (JPJ and GAIH) and six other firms. All of these other firms are related to each other and to the Company, by common principal stockholders, Joseph M. Harris and Vernon B. Brannon. There can be no assurance that the Company will be able to successfully enter into Management and Services Agreements with additional firms.

UNCERTAINTIES CONCERNING ABILITY TO RECEIVE PAYMENTS FROM MANAGED FIRMS

The Company earns, for services provided to the Managed Firms, 99% of the net income of the Managed Firms as determined in accordance with generally accepted accounting principles. However, for cash management purposes, the Company is to receive 99% of the positive cash flows of the Managed Firms (calculated for any period as the change in the cash balances from the beginning of the period to the end of the period). The Company's ability actually to receive payments

in respect thereof during any particular period will be subject to the cash requirements of the Managed Firms. To the extent the cash requirements of the Managed Firms continue to exceed 1% of positive cash flows, the Company will be unable to receive payments against such receivable and such payments will continue to be delayed. The Company's ability to pay dividends on the Common Stock will depend on the ability of the Company to collect such receivables.

DEPENDENCE ON KEY PERSONNEL AND LIMITED MANAGEMENT AND PERSONNEL RESOURCES

The Company's success depends to a significant degree upon the continued contributions of its senior management team and professional personnel. The loss of the services of one or more of these key employees could have a material adverse effect on the Company. The Company carries key employee insurance on each of Joseph M. Harris and Vernon B. Brannon and has employment and/or noncompetition agreements with Messrs. Harris and Brannon as well as with several (although not all) of its senior professional staff. There can be no assurance, however, that a court would enforce the noncompetition agreements as currently in effect. If courts refuse to enforce the noncompetition agreements of the Company or the Managed Firms, such refusals could have a material adverse effect on the Company.

In addition, as the Company expands it will likely be dependent on the senior professional staff of any firm with which the Company enters into a Management and Services Agreement. The loss of the services of key employees could have a material adverse effect on the Company. In addition, the lack of qualified professional staff or employees of the Company's potential candidates for Management and Services Agreements may limit the Company's ability to consummate future agreements.

DEPENDENCE ON MANAGED FIRMS

The Company's revenues depend on fees and revenues generated by various AEP Firms managed by the Company. Any material loss of revenue by such firms, whether as a result of the loss of professionals or otherwise, could have a material adverse effect on the Company. The Company itself is not engaged in the practice of architecture, engineering or planning and, as a result, does not

control (i) the practice of architecture, engineering or planning by professionals or (ii) the compliance with certain regulatory requirements directly applicable to the Managed Firms.

RISKS INHERENT IN PROVISION OF SERVICES

The Managed Firms and certain employees of the Managed Firms are involved in the delivery of services to the public and, therefore, are exposed to the risk of professional liability claims. Claims of this nature, if successful, could result in substantial damage awards to the claimants that may exceed the limits of any applicable insurance coverage. Insurance against losses related to claims of this type can be expensive and varies widely from state to state. Although the Company is indemnified under its Management and Services Agreements for claims against the Managed Firms and their employees, the Company maintains liability insurance for itself and negotiates liability insurance for its Managed Firms and the professionals employed by its Managed Firms. Successful malpractice claims asserted against the Managed Firms, their employees or the Company could have an adverse effect on the Company's profitability.

COMPETITION

The business of providing architectural, engineering and planning related services is highly competitive. The Company's competition includes many other firms, including large national firms as well as regional or small local firms. Several companies that have established operating histories and significantly greater resources than the Company provide some of the services provided by the Managed Firms. In addition, there are other companies with substantial resources that may in the future decide to engage in activities similar to those in which the Company engages.

UNCERTAINTIES CONCERNING ADDITIONAL FINANCINGS

The Company's operating and growth strategies require substantial capital resources, particularly since the Company, as the management company, will be responsible for the financing of working capital growth, capital growth and other cash needs of the Managed Firms. These requirements will result in the Company incurring long-term and short-term indebtedness and may result in the public or private issuance, from time to time, of additional debt or equity securities, including the issuance of such securities in connection with the execution of Management and Services Agreements. There can be no assurance that any such financing will be obtainable on terms acceptable to the Company.

The Company's existing revolving line of credit matures as of June 30, 2000, unless it is renewed by the lender.

If the Company is unable to renew such facility or obtain a new revolving line of credit on commercially reasonable terms, its ability to implement its growth strategy will be adversely affected.

GOVERNMENT REGULATION

The architectural and engineering industries are regulated at the state level. The Company believes its operations are in material compliance with applicable law. Nevertheless, because of the unique structure of the relationships between the Company and its Managed Firms, many aspects of these relationships have not been the subject of prior regulatory interpretation. The Company has not discussed its structure with or received approvals from any regulatory authorities, and is unaware of its business being reviewed by any such regulatory authorities. There can be no assurance that a review of the Company's business by applicable regulatory authorities will not result in determinations that may adversely affect the operations of the Company or prevent its continued operation. There also can be no assurance that the regulatory environment will not change so as to restrict the Company's existing operations or limit the expansion of the Company's business. Expansion of the operations of the Company to certain jurisdictions could require structural and organizational modifications of the Company's relationships with its Managed Firms. Consequently, if the Company is unable or unwilling to undertake such modifications, it may be limited in its ability to expand into certain jurisdictions. As of the date hereof, the Company has not determined which jurisdictions would require structural or organizational modifications of the Company's relationships with the Managed Firms. Although the Company believes its operations are in material compliance with existing applicable law, there can be no assurance that the Company's existing Management and Services Agreements could not be successfully challenged as, for example, constituting the unlicensed practice of architecture, or that the enforceability of the provisions thereof, including non-disclosure agreements therein, will not be limited.