

# SECURITIES AND EXCHANGE COMMISSION

## FORM S-3/A

Registration statement for specified transactions by certain issuers [amend]

Filing Date: **1994-04-20**  
SEC Accession No. **0000950134-94-000432**

([HTML Version](#) on [secdatabase.com](http://secdatabase.com))

### FILER

#### **FARAH INC**

CIK: **34501** | IRS No.: **741061146** | State of Incorpor.: **TX** | Fiscal Year End: **1031**  
Type: **S-3/A** | Act: **33** | File No.: **033-52811** | Film No.: **94523455**  
SIC: **2320** Men's & boys' furnishgs, work clothg, & allied garments

Business Address  
**8889 GATEWAY WEST**  
**EL PASO TX 79925**  
**9155934444**

AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON APRIL 20, 1994

REGISTRATION NO. 33-52811

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

AMENDMENT NO. 2

TO  
FORM S-3

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

FARAH INCORPORATED

(Exact name of registrant as specified in its charter)

<TABLE>  
<S>

<C>

TEXAS (State or other jurisdiction of incorporation) FARAH INCORPORATED 8889 GATEWAY WEST EL PASO, TEXAS 79925 (915) 593-4444 (Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)	74-1061146 (I.R.S. Employer Identification No.)  JAMES C. SWAIM EXECUTIVE VICE PRESIDENT AND CHIEF FINANCIAL OFFICER FARAH INCORPORATED 8889 GATEWAY WEST EL PASO, TEXAS 79925 (915) 593-4444 (Name, address, including zip code, and telephone number, including area code, of agent for service)
---	--

</TABLE>

With copies to:

<TABLE>  
<S>

<C>

DANIEL W. RABUN, ESQ. BAKER & MCKENZIE 2001 ROSS AVENUE SUITE 4500 DALLAS, TEXAS 75201	LARRY L. SCHOENBRUN, ESQ. GARDERE & WYNNE, L.L.P. 1601 ELM STREET 3000 THANKSGIVING TOWER DALLAS, TEXAS 75201
--	---

</TABLE>

APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE TO THE PUBLIC: As soon as practicable after this Registration Statement becomes effective.

If the only securities being registered on this Form are being offered pursuant to dividend or interest reinvestment plans, please check the following box. / /

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box. / /

CALCULATION OF REGISTRATION FEE

<TABLE>

TITLE OF SHARES TO BE REGISTERED	AMOUNT TO BE REGISTERED	PROPOSED MAXIMUM AGGREGATE PRICE PER SHARE (2)	PROPOSED MAXIMUM AGGREGATE OFFERING PRICE (2)	AMOUNT OF REGISTRATION FEE
Common Stock, no par value.....	3,565,000 (1)	\$17.31	\$71,427,650	\$24,630 (3)

</TABLE>

(1) Includes 465,000 shares as to which the Company has granted the Underwriters

an option to cover over-allotments.

(2) Estimated pursuant to Rule 457(c) solely for purpose of calculating the amount of the registration fee, based on the average of the high and low sales prices of the Common Stock on the New York Stock Exchange, of \$20.56 on March 23, 1994 in respect of the 2,990,000 shares of Common Stock covered by this Registration Statement, as filed on March 25, 1994 and \$17.31 on April 19, 1994 in respect of the additional 575,000 shares of common stock covered by this Amendment No. 2.

(3) Of this amount, \$21,198 was previously paid and was calculated pursuant to Rule 457(c) based on 2,990,000 shares of Common Stock covered by this Registration Statement, as filed on March 25, 1994. An additional fee of \$3,432 is transmitted herewith and is calculated based on 575,000 additional shares of common stock covered by this Amendment No. 2.

-----

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(A) OF THE SECURITIES ACT OF 1933, AS AMENDED, OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(A), MAY DETERMINE.

-----  
-----

2

Information contained herein is subject to completion or amendment. A registration statement relating to these securities has been filed with the Securities and Exchange Commission. These securities may not be sold nor may offers to buy be accepted prior to the time the registration statement becomes effective. This prospectus shall not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any State in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such State.

SUBJECT TO COMPLETION, APRIL 20, 1994

PROSPECTUS

3,100,000 SHARES

FARAH INCORPORATED  
COMMON STOCK

Of the 3,100,000 shares of Common Stock offered hereby, 1,650,000 shares are being sold by the Company and 1,450,000 shares are being sold by the Selling Shareholder. See "Principal and Selling Shareholders." The Company will not receive any proceeds from the sale of the shares of Common Stock by the Selling Shareholder. See "Use of Proceeds."

The Common Stock of the Company is listed on the New York Stock Exchange under the symbol "FRA." On April 20, 1994, the closing sale price of the Common Stock was \$ per share. See "Price Range of Common Stock."

FOR INFORMATION CONCERNING CERTAIN FACTORS THAT SHOULD BE CONSIDERED PRIOR TO AN INVESTMENT IN THE COMMON STOCK OFFERED HEREBY, SEE "INVESTMENT CONSIDERATIONS."

-----

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

<TABLE>  
<CAPTION>

-----  
-----

UNDERWRITING

PROCEEDS TO

	PRICE TO PUBLIC	DISCOUNTS AND COMMISSIONS (1)	PROCEEDS TO COMPANY (2)	SELLING SHAREHOLDER
<S>	<C>	<C>	<C>	<C>
Per Share.....	\$	\$	\$	\$
Total(3).....	\$	\$	\$	\$

</TABLE>

- (1) The Company and the Selling Shareholder have agreed to indemnify the Underwriters against certain liabilities, including liabilities under the Securities Act of 1933, as amended. See "Underwriting."
- (2) Before deducting expenses of the offering payable by the Company estimated at \$350,000.
- (3) The Company has granted the Underwriters a 30-day option to purchase up to 465,000 additional shares of Common Stock solely to cover over-allotments, if any. If such option is exercised in full, the total Price to Public, Underwriting Discounts and Commissions and Proceeds to Company will be \$ , \$ and \$ , respectively. See "Underwriting."

The shares of Common Stock are being offered severally by the Underwriters, as specified herein, subject to receipt and acceptance by them and subject to their right to withdraw, cancel or modify said offer and to reject orders in whole or in part. It is expected that delivery of the shares of Common Stock will be made against payment therefor on or about April , 1994 at the offices of Bear, Stearns & Co. Inc., 245 Park Avenue, New York, New York 10167.

BEAR, STEARNS & CO. INC.

THE DATE OF THIS PROSPECTUS IS APRIL , 1994.

3

(INSERT PHOTOS)

IN CONNECTION WITH THE OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE COMMON STOCK AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH TRANSACTIONS MAY BE EFFECTED ON THE NEW YORK STOCK EXCHANGE OR OTHERWISE. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

2

4

AVAILABLE INFORMATION

The Company is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and in accordance therewith files reports, proxy statements and other information with the Securities and Exchange Commission (the "Commission"). Reports, proxy statements and other information filed by the Company may be inspected and copied at the public reference facilities maintained by the Commission at 450 Fifth Street, N.W., Washington, D.C. 20549, as well as at the Regional Offices of the Commission at Seven World Trade Center, 13th Floor, New York, New York 10048, and Northwestern Atrium Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60601. Copies of such material may be obtained from the Public Reference Section of the Commission at 450 Fifth Street, N.W., Washington, D.C. 20549 at prescribed rates. The Common Stock is listed on the New York Stock Exchange; reports, proxy statements and other information described above can be inspected and copied at the offices of the New York Stock Exchange at 20 Broad Street, New York, New York 10005.

The Company has filed with the Commission a Registration Statement on Form S-3 under the Securities Act of 1933, as amended (the "Securities Act"), with respect to the Common Stock offered hereby. This Prospectus, which constitutes a part of that Registration Statement, does not contain all the information set forth in that Registration Statement and the exhibits relating thereto. Statements contained herein concerning the provisions of documents are necessarily summaries of those documents, and each statement is qualified in its entirety by reference to the copy of the applicable document filed with the Commission. The Registration Statement and any amendments thereto, including exhibits filed as a part thereof, are available for inspection and copying as set forth above.

INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

The Company hereby incorporates in this Prospectus by reference the following documents which have been filed with the Commission pursuant to the

Exchange Act:

(a) The Company's Annual Report on Form 10-K for the fiscal year ended November 5, 1993;

(b) The Company's Quarterly Report on Form 10-Q for the three months ended February 4, 1994; and

(c) The description of the Company's Common Stock as contained in the Company's Registration Statement on Form 8-A, as amended.

Each document filed subsequent to the date of this Prospectus pursuant to Section 13(a), 13(c), 14 or 15(d) of the Exchange Act and prior to the termination of the offering shall be deemed to be incorporated by reference into this Prospectus and to be made a part hereof from the date of filing of such document. Any statement contained in a document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded for purposes of this Prospectus to the extent that a statement contained herein or in any other subsequently filed document which also is incorporated or deemed to be incorporated by reference herein modifies or supersedes such statement. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Prospectus.

The Company will furnish without charge, upon written or oral request, to each person, including any beneficial owner, to whom this Prospectus is delivered, a copy of any or all of the documents incorporated by reference herein other than exhibits to such documents (unless such exhibits are specifically incorporated by reference into such documents). Such requests should be directed to Farah Incorporated, 8889 Gateway West, El Paso, Texas 79925, telephone number (915) 593-4444, Attn: Corporate Secretary.

3

5

PROSPECTUS SUMMARY

The following summary is qualified in its entirety by the more detailed information and consolidated financial statements, including the notes thereto, appearing elsewhere or incorporated by reference in this Prospectus. Except as otherwise specified, all information in this Prospectus assumes that the Underwriters' over-allotment option will not be exercised. See "Underwriting."

THE COMPANY

Farah Incorporated (the "Company"), founded in 1920, is a leading manufacturer and marketer of apparel for men and boys. The Company's principal products are casual and dress slacks, suit separates, sportcoats and shorts. The Company sells its products under the labels Savane(R), Farah(R), Farah Clothing Company(R) and John Henry(R), and under private labels. The Company has developed product lines targeted to a wide range of retailers, including better department stores and, to a lesser extent, national chains and mass merchants. The Company also manufactures and sells its products in certain markets outside of the United States, primarily the United Kingdom and Australia. Largely as a result of recent growth in its wrinkle resistant casual slacks business, the Company's operating results have improved significantly.

The Company was the first to use wrinkle resistant technologies in the production and marketing of men's 100% cotton slacks when it introduced "no wrinkles" slacks under its Savane label in 1989. The Company is a leader in that market. Sales of Savane products have increased from \$3.6 million in fiscal 1990 to \$60.4 million in fiscal 1993, as the Company's no wrinkles process has gained increased acceptance with consumers and retailers. The Savane product line of slacks is sold primarily in better department stores and is targeted principally at the casual wear segment of the men's and boy's apparel market. Most Savane casual slacks use 100% cotton fabrics and are treated with PROCESS 2000(R). PROCESS 2000 is the Company's trademark for the no wrinkles technologies used in its Savane products. As a result of its experience with no wrinkles technologies, the Company believes it currently offers a broader no wrinkles product line than its competitors.

Key components of the Company's business strategy include:

- Continuing to expand the offerings of the Savane line of casual slacks by developing no wrinkles products in additional styles, fabrics and finishes. In addition, the Company is introducing new lines of men's dress slacks and slacks for the casual workplace market under the Savane label.
- Continuing to market and distribute its Savane products primarily to better departments stores. As a result, the Company believes that it may be able to maintain a more consistent margin than other similar products which are sold through several channels of distribution.
- Introducing new product offerings under the Farah/Farah Clothing Company and John Henry labels using no wrinkles technologies and stain resistant

treatments to stimulate sales of these product lines.

- Licensing third parties to manufacture and market apparel using the Savane trademark, including outerwear, shirts, belts, socks and shoes. The Company entered into its first license agreement in December 1993 with Oxford Industries, Inc. to manufacture and market shirts carrying the Savane and PROCESS 2000 trademarks.
- Expanding its national media advertising for its Savane products. The Company began its first national television advertising campaign for its Savane products in May 1993 and another campaign was completed in December 1993.
- Manufacturing the majority of its products for U.S. sales using sources in Mexico and Costa Rica, where labor rates have been below the rates in the United States and where favorable tariff provisions exist.
- Identifying new foreign markets for the Company's products. The Company is currently reviewing opportunities to expand the Savane line of products in the Continental European market in fiscal 1994.

The Company is a Texas corporation. Its principal executive offices are located at 8889 Gateway West, El Paso, Texas 79925, and its telephone number is (915) 593-4444.

4

6

THE OFFERING

Common Stock offered by:

The Company..... 1,650,000 shares

Selling Shareholder..... 1,450,000 shares

Common Stock outstanding(1):

Prior to the offering.... 8,206,236 shares

After the offering..... 9,856,236 shares

Use of Proceeds..... To make capital expenditures estimated to be approximately \$8.0 million, with the balance being used to reduce indebtedness under the Company's revolving credit agreement, which amount will then be available for general corporate purposes. See "Use of Proceeds."

NYSE Symbol..... FRA

- - - - -

(1) As of March 15, 1994 and excludes (a) 109,138 shares of Common Stock issuable upon conversion of the \$1,663,000 in principal amount of outstanding 8.5% convertible subordinated debentures due February 1, 2004 ("Convertible Debentures"), and (b) 407,282 shares of Common Stock issuable upon exercise of outstanding stock options or subject to restricted stock awards. See Note 5 of Notes to Consolidated Financial Statements.

SUMMARY CONSOLIDATED FINANCIAL DATA  
(IN THOUSANDS, EXCEPT PER SHARE DATA)

<TABLE>  
<CAPTION>

	THREE MONTHS ENDED		FISCAL YEAR ENDED				
	FEBRUARY 4, 1994	FEBRUARY 5, 1993	1993	1992	1991	1990	1989(1)
	(UNAUDITED)						
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
STATEMENT OF OPERATIONS DATA:							
Net sales.....	\$ 51,270	\$ 35,316	\$ 180,114	\$151,990	\$151,202	\$139,616	\$239,047
Gross profit.....	15,384	10,640	53,094	38,481	38,894	24,148	55,619
Factory conversion expenses(2).....	--	--	4,000	--	--	--	--
Operating income (loss).....	2,496	835	1,722	(3,434)	(2,793)	(17,346)	(11,992)
Provision for Generra bankruptcy(3).....	--	--	--	(6,146)	--	--	--

Net income (loss).....	2,011	604	132	(9,589)	(5,508)	(6,597)	(13,691)
Net income (loss) per share(4).....	0.25	0.08	0.02	(1.52)	(0.93)	(1.06)	(2.19)
Weighted average shares outstanding.....	8,204	7,318	7,781	6,308	5,927	6,238	6,243

</TABLE>

<TABLE>

<CAPTION>

FEBRUARY 4, 1994

	ACTUAL	AS ADJUSTED (5)
	-----	-----
<C>	<C>	<C>

<S>

BALANCE SHEET DATA:

Working capital.....	\$ 37,140	\$
Total assets.....	125,048	
Short-term debt, including current maturities of long-term debt.....	32,245	
Long-term debt, excluding current maturities.....	2,885	
Shareholders' equity.....	46,971	

</TABLE>

- - - - -

- (1) Operations in the first seven months of fiscal 1989 include Generra Sportswear Company, Inc. ("Generra"), a former subsidiary of the Company sold in fiscal 1989.
- (2) The Company incurred approximately \$4,000,000 of expenses in fiscal 1993 for conversion of certain sew lines from production of dress to casual products. See Note 1 of Notes to Consolidated Financial Statements.
- (3) A \$6,146,000 provision for the loss on the Company's investment in Generra was recorded in fiscal 1992 as a result of the bankruptcy of Generra. See Note 1 of Notes to Consolidated Financial Statements.
- (4) For information concerning the calculation of net income (loss) per share, see Note 1 of Notes to Consolidated Financial Statements.
- (5) Adjusted to give effect to the sale by the Company of 1,650,000 shares of Common Stock offered hereby and the application of the net proceeds therefrom. See "Use of Proceeds" and "Capitalization."

5

7

#### INVESTMENT CONSIDERATIONS

Prior to making an investment decision, prospective investors should consider carefully all of the information set forth in this Prospectus and, in particular, should evaluate the following investment considerations.

#### HISTORY OF SIGNIFICANT LOSSES

The Company incurred aggregate net losses of approximately \$39,500,000 for the six fiscal years preceding fiscal 1993. However, the Company has reported net income of \$2,011,000 for the three months ended February 4, 1994 and \$132,000 for fiscal year 1993, including fourth quarter 1993 net income of \$3,418,000. The Company's history of net losses was due in large part to the loss of customers resulting from the failure to deliver products in a timely manner. The failure to deliver products resulted primarily from certain strategic decisions made by the Company in the 1980s, including the transition of production from United States factories to offshore factories and a significant increase in the size and complexity of the Company's product line. The Company also lost customers as a result of certain marketing decisions. The Company installed a new management team in the late 1980s which gained full management control of the Company following a proxy contest in 1990. This new management team has addressed the problems with production and refocused the Company's marketing efforts. The Company believes that these problems have been resolved and that it has regained the confidence of its customers. However, there can be no assurance that the Company will be profitable in the future or that the Company will not experience problems in delivering products in a timely manner. See "Management's Discussion and Analysis of Financial Condition and Results of Operations."

#### COMPETITION

Competition in the men's and boy's sectors of the apparel industry is intense. The Company competes with many other apparel companies, some of which are larger and have greater financial and other resources than the Company. The Company believes that in order to be successful in its industry, it must be able to evaluate and respond to changing consumer demand and tastes and remain competitive in the areas of style, quality and price while operating within the significant domestic and foreign production and delivery constraints of the

industry.

Several of the Company's competitors have only recently entered the wrinkle resistant casual slacks market. Levi Strauss & Co. ("Levi's"), one of the largest manufacturers of men's casual slacks, has recently introduced a Dockers(R) labelled all cotton wrinkle resistant product line and the Company anticipates that Levi's will devote substantial financial resources to develop and market this new product line. Levi's and certain other competitors have larger financial and marketing resources than the Company and therefore will offer significant competition to the Company's Savane line of products. Such competition could adversely affect the price of the Savane products and result in a reduction of the Company's share of the wrinkle resistant slacks market. This adverse effect may, however, be offset by the expansion of the market caused by increased awareness of wrinkle resistant products. Accordingly, the Company is unable to determine the ultimate effect of this additional competition in this segment of the casual slacks market.

#### DEPENDENCE ON KEY CUSTOMERS

The number of major apparel retailers has decreased in recent years, and the retail apparel industry continues to undergo substantial consolidation. The Company could lose a retailer as a customer in the event the retailer is acquired in a consolidation and is required by the acquiring company to change vendors. The Company's ten largest customers accounted for approximately 48% and 56% of the Company's consolidated revenues during the fiscal years 1992 and 1993, respectively. The Company's largest customer, The May Department Stores Company, accounted for approximately 14% and 12% of the Company's consolidated revenues during fiscal years 1992 and 1993, respectively. The loss of the business of one or more of the Company's largest customers could have a material adverse effect on the Company's results of operations. The

6

8

Company has no long-term commitments or contracts with any of its customers. See "Business -- Customers."

#### RELIANCE ON CERTAIN PRODUCTS

The Company's operating performance is highly dependent on the success of its no wrinkles products. The Company and its competitors are developing new methods of applying wrinkle resistant technologies to garments. The Company could be adversely affected in the event its competitors are able to develop new wrinkle resistant technologies which permit lower cost production of wrinkle resistant garments or which produce products that are preferred by retail customers. The Company could also be adversely affected in the event customers change their acceptance of wrinkle resistant products.

#### APPAREL INDUSTRY

The Company, like many of its competitors, sells to major retailers, some of which have engaged in leveraged buyouts or transactions in which such retailers incurred significant amounts of debt, and some of which are currently operating under, or have recently emerged from, the protection of the federal bankruptcy laws. The Company cannot predict to what extent, if any, the current financial condition of such retailers will affect the Company. See "Business -- Customers."

#### CONSUMER TRENDS

The Company believes that its success depends, in part, on its ability to anticipate, gauge and respond to changing consumer demands and fashion trends in a timely manner. While the Company believes that a large portion of its recent success is due to its ability to bring more innovative products to the market than its competitors, there can be no assurance that it will be successful in this regard in the future. The Company attempts to minimize the risk of changing consumer trends and product acceptance by producing basic, year-round core products as opposed to more seasonal products. However, the Company's operating results could be adversely affected if the Company misjudges the market for a number of products or if consumers significantly shift their preference for certain types of products. See "Business -- Business Strategy."

#### FOREIGN OPERATIONS

Substantially all of the Company's products are manufactured outside of the United States, either in its foreign manufacturing factories or through arrangements with independent foreign contractors. As a result, the Company's operations may be adversely affected by political instability resulting in the disruption of trade with foreign countries in which the Company's factories or contractors are located, the imposition of additional regulations relating to imports or duties, taxes and other charges on imports, any significant fluctuation of the value of the dollar against foreign currencies and restrictions on the transfer of funds. In addition, the Company's import operations are subject to constraints imposed by bilateral textile agreements between the United States and certain foreign countries. These agreements impose



quotas on the amount and type of goods which can be imported into the United States from some of these countries. See "Business -- Regulation."

#### QUARTERLY EARNINGS FLUCTUATIONS

As is the case with many companies in the apparel industry, the Company's operating results are affected by the seasonal nature of the apparel industry. Accordingly, the Company's operating results may fluctuate from quarter to quarter. See Note 10 of Notes to Consolidated Financial Statements and "Business -- Seasonality."

#### POSSIBLE VOLATILITY OF STOCK PRICE

The market price for shares of the Common Stock has varied significantly and may be volatile depending on news announcements and changes in general market conditions. See "Price Range of Common Stock." In particular, news announcements regarding quarterly or annual results of operations or competitive developments impacting the Company may cause significant fluctuations in the market price of the Common Stock.

7

9

#### SIGNIFICANT SHAREHOLDERS

After this offering, Georges Marciano and Paul Marciano, and their respective affiliates, will beneficially own 7.4% and 2.5%, respectively, and 9.9% in the aggregate (9.4% in the aggregate if the over-allotment option is exercised in full) of the outstanding Common Stock. As a result, such shareholders may be in a position to influence the outcome of matters requiring a vote of shareholders, including electing directors and acting with respect to any sale of assets, merger or consolidation. See "Principal and Selling Shareholders."

#### RELIANCE ON KEY PERSONNEL

The Company believes that its continued success will depend to a significant extent upon the abilities and continued effort of certain key management employees. Each of these management employees is an integral part of the management of the Company. The loss of the services of any of these individuals could have a material adverse effect upon the Company. See "Management." The Company's continued success is also dependent upon its ability to attract and retain other qualified employees.

#### NO DIVIDENDS

The Company has not paid dividends on its Common Stock since 1986 and does not plan to pay any dividends on its Common Stock for the foreseeable future. The Company's revolving credit agreement prohibits the payment of dividends. See "Dividend Policy."

#### USE OF PROCEEDS

The net proceeds to the Company from the sale of Common Stock offered hereby are estimated to be approximately \$ million (\$ million if the Underwriters' over-allotment option is exercised in full) after deducting underwriting discounts and commissions and estimated expenses of the offering payable by the Company. An estimated \$8.0 million of such proceeds will be used to fund capital expenditures in order to expand and enhance production facilities. Expected capital expenditures include the purchase of additional laundry and pressing facilities for the Company's no wrinkles process and additional sewing equipment. The balance of the proceeds will be used to reduce the indebtedness under the Company's \$40.0 million revolving credit agreement (the "Credit Agreement"). After such repayment, the undrawn balance under the Credit Agreement will then be available for general corporate purposes. Usage under the Credit Agreement at February 4, 1994, was \$32.7 million, which amount was incurred primarily to fund the Company's working capital requirements and capital expenditures. Interest is payable under the Credit Agreement at prime (6% at February 4, 1994) plus 2 1/4%. The portion of the net proceeds of the offering to be used to fund capital expenditures will initially be applied to reduce borrowings under the Credit Agreement pending the funding of the capital expenditures. See "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Liquidity and Capital Resources" and Note 3 of Notes to Consolidated Financial Statements.

The Company will not receive any of the proceeds from the sale of shares of Common Stock by the Selling Shareholder.

8

10

#### PRICE RANGE OF COMMON STOCK

The Company's Common Stock is listed on the New York Stock Exchange under the symbol "FRA." The following table sets forth the high and low sale prices of the Common Stock on the New York Stock Exchange for the periods indicated:

	HIGH	LOW
	-----	-----
<S>	<C>	<C>
FISCAL YEAR ENDED NOVEMBER 6, 1992:		
First Quarter.....	\$ 8 7/8	\$ 5 3/4
Second Quarter.....	8 1/8	5 3/4
Third Quarter.....	7 1/8	4 3/8
Fourth Quarter.....	6 1/8	5
FISCAL YEAR ENDED NOVEMBER 5, 1993:		
First Quarter.....	9 7/8	5 1/2
Second Quarter.....	10 1/4	6 1/2
Third Quarter.....	8	6 1/8
Fourth Quarter.....	10 7/8	6 7/8
FISCAL YEAR ENDED NOVEMBER 4, 1994:		
First Quarter.....	14 3/4	8 3/4
Second Quarter (through April 20, 1994).....	21 7/8	12 5/8

As of April 20, 1994, the last reported sale price of the Company's Common Stock on the New York Stock Exchange was \$ per share. As of March 15, 1994, there were approximately 2,650 holders of record of the Company's Common Stock.

#### DIVIDEND POLICY

The Company has not paid cash dividends on its Common Stock since 1986. The Company presently intends to retain earnings to finance the expansion of its business and, therefore, does not expect to pay any cash dividends in the foreseeable future. Any determination as to the payment of cash dividends will depend upon the Company's earnings, general financial condition, capital needs and other factors deemed pertinent by the Company's board of directors, as well as any limitations imposed by lenders under credit facilities. The Company's Credit Agreement prohibits the payment of dividends by the Company.

9

11

#### CAPITALIZATION

The following table sets forth the actual capitalization of the Company at February 4, 1994, and as adjusted to give effect to the sale by the Company of 1,650,000 shares of Common Stock offered hereby after deducting underwriting discounts and commissions and estimated expenses payable by the Company, and the application of a portion of the net proceeds therefrom as described under "Use of Proceeds." This table should be read in conjunction with the Company's consolidated financial statements included elsewhere in this Prospectus.

	FEBRUARY 4, 1994	
	ACTUAL	AS ADJUSTED
	-----	-----
<S>	<C>	<C>
Short-term debt and current maturities of long-term debt.....	\$32,245	\$
Long-term debt, excluding current maturities(1).....	2,885	
Shareholders' equity:		
Common stock, no par value; authorized, 20,000,000 shares; issued, 8,179,504 shares, and 9,829,504 shares, as adjusted(2)....	45,516	
Additional paid-in capital.....	--	
Cumulative foreign currency translation adjustment.....	(2,093)	
Minimum pension liability adjustment.....	(2,050)	
Retained earnings.....	5,707	
Less: 36,275 treasury shares at cost.....	(109)	
Total shareholders' equity.....	46,971	
Total capitalization.....	\$49,856	\$

</TABLE>

-----

- (1) See Note 3 of Notes to Consolidated Financial Statements for a description of the long-term debt.
- (2) Excludes (a) 109,795 shares of Common Stock issuable upon conversion of the \$1,673,000 in principal amount of outstanding Convertible Debentures, and (b) 459,133 shares of Common Stock issuable upon exercise of outstanding stock options or subject to restricted stock awards. See Note 5 of Notes to Consolidated Financial Statements.

10

12

SELECTED CONSOLIDATED FINANCIAL DATA  
(IN THOUSANDS, EXCEPT PER SHARE DATA)

The following selected consolidated financial data has been derived from, and should be read in conjunction with, the consolidated financial statements, related notes and other financial information included elsewhere in this Prospectus. The selected consolidated financial statements of the Company for each of the five fiscal years in the period ended November 5, 1993 are derived from the consolidated financial statements of the Company which are included elsewhere in this Prospectus. The selected consolidated financial data for the three month periods ended February 4, 1994 and February 5, 1993 are unaudited, but in the opinion of management such financial statements include all adjustments (consisting of normal recurring adjustments) necessary for a fair presentation of the Company's financial position and results of operations. The results of operations for the three months ended February 4, 1994 may not be indicative of the results to be expected for the full fiscal year. Effective in the first quarter of fiscal 1992, the Company adopted a 52/53 week fiscal year ending on the first Friday following October 31. Prior to that time, October 31 was the last day of the fiscal year.

<TABLE>

<CAPTION>

	THREE MONTHS ENDED		FISCAL YEAR ENDED				
	FEBRUARY 4, 1994	FEBRUARY 5, 1993	1993	1992	1991	1990	1989 (1)
	(UNAUDITED)						
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
INCOME STATEMENT DATA:							
Net sales.....	\$ 51,270	\$35,316	\$180,114	\$151,990	\$151,202	\$139,616	\$239,047
Cost of sales.....	35,886	24,676	127,020	113,509	112,308	115,468	183,428
Gross profit.....	15,384	10,640	53,094	38,481	38,894	24,148	55,619
Selling, general and administrative expenses.....	12,888	9,805	47,372	41,915	41,687	41,494	67,611
Factory conversion expenses(2)....	--	--	4,000	--	--	--	--
Operating income (loss).....	2,496	835	1,722	(3,434)	(2,793)	(17,346)	(11,992)
Other income (expense):							
Interest expense, net.....	(507)	(217)	(1,452)	(960)	(1,145)	(1,199)	(4,618)
Foreign currency transaction gains (losses).....	75	(20)	(151)	1,460	(832)	851	(775)
Gains on sales of assets.....	--	--	320	9	127	9,697	2,419
Loss on sale of Generra.....	--	--	--	--	--	--	(1,071)
Provision for Generra bankruptcy(3).....	--	--	--	(6,146)	--	--	--
Other, net.....	3	3	(3)	(149)	(559)	1,568	800
Income (loss) before income taxes.....	2,067	601	436	(9,220)	(5,202)	(6,429)	(15,237)
Provision (benefit) for income taxes.....	56	(3)	304	369	306	168	(1,546)
Net income (loss).....	\$ 2,011	\$ 604	\$ 132	\$ (9,589)	\$ (5,508)	\$ (6,597)	\$ (13,691)
Net income (loss) per share(4)....	\$ 0.25	\$ 0.08	\$ 0.02	\$ (1.52)	\$ (0.93)	\$ (1.06)	\$ (2.19)
Weighted average shares outstanding.....	8,204	7,318	7,781	6,308	5,927	6,238	6,243
BALANCE SHEET DATA:							
Working capital.....	\$ 37,140	\$31,013	\$ 32,773	\$ 36,825	\$ 41,225	\$ 47,297	\$ 54,752
Total assets.....	125,048	90,177	118,891	93,137	106,827	119,566	129,333
Short-term debt, including current maturities.....	32,245	17,484	30,189	10,293	15,849	18,549	13,686
Long-term debt, excluding current maturities.....	2,885	603	1,179	4,452	5,192	6,176	10,636
Shareholders' equity.....	46,971	39,155	43,425	39,010	45,853	51,867	60,226

</TABLE>

- - - - -

- (1) Operations in the first seven months of fiscal 1989 include Generra, a former subsidiary of the Company sold in fiscal 1989.
- (2) The Company incurred approximately \$4,000,000 of expenses in fiscal 1993 for conversion of certain sew lines from production of dress to casual products. See Note 1 of Notes to Consolidated Financial Statements.
- (3) A \$6,146,000 provision for the loss on the Company's investment in Generra was recorded in fiscal 1992 as a result of the bankruptcy of Generra. See Note 1 of Notes to Consolidated Financial Statements.
- (4) For information concerning the calculation of net income (loss) per share, see Note 1 of Notes to Consolidated Financial Statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
AND RESULTS OF OPERATIONS

GENERAL

The Company incurred substantial losses from fiscal 1986 through fiscal 1992 as a result of several factors. For several selling seasons in the mid-1980s, the Company experienced significant delays in delivering products due to its shift in production from U.S. factories to offshore factories and a concurrent large increase in the size and complexity of its product lines. As a result of late deliveries, the Company lost customers. To compensate for this loss, the Company widened distribution of certain of its brands, which further alienated many of its better department store customers. A new management team was installed in the late 1980s and gained full management control as a result of a proxy contest during 1990. The new management team has taken steps to correct delivery problems, re-establish relationships with better department stores and focus the Company on developing its successful lines of no wrinkles products.

The Company's principal products are casual and dress slacks, suit separates, sportcoats and shorts. The Company sells its products under the labels Savane(R), Farah(R), Farah Clothing Company(R) and John Henry(R), and under private labels. The Company also manufactures and sells its products in certain markets outside of the United States, primarily the United Kingdom and Australia.

The Company is organized as three distinct operating divisions. Farah U.S.A. manufactures and sells a variety of casual and dress apparel lines to retailers throughout the United States. Farah International manufactures and sells apparel in several countries in Europe, Australia and Asia. Value Slacks operates retail stores which sell apparel manufactured by the Company for these stores, close-outs and seconds from Farah U.S.A., and a limited amount of merchandise purchased from third parties.

RESULTS OF OPERATIONS

The following table sets forth, for the periods indicated, certain financial data as percentages of net sales:

<TABLE>  
<CAPTION>

	THREE MONTHS ENDED		FISCAL YEAR ENDED		
	FEB. 4, 1994	FEB. 5, 1993	1993	1992	1991
<S>	<C>	<C>	<C>	<C>	<C>
Net sales:					
Farah U.S.A.....	80.6%	73.1%	75.9%	67.1%	62.5%
Farah International.....	11.0	15.7	16.2	23.7	27.5
Value Slacks.....	8.4	11.2	7.9	9.2	10.0
Total net sales.....	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of sales.....	70.0	69.9	70.5	74.7	74.3
Gross profit.....	30.0	30.1	29.5	25.3	25.7
Selling, general and administrative expenses.....	25.1	27.7	26.3	27.6	27.6
Factory conversion expenses.....	--	--	2.2	--	--
Operating income (loss).....	4.9	2.4	1.0	(2.3)	(1.9)
Other income (expense), net.....	(.9)	(.7)	(.7)	.2	(1.6)
Provision for Generra bankruptcy.....	--	--	--	(4.0)	--

Income (loss) before income taxes.....	4.0	1.7	.3	(6.1)	(3.5)
Provision for income taxes.....	(.1)	--	(.2)	(.2)	(.2)
	-----	-----	-----	-----	-----
Net income (loss).....	3.9%	1.7%	.1%	(6.3)%	(3.7)%
	-----	-----	-----	-----	-----
	-----	-----	-----	-----	-----

</TABLE>

Three Months Ended February 4, 1994 compared to Three Months Ended February 5, 1993

Net Sales. Sales for the first quarter of fiscal 1994 increased by \$15,954,000 (45.2%) over the first quarter of fiscal 1993. Sales were up at all divisions, with the largest increase at Farah U.S.A. where sales increased by 60%. Sales increased by 2% at Farah International and by 9% at Value Slacks.

12

14

Farah U.S.A. sales for the first quarter of fiscal 1994 were \$41,310,000 compared to \$25,806,000 in the first quarter of fiscal 1993. Unit volume increased by 55% while the average unit sales price increased by 3%. The Company continued to experience considerable growth in sales of Savane products, with a 196% increase in Savane sales over the first quarter of fiscal 1993. As a percent of sales, Savane represented 55% of Farah U.S.A. sales in the first quarter of fiscal 1994 compared to 30% during the same period in fiscal 1993. Sales of private label products also increased by 225% in the first quarter of fiscal 1994 compared to the first quarter of fiscal 1993. The first quarter of fiscal 1993 represented the first full quarter of private label sales. Private label sales were 9% of total Farah U.S.A. sales in the first quarter of fiscal 1994 compared to 4% in the first quarter of fiscal 1993.

Farah International sales were \$5,655,000 for the first quarter of fiscal 1994 compared to \$5,554,000 in the first quarter of fiscal 1993. Unit volume was up 2% while the average unit sales price was comparable in both quarters. Sales were comparable in the first quarter of fiscal 1994 to 1993 at Farah Manufacturing (U.K.) Limited ("Farah U.K.") and Farah Australia Pty, Ltd. ("Farah Australia") while Farah (New Zealand) Limited ("Farah New Zealand") reported a 32% increase in unit sales for the period. Farah New Zealand, which began operations in fiscal 1990, is continuing to increase its customer base, contributing to its overall sales increase.

Value Slacks sales were \$4,305,000 in the first quarter of fiscal 1994 compared to \$3,956,000 in the first quarter of fiscal 1993. Sales in Puerto Rico decreased 12% while sales in the U.S. increased 30%. U.S. store sales represented 59% of total Value Slacks sales in the first quarter of fiscal 1994 compared to 50% in the first quarter of fiscal 1993. There were 11 Puerto Rican stores in operation in the first quarter of fiscal 1994 compared to 15 stores in the first quarter of fiscal 1993. The number of U.S. stores increased to 21 stores in the first quarter of fiscal 1994 from 14 in the first quarter of fiscal 1993. The Company plans to increase the number of U.S. stores in the remainder of fiscal 1994 and close certain Puerto Rican stores.

Gross Profit. Gross profit increased by \$4,744,000 (44.6%) in the first quarter of fiscal 1994 compared to the first quarter of fiscal 1993. As a percent of sales, consolidated gross profit was comparable at approximately 30% in both periods.

At Farah U.S.A. gross profit as a percent of sales was comparable in both quarters. The gross profit at Farah U.S.A. in the first quarter of fiscal 1994 was favorably impacted by higher production volumes which decreased per unit production cost and, to a lesser extent, by the impact of lower duties as a result of the North American Free Trade Agreement ("NAFTA") which became effective January 1, 1994. These favorable impacts were offset by higher costs of contractor production. At Farah International the gross profit percentage increased from 35% in the first quarter of fiscal 1993 to 38% in the first quarter of fiscal 1994. Production in the Company's Irish factories was up approximately 11% resulting in higher efficiency levels and an overall decrease in cost per unit produced. Gross profit as a percent of sales also increased at Value Slacks from 39% in fiscal 1993 to 45% in fiscal 1994. This increase is mainly due to an increase in U.S. store sales, which carry a higher gross profit percentage. Value Slacks has also been able to achieve a higher markup due to increased sales of higher margin Savane products.

Selling, General and Administrative Expenses. Selling, general and administrative expenses ("SG&A") as a percent of sales decreased from 28% in the first quarter of fiscal 1993 to 25% in the first quarter of fiscal 1994. At Farah U.S.A. SG&A decreased from 25% in the first quarter of fiscal 1993 to 22% in the first quarter of fiscal 1994. This decrease was mainly attributable to a revised sales compensation structure, lower shipping charges due to a new freight policy, and fixed costs that did not increase in relation to increased sales levels. At Farah International SG&A as a percent of sales remained comparable in the first quarter of fiscal 1993 and the first quarter of fiscal 1994. At Value Slacks SG&A as a percent of sales increased from 37% in the first quarter of fiscal 1993 to 44% in the first quarter of fiscal 1994. This increase

in SG&A was related to fixed selling costs, including rent, payrolls and advertising, that were incurred in the first quarter in stores in the eastern United States where sales suffered due to severe weather conditions, limiting the number of operating days during the month of January.

Other Income (Expense). Interest expense increased by \$285,000 in the first quarter of fiscal 1994 over the first quarter of fiscal 1993 due to increased usage of the Company's Credit Agreement to finance higher

13

15

inventory levels. This increase was partially offset by foreign currency transaction gains of \$75,000 in the first quarter of fiscal 1994 compared to foreign currency transaction losses of \$20,000 in the first quarter of fiscal 1993.

Provision (Benefit) for Income Taxes. Income taxes fluctuate as a result of a change in the mix of the income (loss) among the countries in which the Company conducts its business and the effect of operating loss carryforwards. See Note 2 of Notes to Unaudited Consolidated Quarterly Financial Statements.

Fiscal 1993 compared to Fiscal 1992

Net Sales. Sales increased from \$151,990,000 in fiscal 1992 to \$180,114,000 in fiscal 1993, a \$28,124,000 (18.5%) increase. Farah U.S.A. sales increased from \$101,981,000 in fiscal 1992 to \$136,767,000 in 1993, a 34.1% increase. Sales at Farah International declined from \$35,959,000 in fiscal 1992 to \$29,097,000 in fiscal 1993, a 19.1% decrease. Sales at Value Slacks increased from \$14,050,000 in fiscal 1992 to \$14,250,000 in fiscal 1993, a 1.4% increase.

Farah U.S.A. accounted for 67% of the Company's consolidated sales in fiscal 1992 compared to 76% in fiscal 1993. Leading the increase in sales at Farah U.S.A. was its Savane brand of casual cotton no wrinkles slacks. Savane had sales of \$17,230,000 in fiscal 1992 compared to \$60,387,000 in fiscal 1993, a 250% increase. This large increase is due to a number of factors, including the shift in consumer preferences toward a more casual lifestyle and the ease of care that no wrinkles products offer. In addition, the Company believes that its policy of selling Savane products primarily to better department stores and a national television advertising campaign in fiscal 1993 stimulated sales during the year. Sales of Farah and Farah Clothing Company branded products decreased from \$64,239,000 in fiscal 1992 to \$52,949,000 in fiscal 1993. Sales of these brands consisted primarily of dress products. The Company believes the sales decrease was caused mainly by the shift of consumer preference from dress to casual products. Sales of the Company's John Henry products decreased from \$18,300,000 in fiscal 1992 to \$14,739,000 in fiscal 1993. Most of the John Henry products sold in fiscal 1993 were in the dress category and the decrease in John Henry sales was also due to the consumer shift toward casual products. The final significant component of Farah U.S.A.'s sales in fiscal 1993 was its private label division where sales increased from \$1,104,000 in fiscal 1992 to \$7,516,000 in fiscal 1993. Fiscal 1993 was the first full year of sales in the private label division. Overall, the Farah U.S.A. average unit sales price was comparable between years, with the higher average unit sales price from Savane sales being offset by a lower private label average unit sales price.

Farah International accounted for 16% of the Company's consolidated sales in fiscal 1993 and 24% in fiscal 1992. Farah International's largest international subsidiary in fiscal 1993 was Farah U.K. with sales of \$19,227,000, followed by Farah Australia and Farah New Zealand with combined sales of \$9,028,000. Sales at Farah U.K. decreased by \$6,276,000 in fiscal 1993, a 25% decrease. Unit sales decreased by 15% while the average unit sales price declined by 12%. The decrease in units was due to lower sales of certain seasonal products and lower closeout sales in fiscal 1993 compared to fiscal 1992. While the average unit sales price in British Pound Sterling increased by 6%, the average unit sales price in equivalent U.S. Dollars decreased due to the strengthening of the U.S. Dollar compared to the British Pound Sterling. The average exchange rate in fiscal 1993 was \$1.51 per Pound compared to \$1.81 in fiscal 1992. Sales at Farah Australia and Farah New Zealand decreased by \$302,000, primarily due to sales price reductions resulting from lower import duty levels imposed in Australia which were, in turn, passed through to the customer as lower sales prices. In addition, the U.S. Dollar strengthened by over 9% compared to the Australian Dollar in fiscal 1993 which contributed to the lower average unit sales price in U.S. Dollar terms. Unit sales at Farah Australia and Farah New Zealand increased by 7% due to greater market penetration in New Zealand where unit sales increased 52%.

Value Slacks accounted for 8% of the Company's consolidated sales in fiscal 1993 and 9% in fiscal 1992. As of the end of fiscal 1993, Value Slacks operated 20 U.S. stores and 11 Puerto Rican stores compared to 14 U.S. stores and 15 Puerto Rican stores at the end of fiscal 1992. Sales in Value Slacks' U.S. stores increased by 14% in fiscal 1993 while Puerto Rican store sales decreased by 13%. Overall, the average unit sales price increased by 10% in fiscal 1993 and unit sales decreased by 8%. The average unit sales price increase was due to the opening of more U.S. stores where the mix of products sold consisted of more first quality merchandise and Savane products in fiscal 1993. Savane carries a

decrease occurred in the Puerto Rican stores where there were fewer stores operating and the general economic conditions were not favorable for the type of merchandise that Value Slacks sold.

**Gross Profit.** Gross profit as a percent of sales was 29.5% in fiscal 1993 compared to 25.3% in fiscal 1992. Gross profit in fiscal 1993 was 27% at Farah U.S.A., 37% at Farah International and 42% at Value Slacks, compared to fiscal 1992 gross profit of 20% at Farah U.S.A., 35% at Farah International and 37% at Value Slacks.

The improvement in gross profit as a percent of sales at Farah U.S.A. was primarily due to higher sales of Savane products which carried a higher gross profit percent than other Farah brands. In addition, Farah U.S.A. more fully utilized its factories in fiscal 1993 than it did in fiscal 1992. In fiscal 1992, production levels were increased in the first part of the year to meet projected sales levels of dress products. While sales did increase in the first half of fiscal 1992, they did not reach the expected levels due to lower sales of dress products at retail. As a result, production was reduced in the second and third quarters to levels below plan. This resulted in decreased plant efficiencies and lower gross profit percents in fiscal 1992. With the large shift in sales from dress products to casual products in fiscal 1993, Farah U.S.A. was able to improve the utilization of its factories. However, since its factories were configured primarily for dress production, late in the second quarter of fiscal 1993 a decision was made to convert portions of the sew lines in Costa Rican and Mexican factories from the production of dress to casual products. The impact of such conversion resulted in approximately \$4,000,000 of factory conversion expenses. See Note 1 of Notes to Consolidated Financial Statements.

The improvement in gross profit percent at Farah International was due to lower closeout sales at Farah U.K., as well as lower markdowns in general at Farah U.K. In addition, the Company was able to more fully utilize its Irish factories in fiscal 1993 which also contributed to the improvement.

The increase in gross profit percent at Value Slacks was primarily due to favorable results at its U.S. stores. The gross profit percent in the U.S. stores was 47% in fiscal 1993 compared to 40% in fiscal 1992 and the gross profit percent in the Puerto Rican stores was 35% in fiscal 1993 compared to 34% in fiscal 1992. The increase in both instances was due to fewer markdowns and higher Savane sales. Savane products carry a higher gross profit percent than other Farah brands.

**Selling, General and Administrative Expenses.** SG&A as a percent of sales was 26.3% in fiscal 1993 compared to 27.6% in fiscal 1992. SG&A was 23% of sales at Farah U.S.A. compared to 22% in fiscal 1992, 33% at Farah International compared to 35% in fiscal 1992 and 45% at Value Slacks compared to 48% in fiscal 1992.

The increase in SG&A as a percent of sales at Farah U.S.A. was primarily due to increased advertising in fiscal 1993 with the introduction of a national television advertising campaign for Father's Day 1993 to promote its Savane products. Advertising costs increased approximately \$4,600,000 at Farah U.S.A. in fiscal 1993 as compared to fiscal 1992, or an additional 2.1% of Farah U.S.A. sales. Partially offsetting this higher expense were certain fixed costs which did not increase in proportion to the increase in sales.

The decrease in SG&A as a percent of sales at Farah International occurred at Farah U.K. where the number of retail outlets maintained in customers' stores decreased. In addition, certain other cost cutting measures at Farah U.K. reduced its SG&A percent.

SG&A at Value Slacks as a percent of sales was lower in fiscal 1993 compared to fiscal 1992. The higher percentage in fiscal 1992 resulted from higher costs associated with the closure of certain Puerto Rican stores and higher occupancy, advertising and labor costs as a percent of sales in the Puerto Rican stores.

**Other Income (Expense).** Net interest expense in fiscal 1993 increased due to larger borrowings as a result of higher receivable and inventory levels at Farah U.S.A. in support of the sales growth of Savane, offset in part by lower costs of borrowing. Foreign currency transaction gains (losses) were (\$151,000) and \$1,460,000 in fiscal 1993 and fiscal 1992, respectively. Foreign currency transaction gains and losses are primarily related to the fluctuations in the value of the U.S. Dollar compared to the British Pound Sterling. See Note 1 of Notes to Consolidated Financial Statements. Included in fiscal 1992 is an \$841,000 currency gain which was recognized upon the closure of Farah Japan Limited ("Farah Japan").

Excluding net interest expense and foreign currency transaction gains (losses), there was \$317,000 of other income in fiscal 1993 and \$6,286,000 of other expense in fiscal 1992. In conjunction with the 1989 sale of Generra, the Company retained a 5% ownership interest in Generra and received a \$5,000,000 note receivable. Included in fiscal 1992 was a provision of \$6,146,000 related to the bankruptcy of Generra which filed for protection under Chapter 11 of the federal bankruptcy laws during the second half of fiscal 1992.

Provision (Benefit) for Income Taxes. Income taxes fluctuate from year to year depending on the mix of income or loss in countries in which the Company conducts its business. In addition, there was a limitation in fiscal 1992 and fiscal 1993 on recognition of deferred tax benefits on U.S. losses in accordance with Statement of Financial Accounting Standards No. 96, "Accounting for Income Taxes." See Note 6 of Notes to Consolidated Financial Statements.

#### Fiscal 1992 compared to Fiscal 1991

Net Sales. Sales increased from \$151,202,000 in fiscal 1991 to \$151,990,000 in fiscal 1992, a \$788,000 (.5%) increase. Farah U.S.A. sales increased from \$94,492,000 in fiscal 1991 to \$101,981,000 in fiscal 1992, a 7.9% increase. Sales at Farah International declined from \$41,572,000 in fiscal 1991 to \$35,959,000 in fiscal 1992, a 13.5% decrease. Sales at Value Slacks decreased from \$15,138,000 in fiscal 1991 to \$14,050,000 in fiscal 1992, a 7.2% decrease.

Farah U.S.A. accounted for 67% of the Company's consolidated sales in fiscal 1992 compared to 62% in fiscal 1991. The largest category of sales in fiscal 1992 was Farah and Farah Clothing Co. branded products which accounted for \$64,239,000 of sales in fiscal 1992 and \$68,383,000 of sales in fiscal 1991. The majority of sales under these brands were men's dress products, followed by boy's dress products. Sales of Savane casual products were made entirely in men's departments in fiscal 1992 and amounted to \$17,230,000 compared to \$5,526,000 in fiscal 1991. The increase in Savane sales and decrease in sales of the other Farah brands reflected the shift in consumer preference from dress products to casual products. John Henry sales were \$18,300,000 in fiscal 1992 compared to \$18,590,000 in fiscal 1991.

Farah International accounted for 24% of the Company's consolidated sales in fiscal 1992 and 28% in fiscal 1991. There was an 11% decrease in unit volume and a 2% decrease in the average unit sales price in fiscal 1992. The decrease in sales occurred mainly at Farah U.K. where sales decreased from \$30,125,000 in fiscal 1991 to \$25,503,000 in fiscal 1992. Farah U.K. unit sales were down 16% due to soft economic conditions, a decrease in the number of retail outlets in customer stores and declining sales of certain key products. Combined sales of Farah Australia and New Zealand were \$9,330,000 in fiscal 1992 compared to \$9,000,000 in fiscal 1991. The Company closed Farah Japan during the second half of 1992. In conjunction with the closing, the Company sold substantially all of its Japanese inventory at reduced prices. This, in turn, accounted for the decrease in the average unit sales price at Farah International. Excluding Farah Japan, the average unit sales price was comparable in fiscal 1992 and fiscal 1991.

Value Slacks accounted for 9% of the Company's consolidated sales in fiscal 1992 and 10% in fiscal 1991. As of the end of fiscal 1992, Value Slacks operated 14 U.S. stores and 15 Puerto Rican stores compared to 14 U.S. stores and 16 Puerto Rican stores at the end of fiscal 1991. The sales decrease in fiscal 1992 was comprised of a 15% decrease in unit volume partially offset by an increase in the average unit sales price of 9%. Sales were flat in the U.S. stores and decreased by 14% in the Puerto Rican stores.

Gross Profit. Gross profit as a percent of sales was 25.3% in fiscal 1992 compared to 25.7% in fiscal 1991. Gross profit in fiscal 1992 was 20% at Farah U.S.A., 35% at Farah International and 37% at Value Slacks, compared to a fiscal 1991 gross profit of 21% at Farah U.S.A., 35% at Farah International and 29% at Value Slacks.

In the early part of fiscal 1992 Farah U.S.A. increased its production levels to meet projected sales levels. Although sales levels did increase in the first half of fiscal 1992, they did not reach expected levels which resulted in excess inventory quantities. In order to bring inventory levels in line with anticipated sales levels, production was reduced in the second and third quarters, resulting in lower plant efficiencies. This resulted in

higher costs per unit than planned and the sale of certain inventory below standard selling prices to reduce inventory. Accordingly, the gross profit percent at Farah U.S.A. was lower in fiscal 1992 than in fiscal 1991.

While Farah International's gross profit percent was comparable in both fiscal 1992 and fiscal 1991, the gross profit percent at Farah U.K. was down by approximately 6%, offset by an increased gross profit percent at Farah Australia and Farah New Zealand. The gross profit percent was lower in the first half of



fiscal 1992 as a result of inventory closeouts at Farah U.K. and Farah Japan and lower production volumes in Ireland. Production levels were increased in the third quarter of fiscal 1992, decreasing unit costs and improving the gross profit percent in both the third and fourth quarter.

The improvement in Value Slacks' gross profit percent in fiscal 1992 was due to the implementation of new merchandising strategies in late fiscal 1991. These strategies improved the average unit sales price by over \$1.00 in fiscal 1992, thus improving the gross profit percent. In addition, approximately \$1,800,000 of markdowns were taken in late fiscal 1991 in an effort to dispose of older store inventory.

Selling, General and Administrative Expenses. SG&A as a percent of sales was 27.6% in both fiscal 1992 and fiscal 1991. SG&A was 22% in fiscal 1992 at Farah U.S.A. compared to 21% in fiscal 1991, 35% in both years at Farah International and 48% in fiscal 1992 at Value Slacks compared to 45% in fiscal 1991.

The increase in SG&A as a percent of sales at Farah U.S.A. was primarily due to a 59% increase in advertising in fiscal 1992 compared to fiscal 1991, partially offset by a lower per unit shipping cost.

While Farah International's SG&A as a percent of sales was comparable between years, there was a decrease at Farah U.K. of approximately 2%. This was the result of non-recurring expenses incurred in fiscal 1991 related to severance payments, higher occupancy costs associated with the move to a new warehouse and office facility and increased legal fees. This decrease was offset by an increase in fiscal 1992 in Farah Japan for costs related to closure of the Japanese operations and increased expenses at Farah Australia for setup costs of a new computer system.

The increase during fiscal 1992 in SG&A as a percent of sales at Value Slacks was the result of higher advertising and certain store operating costs that did not decrease in proportion to the decrease in sales.

Other Income (Expense). The decrease in fiscal 1992 from fiscal 1991 was due to lower interest rates and borrowings on lower inventory levels. Foreign currency transaction gains (losses) were \$1,460,000 and (\$832,000) in fiscal 1992 and 1991, respectively. Foreign currency transaction gains and losses are primarily related to the fluctuations in the value of the U.S. Dollar compared to the British Pound Sterling. See Note 1 of Notes to Consolidated Financial Statements. Included in fiscal 1992 was an \$841,000 currency gain which was recognized upon the closure of Farah Japan.

Excluding net interest expense and foreign currency transaction gains (losses), there was \$6,286,000 and \$432,000 of other expense in fiscal 1992 and fiscal 1991, respectively. Included in fiscal 1992 was a provision of \$6,146,000 related to the bankruptcy of Generra.

Provision (Benefit) for Income Taxes. Income taxes fluctuate from year to year depending on the mix of income or loss in countries in which the Company conducts its business. In addition, there was a limitation in fiscal 1991 and 1992 on recognition of deferred tax benefits on U.S. losses in accordance with Statement of Financial Accounting Standards No. 96, "Accounting for Income Taxes." See Note 6 of Notes to Consolidated Financial Statements.

#### LIQUIDITY AND CAPITAL RESOURCES

The Company's Credit Agreement provides up to \$40,000,000 of credit through November 3, 1995. Availability under the facility is limited by formulas derived from accounts receivable, inventory and fixed assets. As of February 4, 1994, usage under the Credit Agreement was \$32,669,000 and available credit was \$6,897,000. See Note 3 of Notes to Consolidated Financial Statements. A portion of the net proceeds from this offering will be used to reduce the indebtedness under the Credit Agreement. See "Use of Proceeds."

17

19

Net cash used in operating activities was \$3.7 million in the first quarter of fiscal 1994 and \$16.0 million in fiscal 1993. The primary use of cash in operations was to fund the increase in inventories and receivables resulting from the increase in the Company's sales. The Company believes that its borrowing availability from its Credit Agreement and cash from operations will be adequate for fiscal 1994 anticipated liquidity requirements. In addition, the Company believes it will be able to replace the Credit Agreement when it expires in November 1995 with other financing on similar terms. In fiscal 1994, major liquidity requirements will be the financing of anticipated growth and capital expenditures.

Inventories increased by \$9,404,000 at February 4, 1994 compared to November 5, 1993 and by \$21,891,000 compared to February 5, 1993. The increase is primarily attributable to higher sales at Farah U.S.A. and, to a lesser extent, an increase in Farah U.S.A. inventories needed to satisfy customers' quick response needs.

Trade payables were comparable at February 4, 1994 and November 5, 1993 and increased \$9,355,000 at February 4, 1994 compared to February 5, 1993. The increase since February 5, 1993 was due to higher production levels at Farah U.S.A. to service higher sales.

Short-term debt and current maturities of long-term debt increased by \$2,056,000 from November 5, 1993 to February 4, 1994 and by \$14,761,000 from February 5, 1993 to February 4, 1994. The increase from November 5, 1993 was primarily due to higher borrowings at Farah U.S.A. to finance higher inventory levels described above and capital expenditures. The increase from February 5, 1993 was primarily due to higher borrowings at Farah U.S.A. to finance higher trade receivables from higher sales, higher inventories and capital expenditures.

Effective February 1, 1994 the Company issued \$1,673,000 of Convertible Debentures in exchange for a like principal amount of its 5% convertible subordinated debentures. The Convertible Debentures are convertible into Common Stock at \$15.2375 per share. The remaining 5% convertible subordinated debentures totalling \$2,252,000 were paid on February 1, 1994.

Capital expenditures for fiscal years 1993, 1992 and 1991 were \$6.8 million, \$1.5 million and \$1.8 million, respectively. Capital expenditures through February 4, 1994 approximated \$1.3 million and were primarily for manufacturing equipment and information systems. Approximately \$8.0 million of the net proceeds from this offering will be used for capital expenditures. See "Use of Proceeds."

Most of Farah U.S.A.'s major fabric suppliers provide 60-day terms, subject to certain limits. During fiscal 1993, the maximum outstanding balance at any month-end under these credit terms was \$9,179,000.

Inflation did not materially impact the Company in fiscal 1993, 1992 or 1991.

BUSINESS

GENERAL

The Company, founded in 1920, is a leading manufacturer and marketer of apparel for men and boys. The Company's principal products are casual and dress slacks, suit separates, sportcoats and shorts. The Company sells its products under the labels Savane(R), Farah(R), Farah Clothing Company(R) and John Henry(R), and under private labels. The Company has developed product lines targeted to a wide range of retailers, including better department stores and, to a lesser extent, national chains and mass merchants. The Company also manufactures and sells its products in certain markets outside of the United States, primarily the United Kingdom and Australia. Largely as a result of recent growth in its wrinkle resistant casual slacks business, the Company's operating results have improved significantly.

The Company was the first to use wrinkle resistant technologies in the production and marketing of men's 100% cotton slacks when it introduced no wrinkles slacks under its Savane label in 1989. The Company is a leader in that market. Sales of Savane products have increased from \$3.6 million in fiscal 1990 to \$60.4 million in fiscal 1993, as the Company's no wrinkles process has gained increased acceptance with consumers and retailers. The Savane product line of slacks is sold primarily in better department stores and is targeted principally at the casual wear segment of the men's and boy's apparel market. Most Savane casual slacks use 100% cotton fabrics and are treated with PROCESS 2000(R). PROCESS 2000 is the Company's trademark for the no wrinkles technologies used in its Savane products. As a result of its experience with no wrinkles technologies, the Company believes it currently offers a broader no wrinkles product line than its competitors. See "Business -- Technology and Trademarks."

According to independent marketing research organizations, the men's slacks market is an industry with annual retail sales in excess of \$3.0 billion. The main channels of distribution in the industry are department stores, national chains (such as Sears) and discounters.

The following table shows the sales (in thousands) of Farah U.S.A. products by label for the periods indicated:

<TABLE>  
<CAPTION>

	THREE MONTHS ENDED		FISCAL YEAR		
	FEB. 4, 1994	FEB. 5, 1993	1993	1992	1991
<S>	<C>	<C>	<C>	<C>	<C>
Savane.....	\$22,633	\$ 7,636	\$ 60,387	\$ 17,230	\$ 5,526
Farah/Farah Clothing Company...	11,134	13,544	52,949	64,239	68,383

John Henry.....	3,917	3,719	14,739	18,300	18,590
Private label and other.....	3,626	907	8,692	2,212	1,994
	-----	-----	-----	-----	-----
Total.....	\$41,310	\$25,806	\$136,767	\$101,981	\$94,493
	-----	-----	-----	-----	-----
	-----	-----	-----	-----	-----

</TABLE>

The Company is organized as three distinct operating divisions. Farah U.S.A. (76% of consolidated revenue for fiscal 1993) manufactures and sells a variety of casual and dress apparel lines to retailers throughout the United States. Farah U.S.A.'s apparel is produced either at Farah U.S.A. factories in Mexico and Costa Rica or by third party contractors. Farah International (16% of consolidated revenue for fiscal 1993) manufactures and sells apparel in several countries in Europe, Australia and Asia. Farah International's primary markets are the United Kingdom and Australia. Value Slacks (8% of consolidated revenue for fiscal 1993) operates retail stores which sell apparel manufactured by the Company for these stores, close-outs and seconds from Farah U.S.A., and a limited amount of merchandise purchased from third parties. As of March 1, 1994, Value Slacks had 32 retail stores, 21 in the United States and 11 in Puerto Rico.

The Company was incorporated in Texas in 1947 as Farah Manufacturing Company, Inc. The name of the Company was changed to Farah Incorporated in 1987.

19

21

#### BUSINESS STRATEGY

Management has implemented a strategy that has led to recent improvements in the Company's operating results and that management believes will position the Company to continue to be competitive. Key components of the Company's growth and operating strategies are summarized below.

##### Growth Strategy

- Expand Savane Line. The Company intends to expand the Savane line of products as the Company's no wrinkles process continues to gain acceptance and recognition with consumers and retailers. The Company believes that it currently manufactures a wider variety of wrinkle resistant products than are offered by its competitors and intends to continue to develop and manufacture new styles, colors and fabrications of slacks to further enhance its market position. In fiscal 1994, the Company is introducing a new line of products, known as Savane Fridaywear(TM), that is directed to the casual workplace market, and a line of Savane dress slacks. In addition, the Company is developing additional Savane lines that it plans to introduce in fiscal 1995.
- Product Innovation. The Company believes it has developed a reputation among retailers for product innovation. In fiscal 1989, the Company was the first to introduce the no wrinkles technology to the men's slacks market and is a leader in that market. The Company intends to continue its research and development efforts to develop new and innovative products. In fiscal 1994, the Company will begin marketing new products which couple no wrinkles technology with stain resistant finishes which utilize Teflon (a registered trademark of E.I. DuPont de Nemours and Company) and Scotchguard (a registered trademark of Minnesota Mining and Manufacturing Company).
- New Products under Other Farah Labels. The Company intends to introduce new product offerings under the Farah/Farah Clothing Company and John Henry labels using no wrinkles technologies, stain resistant finishes and new fabrics to stimulate sales of these product lines. The Company plans to take advantage of the recent success of the Savane label with retailers to expand the market share of these labels.
- License Savane Trademark. Management plans to license third parties to manufacture and market apparel using the Savane trademark, including outerwear, shirts, belts, socks and shoes. The Company plans to coordinate the marketing of these products through its existing distribution channels. In December 1993 the Company licensed Oxford Industries, Inc., a major shirt manufacturer, to manufacture and market shirts under the Savane and PROCESS 2000 trademarks. The license agreement provides for the payment of royalties to the Company based on the amount of sales of Savane shirts. Management believes that licensing the Savane trademark, in addition to generating revenues for the Company, could enhance sales of the Company's Savane slacks.
- Foreign Market Opportunities. The Company is in the process of identifying new foreign markets for the Company's Savane products. The Company is currently reviewing opportunities to enter into marketing partnerships for the expansion of the Savane product line in Continental Europe in fiscal 1994.

- Position Savane as High Quality Product. The Company has positioned the Savane product as a high quality product by using better fabrics, such as heavy weight twill and combed and brushed cottons, and finer workmanship in the production of the garment. The Company markets and distributes its Savane products in the United States primarily to better department stores, such as Belk Department Stores, Dillard Department Stores, Federated Department Stores (including Abraham & Straus, Burdines and Rich's) and The May Department Stores Company (including Hecht Co., Foley's and Robinson-May). The Company does not intend to sell the Savane line to discounters or mass merchants, other than close-outs in certain circumstances. The Company believes by selling the

20

22

Savane line primarily to better department stores it may be able to maintain a more consistent margin than other similar products which are sold through multiple channels of distribution.

- Focus on Core Products. A majority of the Company's apparel lines consists of basic, recurring styles that the Company believes are less susceptible to fashion obsolescence than higher fashion apparel lines. While the Company attempts to offer updated fashions and styles, its major product lines change relatively little from season to season. The Company believes that by maintaining basic recurring styles it limits markdowns due to fashion obsolescence and allows for longer production runs and more efficient factory operations.

- Experience with Wrinkle Resistant Technology. The Company has considerable experience with wet process wrinkle resistant technology. The major difference between the wet process and the post-cured process is that with the wet process the wrinkle resistant finish is applied to the garment after it is sewn and with the post-cured process it is applied to the fabric by the mills. Because the Company is not dependent on the limited number of wrinkle resistant fabrics currently offered by the mills, it manufactures no wrinkles products in a wider range of colors, fabrics and finishes. See "Business -- Technology and Trademarks."

- Advertising. The Company plans to expand its national media campaign to further enhance public awareness of no wrinkles products and the Savane product line. In fiscal 1993, the Company undertook its first national television advertising campaign for the Savane product line. These advertisements ran on major networks and cable television.

- Production Expansion and Improvements. The Company plans to expand and enhance its manufacturing facilities. The Company has reconfigured its factories to meet the increase in sales of Savane products. This reconfiguration included changing certain sew lines from dress to casual production and increasing pressing and laundering capacity to facilitate the PROCESS 2000 technology. The Company incurred \$4,000,000 of expenses in the third quarter of fiscal 1993 representing the cost to convert certain sew lines. See "Management's Discussion and Analysis of Financial Condition and Results of Operations." Management believes that it can further increase manufacturing capacity and efficiency and reduce production costs through selected capital investment projects, including additional laundry and pressing facilities and sewing equipment. See "Use of Proceeds."

- Offshore Manufacturing. The Company was among the first U.S. apparel companies to use Mexico and Costa Rica as a production base and believes it has a manufacturing advantage over other companies who have only recently entered these countries. These offshore manufacturing facilities have labor rates which are below the rates in the United States. In addition, factories in Mexico operate under favorable tariff provisions as a result of NAFTA. Goods shipped from these factories require much shorter transportation periods than goods produced in the Far East.

## PRODUCTS

The Company manufactures high quality, medium priced apparel for men and boys. The Company's products include casual slacks, dress slacks, suit separates (matching pants and sportcoats which may be mixed and matched to accommodate retail customer size preferences), sportcoats and shorts. The Company's products are sold under four primary labels: Savane, Farah Clothing Company, Farah and John Henry. In addition, the Company manufactures and sells private label products for certain mass merchants such as Wal-Mart Stores.

The Company's apparel products are manufactured with an array of fabrics that emphasize comfort, fit and performance. The Company is known for its use of "performance fabrics" that maintain a fresh, neat appearance. The Company's product lines primarily use 100% cotton fiber and blended fabrics (cotton/polyester or wool/polyester). Most of the Company's Savane products are offered with PROCESS 2000. PROCESS 2000 is the Company's trademark, first

introduced by the Company in late fiscal 1989, which is used to describe the wrinkle resistant features of the Savane garments. PROCESS 2000 fabrics are soft, wrinkle and shrink resistant and behave like "permanent press." The Company has also recently introduced

21

23

products under the Farah/Farah Clothing Company and John Henry labels using wrinkle resistant technologies. See "Business -- Technology and Trademarks."

Additional information with respect to the Company's significant labels is as follows:

Savane -- This label is used primarily for casual slacks and shorts that are made from 100% cotton fabrics and are treated with PROCESS 2000. The Savane product line is targeted to the growing men's casual wear segment and has gained acceptance with consumers and retailers. The Savane product line is sold primarily to better department stores. The Company has positioned the Savane product as a high quality garment using better fabrics and finer workmanship. In addition to men's slacks, the Company offers slacks for boys and shorts under the Savane label. See "Business -- Business Strategy."

Farah/Farah Clothing Company -- These labels are used primarily for dress slacks and suit separates made from blended fibers. The Company has introduced a line of casual slacks with these labels which are made from 100% cotton. Some casual slacks with these labels are fabricated using a wrinkle resistant technology. Farah/Farah Clothing Company are the Company's primary dress labels sold to department stores and national chains. See "Business -- Business Strategy."

John Henry -- This label is used for higher fashion dress slacks and suit separates produced from blended fabrics. The John Henry line is sold to better department stores and certain of the products use a wrinkle resistant technology. See "Business -- Business Strategy."

FARAH U.S.A.

General. Farah U.S.A. produces and sells a variety of casual and dress clothing lines to retailers throughout the United States. Substantially all of Farah U.S.A.'s apparel is produced at Farah U.S.A. factories in Mexico or Costa Rica or by third party contractors. Farah U.S.A.'s products are directed to the men's and boy's segments of the apparel industry, with approximately 79% of branded sales in fiscal 1993 in the men's segment. Farah U.S.A. also offers its products to the young men's segment of the apparel industry, but this area has not traditionally been an area of high volume because of the fashion orientation in this segment of the industry. The Savane casual products have recently gained acceptance among retailers in the boy's segment of the apparel industry, and the Company believes this area offers important growth opportunities.

In fiscal 1992, Farah U.S.A. established a private label division to manufacture and sell private label products for certain mass merchants, primarily Wal-Mart Stores. The total sales of private label products in fiscal 1993 was approximately \$7.5 million. The Company intends to continue to service its existing private label customers and review selected opportunities to expand its private label business in the future.

Manufacturing, Sourcing and Distribution. The men's apparel industry in the United States has two primary selling seasons. The Spring selling season extends from December to April, and the Fall selling season extends from May to November. Farah U.S.A.'s operations follow this seasonal pattern. The various steps in the manufacturing cycle are timed so that Farah U.S.A. begins to manufacture products for a given season two to three months before the retail season officially begins.

Farah U.S.A. purchases its fabric and trim requirements, such as pocketing, linings, belts, buttons, zippers and thread, from several domestic and foreign sources. No single supplier of raw materials is critical to Farah U.S.A.'s long-term production needs. Although the Company believes that alternative sources of supply exist in the event Farah U.S.A. needs to seek additional or replacement suppliers, short-term disruptions could occur in the event certain suppliers cease to serve as sources of supply. The order lead time for fabrics is approximately two to six months. Payment terms are generally 60 days. All fabrics are delivered to one of the Company's facilities in El Paso, Texas. Quality control procedures are in place to test each shipment for flaws, coloring, stretch, shrinkage and other characteristics.

Farah U.S.A. utilizes one of the Company's facilities in El Paso to store and cut fabrics. Cut fabrics are then inspected, batched and packed for shipment to one of Farah U.S.A.'s offshore manufacturing plants or to third party contractors. Farah U.S.A. uses company-owned factories in Mexico and Costa Rica or third party

22

contractors to sew and finish substantially all of its products. The Company anticipates that in fiscal 1994 approximately 60% of Farah U.S.A.'s total production will be manufactured in its own factories, with the balance to be manufactured by independent contractors. Farah U.S.A. performs most sewing and finishing offshore in order to keep production costs low; however, the finishing of garments sewn by third party contractors is conducted primarily in the El Paso facility. The offshore plants pack the finished garments and ship them back to El Paso for distribution to Farah U.S.A.'s customers.

Orders from retailers are filled from inventory at the Company's facility in El Paso. Shipments to retailers are sent directly to certain of the retailers' stores or to independent distribution centers. Certain retailers pick up their goods at the El Paso facility.

Marketing and Sales. Retailers are requiring increased quality of service from their suppliers and greater flexibility in managing their inventories as the retailers frequently change orders based upon updated consumer demand patterns. Many of Farah U.S.A.'s major customers participate in an inventory replenishment program referred to as "Quick Response." "Quick Response" has evolved in the apparel industry to assist retailers in minimizing their inventories by requiring the apparel manufacturers to maintain enough finished goods inventory on hand to meet the retailer's demand on short notice. Most "Quick Response" orders are shipped within 72 hours of receipt of the order from the retailer. The Company has implemented an electronic data interchange ("EDI") system with selected large retailers in order to respond to their demands to provide better service and facilitate the "Quick Response" program. EDI systems allow retailers to electronically transmit orders for certain items on a frequent basis, typically weekly. The retailers also transmit detailed sales data from their store locations. The Company uses the sales data to anticipate demand from the retailers, update sales forecasts and plan and monitor production and inventory levels.

The Company also has developed a computer system which was first implemented in fiscal 1990 as part of a company-wide program to increase quality and customer service. The system runs on laptop computers that the Farah U.S.A. sales force carries with them as they contact retailers. This system maintains timely, accurate data on style numbers, prices and size charts (size charts describe the distribution of sizes that a retailer typically sells). The system also provides up-to-date, easily accessible data on inventories, customer orders and production backlogs. With the system, the sales force can execute orders more efficiently and assist the retailer in attaining higher margins by reducing inventory imbalances.

Farah U.S.A. has four regional corporate account executives who are directly responsible for certain major retail accounts. Management believes that the corporate account executive strategy, along with the direct involvement of senior corporate executives in the marketing process, enhances the level of service to the retailer. Farah U.S.A. employs a field sales force of approximately 35 salespersons who each report to one of the corporate account executives and are responsible for the primary relationship with smaller retailers.

In addition, Farah U.S.A. employs merchandise coordinators who visit retail store accounts and provide services, such as training and education of in-store sales personnel about the Savane products; straightening slacks and ensuring that displays are neat and orderly; responding to customer questions and comments; and ensuring that the stores are satisfied with their level of service. These individuals report to members of the sales force.

Advertising. Farah U.S.A.'s advertising program is comprised of national media advertising and participation in cooperative advertising programs with retailers. In fiscal 1993, Farah U.S.A. undertook its first national television advertising campaign for the Savane product line. A second campaign ran in December 1993. These advertisements ran on major networks and cable television. The Company intends to continue national media advertising in the future. In cooperative advertising programs, the Company and individual retailers combine their efforts and share the costs of local television, radio and newspaper advertisements and in-store advertising and promotional events featuring the Company's branded products. Farah U.S.A. has used in-store marketing techniques, such as providing retailers with attractive tables for the display of Savane pants. Management believes this approach has gained valuable "shelf space" in many retail stores and helped boost sales and consumer awareness of its Savane products.

Competition. The apparel industry is highly competitive due to its fashion orientation, its mix of large and small producers, the flow of imported merchandise and a wide variety of retailing methods. The principal elements of competition in the apparel industry include style, quality, price, comfort, brand loyalty, customer

service and advertising. Competition has been exacerbated by the recent consolidations and closing of major department store groups. The men's slacks segment of the men's apparel industry is characterized by a large number of participants. The Company believes its largest competitors in the United States are Levi's and Haggar Corp. The Company believes Farah U.S.A. is among the top ten sellers of men's slacks in the United States.

The men's casual wear market for slacks began to experience significant growth in the mid-1980s with the introduction from Levi's of its Dockers(R) casual products. Several of the Company's competitors have only recently entered the wrinkle resistant casual slacks market. Levi's has recently introduced a Dockers(R) labelled wrinkle resistant product and the Company anticipates that Levi's will devote substantial financial resources to develop and market this new product. Levi's and certain of the other competitors have larger financial and marketing resources than the Company and therefore will offer significant competition to the Company's Savane line of products. Such competition could adversely affect the price of the Savane products and result in a reduction of the Company's share of the wrinkle resistant slacks market. This adverse effect may, however, be offset by the expansion of the market caused by increased awareness of wrinkle resistant products. Accordingly, the Company is unable to determine the ultimate effect of this additional competition in this segment of the casual slacks market.

#### FARAH INTERNATIONAL

Farah International sells apparel in several countries in Europe, Australia and Asia. The primary markets for Farah International are the United Kingdom, Australia and New Zealand. Farah International produces most of its products in two locations, and third party contractors produce the remainder. A wholly-owned plant in Ireland supplies the United Kingdom market, and two factories in Fiji operated by a 50% joint venture supply the markets in Australia and New Zealand. The Company products are sold internationally primarily under the Farah and Savane labels.

The United Kingdom is Farah International's principal market and in fiscal 1993 accounted for approximately 66% of its sales. Distribution channels in the United Kingdom are significantly different from those in the United States in that retailers carry more private label brands than branded products. Farah International's primary distribution channels in the United Kingdom are large retail outlets and independent menswear stores.

Farah International products primarily include dress and casual slacks, and shirts and sweaters manufactured by third parties. Farah International's products are designed for the specific styles and tastes of the markets in which they are sold and differ from Farah U.S.A. apparel. During fiscal 1993 the majority of Farah International's products were made from polyester fabrics or blended fabrics with a high polyester content, as opposed to natural fibers which are more popular in the United States. The Company is currently reviewing opportunities to expand the offering of the Savane line of products in the Continental European market in fiscal 1994.

Farah Australia and Farah New Zealand accounted for approximately 31% of Farah International's sales in fiscal 1993. Farah New Zealand was opened in fiscal 1990 under the same management as Farah Australia.

For information regarding the net sales, operating profits and assets of the Company in each of the geographic segments in which the Company operates, see Note 9 of Notes to Consolidated Financial Statements.

#### VALUE SLACKS

Value Slacks stores offer Farah U.S.A.'s seconds, irregulars and excess merchandise, combined with some merchandise manufactured specifically for Value Slacks. Value Slacks began with one outlet store in downtown El Paso in 1968 and has added locations as the Company's production has grown. Value Slacks

24

26

operated 32 retail outlet stores as of March 1, 1994, 21 of which were located in the United States and 11 in Puerto Rico. The stores are generally 2,000 to 5,000 square feet and are located in suburban outlet malls or strip centers.

As the factory outlet store concept has gained acceptance in the United States, Value Slacks has de-emphasized operations in Puerto Rico and expanded in the United States. During fiscal 1992 and fiscal 1993 the Company closed an aggregate of five stores in Puerto Rico and opened an aggregate of six stores in the United States.

#### CUSTOMERS

The Company's primary customers are department stores. The Company's ten largest customers accounted for approximately 56% of the Company's consolidated revenues during fiscal 1993. In fiscal 1993, the Company's largest customer, The May Department Stores Company, accounted for approximately 12% of the Company's

consolidated revenues.

#### TECHNOLOGY AND TRADEMARKS

The Company and several of its competitors use wrinkle resistant technologies in the manufacturing of men's slacks. Management believes there are two primary types of wrinkle resistant technologies which are used in the manufacturing process. In the post-cured process, fabrics are treated by the mills with a wrinkle resistant finish. The fabrics are sewn into garments, pressed and then cured in ovens. The other method is the wet process which involves the application of the wrinkle resistant finish after the sewing process. Sewn garments are placed in washers or submerged in tanks that contain wrinkle resistant resins. The garments are then dried, pressed and cured in ovens. Both technologies, together with other technologies, are available to the Company's competitors.

The Company uses both methods of wrinkle resistant technologies. The Company uses its wet process on 100% cotton Savane products. The Company uses the post-cured method primarily on Farah/Farah Clothing Company labelled products.

The post-cured method limits a manufacturer to the fabrics and finishes which are offered by the mills. Because the Company is not dependent on the limited number of wrinkle resistant fabrics currently offered by the mills, it manufactures its wrinkle resistant Savane products in a wider range of colors, fabrics and finishes. The Company also believes that the wet processed garments retain their wrinkle resistant features longer than garments treated with the post-cured process.

The Company believes it was the first to develop and market slacks using the wet process and is a leader in the use of this process of treating garments. The Company believes its experience in the use of this technology enables the Company to offer more products to retailers.

The Company owns many U.S. and foreign trademark registrations, including Savane, PROCESS 2000, Farah and Farah Clothing Company, and has several other trademark applications pending in the United States and foreign countries. The John Henry trademark is licensed from Zodiac International Trading Corporation, an affiliate of Salant Corporation. The John Henry license is renewable by the Company through 2038.

#### BACKLOG

A substantial portion of the Company's sales is based on "Quick Response" orders. See "Business -- Farah U.S.A. -- Marketing and Sales." Accordingly, backlog is not necessarily indicative of future sales.

#### SEASONALITY

The Company's products are primarily marketed for the Spring and Fall retail selling seasons each year, with interim lines introduced periodically to complement the two primary selling seasons. Sales volume for the first quarter is generally the lowest of the year while the fourth quarter is the highest. Farah U.S.A. closes

25

27

some of its factories in the first quarter for approximately two weeks at Christmas time. However, with the Company's introduction of more year-round basic products, the seasonality has been diminished somewhat. See Note 10 of Notes to Consolidated Financial Statements.

#### LEGAL PROCEEDINGS

The Company is a defendant in several legal actions. In the opinion of the Company's management, based upon the advice of the respective attorneys handling such actions, the aggregate of expected fees, expenses, possible settlements and liability will not have a material adverse effect on the financial performance of the Company.

#### REGULATION

Substantially all of the Company's total production is manufactured abroad, either in its foreign factories or through arrangements with independent foreign contractors. As a result, the Company's operations may be adversely affected by political instability resulting in the disruption of trade from foreign countries in which the Company's facilities or contractors are located, the imposition of additional regulations relating to imports or duties, taxes and other charges on imports, any significant fluctuation of the value of the dollar against foreign currencies and restrictions on the transfer of funds. In addition, the Company's import operations are subject to constraints imposed by bilateral textile agreements between the United States and certain foreign countries. These agreements impose quotas on the amount and type of goods which



can be imported into the United States from these countries. However, the Company closely monitors import quotas and can, in most cases, shift production to contractors located in other countries with available quotas or to domestic factories. The existence of import quotas has not had a material effect on the Company's business to date. The Company's apparel products that are imported from its factories in Mexico and Costa Rica are eligible for certain duty-advantaged programs historically known as "807 Programs."

The primary impact of NAFTA on the Company's operations was to eliminate duties paid to the United States Customs Service on goods manufactured in Mexico effective January 1, 1994. The actual savings the Company may realize from the reduction of duties may be offset to an extent by higher wages and other costs of doing business in Mexico which are not currently determinable.

EMPLOYEES

As of February 28, 1994, the Company had approximately 5,900 employees. As of that date, Farah U.S.A., Farah International and Value Slacks had approximately 5,150, 500 and 250 employees, respectively. Of these employees, approximately 400 were either salaried or paid based on sales commissions earned and the remainder were paid on an hourly basis or on the basis of production. Approximately 200 of Farah U.S.A.'s United States employees are members of the Amalgamated Clothing and Textile Union and approximately 1,650 of its employees are members of various unions in Mexico. The collective bargaining agreement with the Company's United States employees expires in February 1995. The collective bargaining agreements for the Company's employees in Mexico expire in December 1994 and January 1995. The Company considers its relations with its employees to be good.

PROPERTIES

The Company's principal executive offices and United States distribution facility are located in El Paso, Texas. The Company considers both its domestic and international facilities to be suitable, adequate and with sufficient productive capacity for current operations.

The following table reflects the general location, use and approximate size of the Company's significant real properties currently in use:

<TABLE>  
<CAPTION>

LOCATION	USE	APPROXIMATE SQUARE FOOTAGE	OWNED/ LEASED(1)
El Paso, Texas	Manufacturing plant	116,000	Owned (2)
Chihuahua, Mexico	Manufacturing plant	54,000	Owned
San Jose, Costa Rica	Two manufacturing plants	168,000	Owned
Galway & Kiltimagh, Ireland	Two manufacturing plants	59,000	Owned
El Paso, Texas	Manufacturing plant, warehouse and office facility	1,033,000	Leased (3)
Piedras Negras, Mexico	Four manufacturing plants	98,000	Leased
Ballyhaunis, Ireland	Manufacturing plant	24,000	Leased
Sydney, Australia	Office/warehouse facility	15,000	Leased
Suva, Fiji	Two manufacturing plants	35,000	Leased (4)
Witham, United Kingdom	Office/warehouse facility	57,000	Leased
Auckland, New Zealand	Office/warehouse facility	6,000	Leased
Retail locations in the United States and Puerto Rico	32 Retail stores	118,000	Leased

</TABLE>

(1) See Note 8 of Notes to Consolidated Financial Statements for a discussion of lease terms.

(2) Underlying land is leased through February 2002.

(3) Originally owned by the Company and sold and leased back in 1988. Initial lease term is ten years ending in 1998. In fiscal 1992, approximately 45% of the Company's El Paso building was subleased to a third party for a term approximating six and a half years.

(4) By a 50% joint venture.

## MANAGEMENT

The following table sets forth certain information about the executive officers and directors of the Company. All directors of the Company hold office until the next annual meeting of shareholders or until their successors have been elected and qualified. Executive officers are elected by the Company's board of directors to hold office until their respective successors are elected and qualified.

&lt;TABLE&gt;

&lt;CAPTION&gt;

NAME	AGE	POSITION(S) WITH COMPANY
<S>	<C>	<C>
Richard C. Allender.....	48	Chairman of the Board, President and Chief Executive Officer
Michael R. Mitchell.....	40	President of Farah U.S.A. and Director
James C. Swaim.....	41	Executive Vice President, Chief Financial Officer, Secretary, Treasurer and Director
Clark L. Bullock.....	45	Director
Christopher L. Carameros.....	40	Director
Sylvan Landau.....	68	Director
Edward J. Monahan.....	60	Director
Timothy B. Page.....	41	Director
Charles J. Smith.....	67	Director
Thomas G. Wyman.....	70	Director

&lt;/TABLE&gt;

Richard C. Allender has been a director and executive officer of the Company since June 1988. Mr. Allender has served the Company in various capacities since March 1985. Mr. Allender has been President and Chief Executive Officer of the Company since July 1990 and Chairman of the Board since March 1993.

Michael R. Mitchell has been a director of the Company since March 1994. Mr. Mitchell has been employed by the Company for 12 years and has served in various sales and marketing capacities. Mr. Mitchell was appointed President of Farah U.S.A. in March 1994.

James C. Swaim has been a director of the Company since March 1993. Mr. Swaim has been the Company's Treasurer since September 1987, Chief Financial Officer since September 1990 and Executive Vice President since November 1991. Mr. Swaim was appointed Secretary in March 1994.

Clark L. Bullock has been a director of the Company since March 1994. For the last five years, Mr. Bullock has been Chairman and Chief Executive Officer of Shelter Rock Investors Services Corporation, a financial services and investment company. Mr. Bullock also serves as Chairman of the Board of several of Shelter Rock's portfolio companies, including Almedica Services Corp. and Almedica Corp. (pharmaceutical clinical supplies and services), SR Metals Inc. (metal plate processing) and George Glove Company (dermatological glove products). Mr. Bullock also serves as director for the Fundamental Family of Funds.

Christopher L. Carameros has been a director of the Company since August 1987. Mr. Carameros served as Senior Vice President -- Finance and Chief Financial Officer of the Company from April 1987 and Executive Vice President of the Company from January 1990 until his resignation in September 1990. Since September 1990, Mr. Carameros has been a business consultant and in private practice as a certified public accountant. Mr. Carameros is a director of Helen of Troy Limited, a manufacturer of hair care appliances.

Sylvan Landau has been a director of the Company since January 1987. Prior to 1987, Mr. Landau was employed by Hagggar Corp. for 39 years in various capacities, including President of Hagggar International and President of the Reed St. James division. Mr. Landau served as Vice Chairman of Corporate Marketing of the Company from January 1987 to February 1988 and as a consultant of the Company since 1988. Mr. Landau has served the Dallas Market Center in various capacities since 1988, most recently as Executive Vice President -- Retail Development. The Dallas Market Center is a corporation which operates various real properties in Dallas, Texas, and which provides markets for the wholesale trade.

28

30

Edward J. Monahan has been a director of the Company since March 1991. Mr. Monahan has served as a manufacturing consultant since 1988. From January 1989 to August 1989, Mr. Monahan also served as Vice President of Manufacturing for L.G. Balfour Company, a manufacturer of class rings and recognition products.

Timothy B. Page has been a director of the Company since September 1989.

For five years prior to November 1992, Mr. Page served as a director, Executive Vice President, Chief Financial Officer, Secretary and Treasurer of Tri-Gas, Inc., an industrial gas manufacturing company. Since November 1992, Mr. Page has been a business consultant and managed his personal investments.

Charles J. Smith has been a director of the Company since March 1994. For more than five years prior to his retirement in 1993, Mr. Smith served in various capacities with Crystal Brands, Inc., an apparel manufacturer and marketer, most recently as an Executive Vice President. Since 1993, Mr. Smith has been a consultant to Crystal Brands, Inc. In January 1994, Crystal Brands, Inc. filed a petition for protection from creditors under Chapter 11 of the Federal Bankruptcy Code.

Thomas G. Wyman has been a director of the Company since December 1989 and served as Chairman of the Board of the Company from April 1990 until March 1993. From 1984 through 1988 Mr. Wyman served as Chairman of the Board of L.G. Balfour Company and he currently serves as a director of Brubaker Tool Corporation, a manufacturer of metal cutting tools. For more than the past five years, Mr. Wyman has been engaged in farming operations in Easton, Maryland. Mr. Wyman is currently a private investor.

PRINCIPAL AND SELLING SHAREHOLDERS

The following table sets forth certain information regarding the beneficial ownership of shares of Common Stock, as of the close of business on March 15, 1994, and as adjusted to reflect the sale of the shares of Common Stock offered hereby, by each person who is known to the Company to be a beneficial owner of 5% or more of the Common Stock, each of the Company's directors and all of the Company's directors and executive officers as a group. The shares offered hereby include an aggregate of 1,450,000 shares of Common Stock to be sold by Marciano Investments, Inc. and the Georges Marciano Trust (collectively the "Selling Shareholder"). Unless otherwise indicated, each person has sole voting and investment power with respect to the shares attributable to such shareholder.

<TABLE>  
<CAPTION>

BENEFICIAL OWNER	SHARES BENEFICIALLY OWNED PRIOR TO THE OFFERING		SHARES SUBJECT TO OPTIONS AND AWARDS (1)	NUMBER OF SHARES OFFERED	SHARES BENEFICIALLY OWNED AFTER THE OFFERING	
	NUMBER	PERCENT			NUMBER	PERCENT
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Richard C. Allender.....	74,700	*	61,900	--	74,700	*
Clark L. Bullock.....	1,500	*	1,500	--	1,500	*
Christopher L. Carameros....	1,500	*	1,500	--	1,500	*
Sylvan Landau.....	10,500	*	10,500	--	10,500	*
Michael R. Mitchell.....	23,045	*	20,545	--	23,045	*
Edward J. Monahan.....	1,500	*	1,500	--	1,500	*
Timothy B. Page.....	1,500	*	1,500	--	1,500	*
Charles J. Smith.....	1,500	*	1,500	--	1,500	*
James C. Swaim.....	67,175	*	67,175	--	67,175	*
Thomas G. Wyman.....	95,000 (2)	1.2%	7,500	--	95,000 (2)	1.0%
All executive officers and directors as a group (10 persons).....	277,920	3.0%	175,120	--	277,920	2.8%
Georges Marciano Marciano Investments, Inc. Georges Marciano Trust..... 9756 Wilshire Blvd. Beverly Hills, California 90212	2,174,300 (3) (4)	26.5%	--	1,450,000 (5)	724,300	7.4%
Paul Marciano Paul Marciano Trust..... 1444 South Alameda Street Los Angeles, California 90021	247,600 (4) (6)	3.0%	--	--	247,600	2.5%
Columbia Funds Management Company..... 1300 S.W. South Avenue P.O. Box 1350 Portland, Oregon 97207	500,000 (7)	6.1%	--	--	500,000	5.1%

</TABLE>

\* Less than 1%

- (1) Represents shares of Common Stock which are either subject to options which are exercisable within 60 days or subject to restricted stock awards which vest within 60 days. The Common Stock covered by such options and awards are also included in the columns entitled "Shares Beneficially Owned Prior to the Offering" and "Shares Owned Beneficially After the Offering."
- (2) 87,500 of these shares are owned by TGW Limited Partnership ("TGW"). Mr. Wyman is the sole general partner of TGW and has sole voting and dispositive power with respect to the shares of Common Stock owned by TGW.

30

32

- (3) According to Amendment No. 12 to Schedule 13D dated March 25, 1994 (the "Marciano Schedule 13D"), Marciano Investments, Inc. owns 1,200,000 shares of Common Stock. The Georges Marciano Trust has sole voting and dispositive power with respect to 927,300 shares of Common Stock owned by it and the 1,200,000 shares of Common Stock owned by Marciano Investments, Inc. by virtue of its 60% ownership of Marciano Investments, Inc. Georges Marciano may be deemed to be the beneficial owner of the 2,127,300 shares of Common Stock deemed to be beneficially owned by the Georges Marciano Trust and of 47,000 shares of Common Stock owned by various trusts of which Mr. Marciano is the sole trustee.
- (4) According to the Marciano Schedule 13D, George Marciano and Paul Marciano and certain of their respective affiliates made a single, joint filing because they may be deemed to constitute a "group" within the meaning of Section 13(d) of the Exchange Act, although neither the fact of such filing nor anything contained therein shall be deemed to be an admission by such beneficial owners that a group exists.
- (5) 1,200,000 shares of Common Stock are being offered for sale by Marciano Investments, Inc.

250,000 shares are being offered by the Georges Marciano Trust.

- (6) According to Schedule 13D dated March 25, 1994, Paul Marciano is the sole trustee of the Paul Marciano Trust which owns 247,600 shares of Common Stock and therefore may be deemed the beneficial owner of these 247,600 shares. The Paul Marciano Trust also owns 40% of Marciano Investments, Inc.
- (7) According to a Schedule 13G dated January 31, 1994.

31

33

#### DESCRIPTION OF CAPITAL STOCK

The following summary of certain provisions of the Common Stock does not purport to be complete and is subject to, and qualified in its entirety by, the Articles of Incorporation of the Company and the Bylaws of the Company that are included as exhibits to the Registration Statement of which this Prospectus forms a part and by provisions of applicable law.

#### COMMON STOCK

The Company has authorized capital stock consisting of 20,000,000 shares of Common Stock, no par value per share. Each share of Common Stock entitles the holder thereof to one vote on all matters on which holders are permitted to vote. Cumulative voting in the election of directors is prohibited. No shareholder has any preemptive right or other similar right to purchase or subscribe for any additional securities issued by the Company, and no shareholder has any right to convert Common Stock into other securities. Shares of Common Stock are not redeemable or subject to any sinking fund provisions. All of the outstanding shares of Common Stock are, and all shares of Common Stock offered hereby will be, when issued and paid for, fully paid and nonassessable.

The holders of shares of Common Stock are entitled to dividends when, as and if declared by the Company's board of directors from funds legally available therefor and, upon liquidation, to a pro rata share in any distribution to shareholders. See "Dividend Policy."

#### TRANSFER AGENT AND REGISTRAR

The transfer agent and registrar for the Common Stock is Society National Bank.

UNDERWRITING

The Underwriters of the offering of the Common Stock (the "Underwriters"), for whom Bear, Stearns & Co. Inc. is acting as Representative, have severally agreed, subject to the terms and conditions contained in the Underwriting Agreement (the form of which is filed as an exhibit to the Registration Statement of which this Prospectus is a part), to purchase from the Company and the Selling Shareholder the aggregate number of shares of Common Stock set forth opposite their names below:

<TABLE> <CAPTION>	NUMBER OF SHARES
UNDERWRITER - -----	-----
<S>	<C>
Bear, Stearns & Co. Inc.....	-----
Total.....	3,100,000
	-----
	-----
</TABLE>	

The Underwriting Agreement provides that the obligations of the Underwriters are subject to certain conditions precedent and that, if any of the foregoing shares of Common Stock are purchased by the Underwriters pursuant to the Underwriting Agreement, all such shares must be so purchased. The Company and the Selling Shareholder have agreed to indemnify the Underwriters against certain liabilities, including

liabilities under the Securities Act, or to contribute to payments that the Underwriters may be required to make in respect thereof.

The Company has been advised that the Underwriters propose to offer the shares of Common Stock to the public initially at the public offering price set forth on the cover page of this Prospectus and to certain selected dealers (who may include the Underwriters) at such public offering price less a concession not to exceed \$. per share. The selected dealers may reallocate a concession to certain other dealers not to exceed \$. per share. After the initial offering to the public, the public offering price, the concession to selected dealers and the reallocation to other dealers may be changed by the Representative.

The Company has granted to the Underwriters an option to purchase up to 465,000 additional shares of Common Stock at the public offering price less the underwriting discount set forth on the cover page of this Prospectus, solely to cover over-allotments, if any. Such option may be exercised at any time until 30 days after the date of this Prospectus. If the Underwriters exercise such option, each of the Underwriters will be committed, subject to certain conditions, to purchase a number of additional shares proportionate to such Underwriter's initial commitment as indicated in the preceding table.

In connection with the offering, the directors of the Company, and the Company and certain of the Selling Shareholder's affiliates, have agreed that they will not sell any shares of capital stock of the Company for a period of 90 and 180 days, respectively, without the prior written consent of the Representative, except for the shares offered hereby and issuances by the Company upon the exercise of employee stock options or vesting of restricted stock awards.

LEGAL MATTERS

The validity of the Common Stock offered hereby will be passed upon by Baker & McKenzie. Certain legal matters in connection with the offering will be passed upon for the Underwriters by Gardere & Wynne, L.L.P.

EXPERTS

The consolidated financial statements of the Company and subsidiaries for and as of the fiscal years ended November 5, 1993, November 6, 1992 and October 31, 1991 included in this Prospectus and elsewhere in the Registration Statement have been audited by Arthur Andersen & Co., independent public accountants, as indicated in their reports with respect thereto, which are included herein in reliance upon the authority of that firm as experts in giving such reports.

<TABLE>	
<CAPTION>	
	PAGE
	-----
<S>	<C>
Report of Independent Public Accountants.....	F-2
Consolidated Balance Sheets of the Company as of February 4, 1994 (unaudited), November 5, 1993 and November 6, 1992.....	F-3
Consolidated Statements of Operations of the Company for the three months ended (unaudited) February 4, 1994 and February 5, 1993 and the years ended November 5, 1993, November 6, 1992 and October 31, 1991.....	F-4
Consolidated Statements of Shareholders' Equity of the Company for the three months ended (unaudited) February 4, 1994 and the years ended November 5, 1993, November 6, 1992 and October 31, 1991.....	F-5
Consolidated Statements of Cash Flows of the Company for the three months ended (unaudited) February 4, 1994 and February 5, 1993 and the years ended November 5, 1993, November 6, 1992 and October 31, 1991.....	F-6
Notes to Consolidated Financial Statements November 5, 1993, November 6, 1992 and October 31, 1991.....	F-7
Notes to Unaudited Consolidated Quarterly Financial Statements February 4, 1994 and February 5, 1993.....	F-18
</TABLE>	

F-1

36

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Farah Incorporated:

We have audited the accompanying consolidated balance sheets of Farah Incorporated (a Texas corporation) and subsidiaries as of November 5, 1993, and November 6, 1992, and the related statements of operations, shareholders' equity, and cash flows for each of the years ended November 5, 1993, November 6, 1992, and October 31, 1991. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 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 Farah Incorporated and subsidiaries as of November 5, 1993, and November 6, 1992, and the results of their operations and their cash flows for each of the years ended November 5, 1993, November 6, 1992, and October 31, 1991, in conformity with generally accepted accounting principles.

ARTHUR ANDERSEN & CO.

Dallas, Texas,  
December 15, 1993

F-2

37

FARAH INCORPORATED AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS  
FEBRUARY 4, 1994 (UNAUDITED), NOVEMBER 5, 1993, AND NOVEMBER 6, 1992  
(IN THOUSANDS, EXCEPT SHARE DATA)

ASSETS

<TABLE>			
<CAPTION>			
	FEBRUARY 4, 1994	NOVEMBER 5, 1993	NOVEMBER 6, 1992
	-----	-----	-----
	(UNAUDITED)		
<S>	<C>	<C>	<C>
Current assets:			
Cash.....	\$ 2,336	\$ 2,007	\$ 1,634
Trade receivables, net of allowance of \$826 in 1994 (unaudited), \$805 in 1993 and \$637 in 1992.....	27,311	32,458	25,200
Inventories --			
Raw materials.....	12,409	10,628	9,430

Work-in-process.....	19,330	15,706	9,736
Finished goods.....	31,837	27,838	21,123
	-----	-----	-----
Total inventories.....	63,576	54,172	40,289
Other current assets.....	6,705	5,482	4,685
	-----	-----	-----
Total current assets.....	99,928	94,119	71,808
Notes receivable.....	6,199	6,267	7,025
Property, plant, and equipment, net.....	14,980	14,426	10,376
Other noncurrent assets.....	3,941	4,079	3,928
	-----	-----	-----
	\$ 125,048	\$ 118,891	\$93,137
	-----	-----	-----

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:			
Short-term debt.....	\$ 31,605	\$ 25,680	\$10,007
Current maturities of long-term debt.....	640	4,509	286
Trade payables.....	20,225	20,324	14,588
Accrued compensation.....	2,085	3,630	2,801
Other current liabilities.....	8,233	7,203	7,301
	-----	-----	-----
Total current liabilities.....	62,788	61,346	34,983
Long-term debt, excluding current maturities.....	2,885	1,179	4,452
Other noncurrent liabilities.....	3,598	3,627	3,346
Commitments and contingencies (Note 8)			
Deferred gain on sale of building.....	8,806	9,314	11,346
Shareholders' equity:			
Common stock, no par value in 1994 and 1993, \$4 par value in 1992; authorized, 20,000,000 shares; issued, 8,179,504 in 1994 (unaudited), 8,007,900 in 1993 and 7,921,917 in 1992.....	45,516	44,369	31,688
Additional paid-in capital.....	--	--	20,265
Cumulative foreign currency translation adjustment....	(2,093)	(2,481)	(1,892)
Minimum pension liability adjustment.....	(2,050)	(2,050)	(524)
Retained earnings.....	5,707	3,696	3,564
	-----	-----	-----
	47,080	43,534	53,101
Less -- Treasury stock, 36,275 shares in 1994 (unaudited) and 1993 and 655,275 in 1992, at cost.....	109	109	14,091
	-----	-----	-----
Total shareholders' equity.....	46,971	43,425	39,010
	-----	-----	-----
	\$ 125,048	\$ 118,891	\$93,137
	-----	-----	-----

</TABLE>

See accompanying notes to consolidated financial statements.

F-3

38

FARAH INCORPORATED AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE THREE MONTHS ENDED (UNAUDITED) FEBRUARY 4, 1994, AND FEBRUARY 5, 1993,  
AND THE YEARS ENDED NOVEMBER 5, 1993, NOVEMBER 6, 1992, AND OCTOBER 31, 1991  
(IN THOUSANDS, EXCEPT SHARE DATA)

<TABLE>

<CAPTION>

	THREE MONTHS ENDED		FISCAL YEAR ENDED		
	FEBRUARY 4, 1994	FEBRUARY 5, 1993	NOVEMBER 5, 1993	NOVEMBER 6, 1992	OCTOBER 31, 1991
	(UNAUDITED)				
<S>	<C>	<C>	<C>	<C>	<C>
Net sales.....	\$ 51,270	\$ 35,316	\$ 180,114	\$ 151,990	\$ 151,202
Cost of sales.....	35,886	24,676	127,020	113,509	112,308
	-----	-----	-----	-----	-----
Gross profit.....	15,384	10,640	53,094	38,481	38,894
Selling, general and administrative expenses.....	12,888	9,805	47,372	41,915	41,687
Factory conversion expenses.....	--	--	4,000	--	--
	-----	-----	-----	-----	-----
Operating income (loss).....	2,496	835	1,722	(3,434)	(2,793)
Other income (expense):					
Interest expense.....	(687)	(402)	(2,175)	(2,056)	(2,588)
Interest income.....	180	185	723	1,096	1,443
Foreign currency transaction gains (losses).....	75	(20)	(151)	1,460	(832)

Gains on sales of assets.....	--	--	320	9	127
Provision for Generra bankruptcy.....	--	--	--	(6,146)	--
Other, net.....	3	3	(3)	(149)	(559)
	(429)	(234)	(1,286)	(5,786)	(2,409)
Income (loss) before income taxes.....	2,067	601	436	(9,220)	(5,202)
Provision (benefit) for income taxes.....	56	(3)	304	369	306
Net income (loss).....	\$ 2,011	\$ 604	\$ 132	\$ (9,589)	\$ (5,508)
Net income (loss) per share.....	\$ 0.25	\$ 0.08	\$ 0.02	\$ (1.52)	\$ (0.93)
Weighted average shares of common stock (all periods) and common stock equivalents (income periods only) outstanding.....	8,204,472	7,318,463	7,781,193	6,308,392	5,926,885

</TABLE>

See accompanying notes to consolidated financial statements.

F-4

39

FARAH INCORPORATED AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

FOR THE THREE MONTHS ENDED FEBRUARY 4, 1994 (UNAUDITED),  
AND THE YEARS ENDED NOVEMBER 5, 1993, NOVEMBER 6, 1992, AND OCTOBER 31, 1991  
(IN THOUSANDS, EXCEPT SHARE DATA)

<TABLE>

<CAPTION>

	COMMON STOCK		ADDITIONAL PAID-IN CAPITAL	CUMULATIVE FOREIGN CURRENCY TRANSLATION ADJUSTMENT	MINIMUM PENSION LIABILITY ADJUSTMENT	RETAINED EARNINGS	TREASURY STOCK	
	SHARES	AMOUNT					SHARES	AMOUNT
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Balance, October 31, 1990.....	6,819,942	\$27,280	\$ 24,326	\$ 1,292	\$ --	\$ 18,661	869,374	\$ 19,692
Net loss.....	--	--	--	--	--	(5,508)	--	--
Foreign currency translation adjustment.....	--	--	--	(575)	--	--	--	--
Exercise of stock options....	42,250	168	1	--	--	--	--	--
Shares returned to repay loan.....	--	--	--	--	--	--	35,029	100
Balance, October 31, 1991.....	6,862,192	27,448	24,327	717	--	13,153	904,403	19,792
Net loss.....	--	--	--	--	--	(9,589)	--	--
Foreign currency translation adjustment.....	--	--	--	(1,768)	--	--	--	--
Minimum pension liability adjustment.....	--	--	--	--	(524)	--	--	--
Transfer of cumulative translation adjustment to currency transaction gain on closure of Farah Japan.....	--	--	--	(841)	--	--	--	--
Exercise of stock options and other.....	109,725	440	15	--	--	--	872	6
Sale of common stock.....	950,000	3,800	(4,077)	--	--	--	(250,000)	(5,707)
Balance, November 6, 1992.....	7,921,917	31,688	20,265	(1,892)	(524)	3,564	655,275	14,091
Net income.....	--	--	--	--	--	132	--	--
Foreign currency translation adjustment.....	--	--	--	(589)	--	--	--	--
Minimum pension liability adjustment.....	--	--	--	--	(1,526)	--	--	--
Exercise of stock options and other.....	85,983	509	24	--	--	--	--	--
Sale of treasury shares.....	--	--	(8,117)	--	--	--	(619,000)	(13,982)
Reclassification upon change to no par common stock....	--	12,172	(12,172)	--	--	--	--	--
Balance, November 5, 1993.....	8,007,900	44,369	--	(2,481)	(2,050)	3,696	36,275	109
Net income (unaudited).....	--	--	--	--	--	2,011	--	--
Foreign currency translation								



adjustment (unaudited)....	--	--	--	388	--	--	--	--
Exercise of stock options and other (unaudited).....	171,604	1,147	--	--	--	--	--	--
Balance, February 4, 1994 (unaudited).....	8,179,504	\$45,516	\$ --	\$ (2,093)	\$ (2,050)	\$ 5,707	36,275	\$ 109

</TABLE>

See accompanying notes to consolidated financial statements.

F-5

40

FARAH INCORPORATED AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE THREE MONTHS ENDED (UNAUDITED) FEBRUARY 4, 1994, AND FEBRUARY 5, 1993, AND THE YEARS ENDED NOVEMBER 5, 1993, NOVEMBER 6, 1992, AND OCTOBER 31, 1991 (IN THOUSANDS)

<TABLE>  
<CAPTION>

	THREE MONTHS ENDED		FISCAL YEAR ENDED		
	FEBRUARY 4, 1994	FEBRUARY 5, 1993	NOVEMBER 5, 1993	NOVEMBER 6, 1992	OCTOBER 31, 1991
	(UNAUDITED)				
<S>	<C>	<C>	<C>	<C>	<C>
Cash flows from (used in) operating activities:					
Net income (loss).....	\$ 2,011	\$ 604	\$ 132	\$ (9,589)	\$ (5,508)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities --					
Depreciation and amortization.....	874	552	2,686	2,446	2,445
Amortization of deferred gain on building sale.....	(508)	(508)	(2,032)	(2,032)	(2,033)
Gains on sales of assets.....	--	--	(320)	(9)	(127)
Provision for Generra bankruptcy....	--	--	--	6,146	--
Decrease (increase) in --					
Trade receivables, net.....	5,147	5,277	(7,258)	2,593	(319)
Inventories.....	(9,404)	(1,396)	(13,883)	4,406	1,532
Income tax refunds and benefits....	--	--	--	--	4,074
Other current assets.....	(1,223)	(295)	(797)	(165)	1,376
Increase (decrease) in --					
Trade payables.....	(99)	(3,718)	5,736	2,131	280
Other.....	(515)	(2,231)	(294)	(1,117)	(21)
Net cash from (used in) operating activities.....	(3,717)	(1,715)	(16,030)	4,810	1,699
Cash flows from (used in) investing activities:					
Purchases of property, plant, and equipment.....	(1,287)	(1,276)	(6,803)	(1,520)	(1,811)
Proceeds from disposition of property, plant, and equipment.....	--	--	436	177	242
Net cash used in investing activities.....	(1,287)	(1,276)	(6,367)	(1,343)	(1,569)
Cash flows from (used in) financing activities:					
Net increase (decrease) in short-term debt.....	5,981	3,475	15,673	(5,202)	(2,508)
Proceeds from issuance of long-term debt.....	1,897	202	1,456	436	628
Repayment of long-term debt.....	(4,117)	(316)	(487)	(1,530)	(1,804)
Proceeds from sale of common stock and exercise of stock options.....	1,055	34	5,881	5,879	169
Proceeds from collection of accrued interest on Generra note receivable...	--	--	--	--	1,350
Other.....	129	2	836	(804)	(86)
Net cash from (used in) financing activities.....	4,945	3,397	23,359	(1,221)	(2,251)
Foreign currency translation adjustment....	388	(490)	(589)	(2,609)	(575)
Net increase (decrease) in cash.....	329	(84)	373	(363)	(2,696)
Cash, beginning of year.....	2,007	1,634	1,634	1,997	4,693

Cash, end of year.....	\$ 2,336	\$ 1,550	\$ 2,007	\$ 1,634	\$ 1,997
	-----	-----	-----	-----	-----
Supplemental cash flow disclosures:					
Interest paid.....	\$ 763	\$ 464	\$ 3,636	\$ 2,036	\$ 2,600
Income taxes paid.....	272	867	878	1,043	265

</TABLE>

See accompanying notes to consolidated financial statements.

F-6

41

FARAH INCORPORATED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
NOVEMBER 5, 1993, NOVEMBER 6, 1992, AND OCTOBER 31, 1991

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Principles of Consolidation

The consolidated financial statements include the accounts of Farah Incorporated (the "Parent Company") and its subsidiaries (the "Company"). All significant intercompany transactions have been eliminated in consolidation. Certain prior year amounts have been reclassified to conform with the 1993 presentation. The Parent Company's assets consist of investments in and advances to subsidiaries. The Parent Company does not have any significant amount of separate debt, credit facilities, or other liabilities, except for the 5% convertible subordinated debentures discussed in Note 3. (See the accompanying notes to the unaudited consolidated quarterly financial statements as of February 4, 1994, and February 5, 1993, at F-18.)

Inventories

Inventories are stated at the lower of first-in, first-out (FIFO) cost or market and include purchased materials and manufacturing labor and overhead. Market is based upon estimated selling price less costs to sell.

Property, Plant, and Equipment

Property, plant and equipment are recorded at cost. Depreciation is provided by the straight-line method over the estimated useful lives (Note 2) of the related classes of assets.

Maintenance and repairs are charged to expense as incurred, and renewals and betterments are capitalized. The cost and accumulated depreciation of assets retired or otherwise disposed of are removed from the accounts and the resulting gains and losses are included in operations. Gains on assets sold and leased back are recognized over the initial lease terms, net of any obligations required by the lease agreements. See Note 8 for further discussion.

Intangible Assets

At November 5, 1993 and November 6, 1992, intangible assets were \$1,610,000 and \$1,664,000, respectively, and consisted primarily of goodwill and intangible pension assets. Intangible assets, excluding intangible pension assets, are amortized on a straight-line basis over their estimated useful lives ranging from 2 to 30 years. Amortization approximated \$200,000 in 1993, \$489,000 in 1992 and \$592,000 in 1991, including amortization of debt issuance costs of approximately \$58,000, \$361,000 and \$454,000 in 1993, 1992, and 1991, respectively.

Revenue Recognition

Revenues are recognized upon shipment of product.

Foreign Currencies

The Company translates its asset and liability accounts at the exchange rates in effect at the end of the fiscal year. Income and expense accounts are translated at average rates. Net foreign currency "translation" gains and losses are not included in operations, but are reflected as a separate item in the shareholders' equity section of the Consolidated Balance Sheets. Foreign currency "transaction" gains and losses are included in the Consolidated Statements of Operations. Also included in foreign currency transaction gains and losses for 1992 is a gain of \$841,000 upon the substantial liquidation of one of the Company's foreign subsidiaries.

F-7

42

FARAH INCORPORATED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

## Income Taxes

Income taxes are provided pursuant to the provisions of Statement of Financial Accounting Standards No. 96, "Accounting for Income Taxes" (SFAS 96). Under this statement, deferred income taxes reflect the impact of temporary differences between the amount of assets and liabilities recognized for financial reporting and tax purposes. These deferred taxes are measured by applying currently enacted tax laws. The Company has not yet adopted the provisions of SFAS 109, "Accounting for Income Taxes", which was issued in February 1992. This statement will be adopted in the first quarter of 1994. The Company does not believe that the adoption of this statement will have a material effect on the financial statements.

## Income (Loss) Per Share

Income per share is based on the weighted average number of shares and common stock equivalents outstanding (7,781,193 in 1993). Loss per share is based on weighted average number of shares outstanding (6,308,392 in 1992 and 5,926,885 in 1991). Stock options are included as common stock equivalents under the treasury stock method, where dilutive. Additional dilution from the 5% convertible subordinated debentures (Note 3), which are not common stock equivalents, is not material.

## Generra Bankruptcy

During the second half of 1992, a former subsidiary of the Company, Generra Sportswear Company, Inc., filed for protection under Chapter 11 of the federal bankruptcy laws. In conjunction with a 1989 sale of Generra, the Company retained a 5% ownership interest in Generra, as well as a \$5,000,000 note receivable. A \$6,146,000 provision for the loss on this investment and note was made in 1992.

## Change in Fiscal Reporting Periods

Effective in the first quarter of fiscal 1992, the Company adopted a 52/53 week fiscal year. The 1992 financial statements contained 53 weeks. This change was implemented in an effort to conform the Company's accounting periods to that of many of its customers and to minimize heavy overtime and air freight resulting from calendar month-end deadlines that did not match customer deadlines. The change did not have a significant impact on results for 1992.

## Concentrations of Credit Risk

Financial instruments which potentially expose the Company to concentrations of credit risk, as defined by Statement of Financial Accounting Standards No. 105, consist primarily of trade accounts receivable. The Company's customers are not concentrated in any specific geographic region but are concentrated in the retail industry. One customer accounted for \$22,407,000 (12%), \$21,721,000 (14%) and \$21,905,000 (15%) of the Company's consolidated sales during the years ended November 5, 1993, November 6, 1992, and October 31, 1991, respectively. The Company performs ongoing credit evaluations of its customers' financial condition. The Company establishes an allowance for doubtful accounts based upon factors surrounding the credit risk of specific customers, historical trends, and other information.

## Change in Par Value

In the second quarter of 1993 the Company's shareholders approved a change in the par value of the Company's common stock from \$4.00 per share to no par value. As a result, the Company's additional paid-in capital account was reclassified to the common stock account during the second quarter of 1993.

F-8

43

## FARAH INCORPORATED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)  
NOVEMBER 5, 1993, NOVEMBER 6, 1992, AND OCTOBER 31, 1991

## Factory Conversion Expense

In response to the success of the Company's Savane casual product line, the Company converted portions of the sew lines in its Costa Rican and Mexican factories from dress to casual production in the third quarter of 1993. Such conversion actions were the rearrangement, modification, or re-engineering of certain existing equipment, as well as the installation of new equipment. Certain costs were incurred as a result of the conversion. These included labor costs of maintaining the work force during the conversion primarily due to regulations or local statutes, U.S. import duties on costs incurred during the conversion, cost of testing and set-up of equipment, and additional costs resulting from customs and practices in the countries where the Company operates. Total costs associated with the factory conversion were approximately

\$4,000,000 and such amount is reported in the caption "Factory conversion expenses" in the Consolidated Statements of Operations. A substantial portion of this cost was incurred in the third quarter with the remainder being incurred in the first part of the fourth quarter.

2. PROPERTY, PLANT, AND EQUIPMENT:

Property, plant, and equipment is comprised of the following (in thousands):

<S>	ESTIMATED USEFUL LIVES (YEARS)		
	<C>	1993	1992
Factory machinery and equipment.....	9-12	\$22,243	\$19,919
Buildings.....	20-50	3,375	3,415
Building improvements.....	3-20	4,196	3,738
Other fixtures and equipment.....	3-10	10,640	7,880
Land.....		528	528
Construction in progress.....		171	159
		-----	-----
Total property, plant, and equipment.....		41,153	35,639
Less -- Accumulated depreciation.....		26,727	25,263
		-----	-----
Net property, plant, and equipment.....		\$14,426	\$10,376
		-----	-----

</TABLE>

Depreciation expense approximated \$2,486,000 in 1993, \$1,957,000 in 1992, and \$1,853,000 in 1991.

3. DEBT:

Short-Term Debt

As of November 5, 1993 the Company had two primary credit facilities. The Company's U.S. credit facility prohibits the payment of dividends by the Company and, except for debt service of the Company's 5% convertible subordinated debentures, the credit facilities restrict the subsidiaries from transferring substantially all net assets to the Parent Company through intercompany loans, advances, or dividends.

The first credit facility, for Farah U.S.A., provides up to \$40,000,000 of credit through November 3, 1995 for the Company's United States operations for either borrowings or letters of credit. Availability under the facility is limited by formulas derived from accounts receivable, inventory, and fixed assets. The facility is secured by substantially all assets of Farah U.S.A. and is guaranteed by the Parent Company and each of Farah U.S.A.'s domestic affiliates. Such guarantees are secured by substantially all of the assets of the related affiliates. The interest rate is prime (6% at November 5, 1993) plus 2 1/4% for borrowings and 1/4% per month for letters of credit. An unused credit line fee of 1/2% per annum is charged on the unused portion of the line when borrowings decrease below \$17,500,000. The credit facility provides for a termination fee of 2% of the total facility amount if such facility is terminated prior to November 1994 and a 1% fee if terminated prior to

F-9

44

FARAH INCORPORATED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)  
NOVEMBER 5, 1993, NOVEMBER 6, 1992, AND OCTOBER 31, 1991

November 1995. As of November 5, 1993 usage under the facility was \$27,246,000 (including letters of credit of \$1,440,000) and the excess credit line available was \$12,754,000. The credit facility restricts indebtedness and requires the maintenance of minimum net worth (as defined), minimum working capital, and maximum capital expenditures. There are also quarterly and annual pre-tax profit requirements for Farah U.S.A.

The second credit facility provides up to L3,000,000 of credit through December 31, 1993, for use in the United Kingdom and Ireland. It also provides a L200,000 U.K. Customs Bond, and a \$1,000,000 letter of credit to the Company's U.S. lender. Availability under the facility is limited by formulas derived from accounts receivable and inventory. The facility is secured by substantially all of the Company's assets in the U.K. and Ireland. The interest rate is prime plus 2% for borrowings, 2% for the Customs Bond and letter of credit to the Company's U.S. lender and standard tariff for other letters of credit. As of November 5, 1993 usage under the facility, all in the form of letters of credit and guarantees, was \$1,235,000 and the excess credit line available was \$4,545,000.

The agreement requires a net worth minimum and minimum working capital ratio for the Company's U.K. and Irish subsidiaries. The Company's U.S. lender has indicated that they will provide financing for the Company's U.K. operations after the current facility expires.

The following table reflects short-term debt balances and interest rates in 1993, 1992, and 1991 (in thousands):

	1993	1992	1991
Average outstanding balance.....	\$22,868	\$16,839	\$18,189
Maximum month-end balance outstanding.....	25,680	21,785	19,084
Weighted average interest rate:			
During year.....	8.7%	9.7%	12.3%
Year-end.....	8.3%	9.0%	11.2%

#### Long-Term Debt

Long-term debt at year-end is as follows (in thousands):

	1993	1992
5% convertible subordinated debentures, due February 1, 1994.....	\$3,925	\$3,925
Term note secured by fixed assets, due the earlier of expiration of the short-term credit facility or August 2, 1995, bearing interest at prime plus 2 1/4%, due in monthly installments.....	182	322
Secured loans for equipment purchases, bearing interest at 8.01% and 7.90%, due in monthly installments thru January 1997.....	253	--
Obligations under capital leases.....	1,328	491
Total long-term debt.....	5,688	4,738
Less -- Current installments.....	4,509	286
Net long-term debt.....	\$1,179	\$4,452

The 5% convertible subordinated debentures are convertible into the Company's common stock at \$37.62 per share, subject to adjustment under certain anti-dilution provisions. On December 3, 1993 the Company announced an offer to issue 8.5% convertible subordinated debentures due February 1, 2004 in exchange for these debentures, due February 1, 1994.

F-10

45

#### FARAH INCORPORATED AND SUBSIDIARIES

##### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED) NOVEMBER 5, 1993, NOVEMBER 6, 1992, AND OCTOBER 31, 1991

Installments of long-term debt are as follows (in thousands):

1994.....	\$4,509
1995.....	375
1996.....	346
1997.....	231
1998.....	226
1999.....	1
	-----
	\$5,688
	-----
	-----

During 1993 a related party to the Company purchased a junior participation of \$2,000,000 in the Company's U.S. credit facility. Such participation was repaid on November 5, 1993.

#### 4. SHAREHOLDERS' EQUITY:

In the fourth quarter of 1992 and second quarter of 1993, the Company sold 1,200,000 and 619,000 shares, respectively, of its common stock to Marciano Investments, Inc. and affiliated persons ("Marciano"). Proceeds from the sales, net of expenses, were approximately \$5,430,000 in 1992 and \$5,958,000 in 1993.

The shares acquired in these transactions, together with separately acquired shares, gave Marciano and the related parties approximately 32% of the Company's total outstanding common stock as of November 5, 1993. The definitive agreement executed in connection with the 1993 sale contains a provision which restricts Marciano from owning more than 40% of the Company's common stock for 18 months from March, 1993 without the consent of the Company. The agreement also contains restrictions on the Company's ability to sell certain equity securities for 18 months from March, 1993 without the consent of Marciano.

5. EMPLOYEE, EXECUTIVE, AND DIRECTOR STOCK OPTIONS AND AWARDS:

The Company has granted options to certain employees and directors pursuant to employee and non-employee director stock option plans to purchase the Company's common stock at amounts not less than the market price on the date of the grant.

During 1993, 80,000 shares of the Company's common stock were awarded to certain officers and directors pursuant to the stock option and restricted stock plans. The awards vest over varying periods beginning in 1993 and ending in 1996 of which 12,500 shares vested and were issued in 1993. The Company is recognizing the expense related to these awards over the period of service called for by the vesting provision of the awards.

F-11

46

FARAH INCORPORATED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)  
NOVEMBER 5, 1993, NOVEMBER 6, 1992, AND OCTOBER 31, 1991

The following table summarizes activity for such options and awards for the years ended November 5, 1993, November 6, 1992, and October 31, 1991:

<TABLE>

<CAPTION>

	SHARES AVAILABLE FOR GRANT	OPTIONS AND AWARDS OUTSTANDING	
		SHARES	PRICE PER SHARE
<S>	<C>	<C>	<C>
Balance, October 31, 1990.....	185,251	420,570	\$ 4.00-10.00
New shares approved.....	300,000	--	--
Granted.....	(343,500)	343,500	4.00-6.875
Exercised.....	--	(42,250)	4.00-5.75
Cancelled or terminated.....	43,839	(43,839)	4.00-7.50
Balance, October 31, 1991.....	185,590	677,981	\$ 4.00-10.00
Granted.....	(38,500)	38,500	6.625-6.875
Exercised.....	--	(109,725)	4.00-5.75
Cancelled or terminated.....	24,912	(24,912)	5.75-10.00
Balance, November 6, 1992.....	172,002	581,844	4.00-10.00
New shares authorized.....	75,000	--	6.875
Granted.....	(187,000)	187,000	0-10.00
Exercised.....	--	(85,983)	0-10.00
Cancelled or terminated.....	42,500	(44,924)	6.00-10.00
Balance, November 5, 1993 (480,437 exercisable)....	102,502	637,937	\$ 0-10.00
Options included above expire as follows:			
Five years after date of grant.....	22,950		
Ten years after date of grant.....	547,487		

</TABLE>

6. INCOME TAXES:

Income (loss) before taxes and income taxes in 1993, 1992, and 1991 are shown below (in thousands):

<TABLE>

<CAPTION>

	1993	1992	1991
<S>	<C>	<C>	<C>
Income (loss) before income taxes:			
Domestic operations.....	\$(1,682)	\$(11,489)	\$(4,097)
Foreign operations.....	2,118	2,269	(1,105)
Total consolidated.....	\$ 436	\$(9,220)	\$(5,202)

	-----	-----	-----
Income taxes:			
Domestic operations.....	\$ --	\$ --	\$ --
Foreign operations --			
Current.....	304	369	306
Deferred.....	--	--	--
	-----	-----	-----
Total foreign.....	304	369	306
	-----	-----	-----
Total consolidated.....	\$ 304	\$ 369	\$ 306
	-----	-----	-----

</TABLE>

F-12

47

FARAH INCORPORATED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)  
 NOVEMBER 5, 1993, NOVEMBER 6, 1992, AND OCTOBER 31, 1991

The effective tax rate differs from the statutory U.S. federal tax rate as summarized below (in thousands):

<TABLE>

<CAPTION>

	1993	1992	1991
	-----	-----	-----
<S>	<C>	<C>	<C>
Expected income taxes at U.S. statutory rate.....	\$ 148	\$ (3,135)	\$ (1,769)
Effect of differing tax rates in foreign countries.....	79	38	(153)
U.S. taxes on earnings of foreign subsidiaries.....	--	232	85
Unrecognized deferred tax benefits.....	--	2,264	2,143
U.S. taxes on dividends from foreign countries.....	1,100	1,020	--
Recognition of unrecognized deferred tax benefits.....	(981)	--	--
Other.....	(42)	(50)	--
	-----	-----	-----
Income taxes, as reported.....	\$ 304	\$ 369	\$ 306
	-----	-----	-----

</TABLE>

At November 5, 1993, the Company had net operating loss carryforwards for financial reporting purposes of approximately \$15,700,000, most of which can be carried forward for substantial periods. For tax purposes, there were net operating loss carryforwards at November 5, 1993 available to offset future taxable income of approximately \$4,000,000, of which \$3,500,000 and \$500,000 expire in 2007 and 2008, respectively. In addition, there were foreign tax credit carryforwards at November 5, 1993 available to offset limited classes of future taxable income of approximately \$1,700,000, which expire beginning in 1994, with all expiring by 1996.

Certain of the Company's foreign subsidiaries had undistributed retained earnings of approximately \$21,200,000 at November 5, 1993. No U.S. tax has been provided on the undistributed earnings because management intends to indefinitely reinvest such earnings in the foreign operations. The amount of the unrecognized deferred tax liability for these undistributed earnings is approximately \$5,900,000 at November 5, 1993.

During 1993 the Internal Revenue Service completed its examination of the Company's U.S. tax returns for the years 1989 thru 1991. The examination resulted in no additional tax payments.

7. EMPLOYEE BENEFIT PLANS:

The Company has two retirement plans. The first is a defined benefit plan which covers substantially all bargaining unit employees and retirees and the second is a defined contribution plan established pursuant to Section 401(k) of the Internal Revenue Code which covers all non-union U.S. and Puerto Rican employees.

Under the defined benefit plan the basic monthly pension payable to a participant upon normal retirement equals the product of the participant's deferred monthly retirement income amount times the number of years of credited service. Assets of the defined benefit plan are invested primarily in U.S. government obligations, corporate bonds, and equity securities.

Under the defined contribution plan, each participant may contribute from 1% to 13% of his/her compensation. The Company matches contributions up to 3% of the participant's compensation. In 1993, 1992, and 1991 the Company's contribution to the plan was approximately \$334,000, \$311,000, and \$315,000, respectively.

F-13

## FARAH INCORPORATED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)  
NOVEMBER 5, 1993, NOVEMBER 6, 1992, AND OCTOBER 31, 1991

The Company's policy is to fund accrued pension cost when such costs are deductible for tax purposes. Net periodic pension cost for the years ended November 5, 1993, November 6, 1992, and October 31, 1991 included the following components (in thousands):

<TABLE> <CAPTION>	1993	1992	1991
<S>	<C>	<C>	<C>
Service cost-benefits earned during the period.....	\$ 35	\$ 39	\$ 130
Interest cost on projected benefit obligation.....	511	494	504
Actual return on plan assets.....	(381)	(71)	(965)
Net amortization and deferral.....	(39)	(370)	494
	-----	-----	-----
Net periodic pension cost.....	\$ 126	\$ 92	\$ 163
	-----	-----	-----
	-----	-----	-----

&lt;/TABLE&gt;

The following table sets forth the funded status at November 5, 1993 and November 6, 1992 of the defined benefit plan (in thousands):

<TABLE> <CAPTION>	1993	1992
<S>	<C>	<C>
Actuarial present value of benefit obligation:		
Vested benefit obligation.....	\$ (7,150)	\$ (5,734)
Non-vested benefit obligation.....	(110)	(21)
	-----	-----
Accumulated benefit obligation.....	(7,260)	(5,755)
Projected benefit obligation.....	(7,260)	(5,755)
Plan assets at market value.....	5,338	5,286
	-----	-----
Projected benefit obligation in excess of plan assets.....	(1,922)	(469)
Unrecognized transition liability being recognized over average future service of plan participants.....	601	667
Unrecognized net loss from past experience different from that assumed and effects of changes in assumptions.....	2,050	524
Adjustment required to recognize minimum liability.....	(2,651)	(1,191)
	-----	-----
Accrued pension expense.....	\$ (1,922)	\$ (469)
	-----	-----
	-----	-----

&lt;/TABLE&gt;

In determining the benefit obligations and service cost of the Company's defined benefit plan, weighted average discount rates of 7.50% and 9.25% were used in 1993 and 1992, respectively. The expected long-term rate of return on plan assets was 9.5% in both years.

In 1993, as required by Statement of Financial Accounting Standards No. 87, "Employers' Accounting for Pensions", the Company adjusted its additional pension liability to \$2,651,000 to reflect the increased excess of the accumulated benefits over the fair value of plan assets. The adjusted additional pension liability, which had no effect on 1993 operations, was offset by an intangible asset of \$601,000 and a decrease to shareholders' equity of \$2,050,000.

The Financial Accounting Standards Board has issued Statement of Financial Accounting Standards No. 106, "Employer's Accounting for Post-retirement Benefits Other Than Pensions". The Company generally does not offer any post-retirement benefits; therefore, the statement will have no impact on the Company.

In November 1992, Statement of Financial Accounting Standards No. 112, "Employers' Accounting for Post Employment Benefits," was issued. Adoption is required for fiscal years beginning after December 15,

## FARAH INCORPORATED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)  
NOVEMBER 5, 1993, NOVEMBER 6, 1992, AND OCTOBER 31, 1991



1993. The Company does not believe that the adoption of this statement will have a significant impact on the Company.

8. LEASES:

During 1988 the Company consummated a sale and leaseback of its main El Paso, Texas manufacturing and office facility. A portion of the sale was paid by delivery of a \$7,500,000 promissory note to the Company, secured by a second mortgage on the property. The balance of the note receivable at November 5, 1993 and November 6, 1992 was \$6,450,000 and \$6,686,000, respectively. The promissory note bears interest at 9.25% with principal and interest payable in monthly installments through February 2007. In connection with the sale, the Company entered into a ten year operating lease of the facility which is extendible for an additional ten years at the Company's option. The Company has pledged a \$2,500,000 certificate of deposit as security for this lease. The gain on the sale was deferred. As of November 5, 1993, \$9,314,000 remained to be recognized over the term of the initial lease.

The Company and its subsidiaries occupy certain facilities and use certain equipment under operating leases which expire at various dates from fiscal 1994 to 2016. The following is a summary by year of the non-cancellable portion of future minimum lease payments under operating leases (in thousands):

<S>	<C>
1994.....	\$ 7,398
1995.....	6,627
1996.....	5,848
1997.....	5,706
1998.....	3,140
Later years.....	1,199
	-----
Lease payments *.....	\$29,918
	-----
	-----

</TABLE>

- - - - -

\* Minimum payments have not been reduced by minimum sub-lease rental income of \$4,703,000 due in the future under non-cancellable sub-leases.

During 1992 the Company entered into a 6 1/2 year operating sub-lease agreement for approximately one-half of its El Paso manufacturing facility. The following is a summary by year of the non-cancellable portion of future minimum rental income (in thousands):

<S>	<C>
1994.....	\$ 881
1995.....	1,028
1996.....	1,028
1997.....	1,028
1998.....	738
	-----
Total.....	\$4,703
	-----
	-----

</TABLE>

Rental expense for all operating leases for 1993, 1992, and 1991 was \$6,860,000, \$6,837,000 and \$6,570,000, respectively, (net of sub-lease income of approximately \$881,000 in 1993 and \$575,000 in 1992).

FARAH INCORPORATED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)  
 NOVEMBER 5, 1993, NOVEMBER 6, 1992, AND OCTOBER 31, 1991

9. GEOGRAPHIC SEGMENT INFORMATION:

The Company is engaged in one business segment. This includes the design, manufacture, distribution and sale of men's, young men's and boys' apparel in the United States and certain foreign countries, principally in Europe and the South Pacific. The following tabulation presents information regarding geographic segments for the years ended 1993, 1992, and 1991. Transfers between the United States and foreign areas are recorded at normal selling prices. Operating profit is total revenue less operating expenses. In computing operating profit, general corporate expenses, interest expense, and income taxes have been excluded (in thousands):

<TABLE>  
<CAPTION>

	1993	1992	1991
	-----	-----	-----
<S>	<C>	<C>	<C>
Net sales:			
United States to unaffiliated customers.....	\$151,017	\$116,031	\$109,630
Transfers between areas.....	480	109	280
	-----	-----	-----
Total United States.....	151,497	116,140	109,910
Europe.....	20,069	26,140	31,415
South Pacific.....	9,028	9,819	10,157
Adjustments and eliminations.....	(480)	(109)	(280)
	-----	-----	-----
Total.....	\$180,114	\$151,990	\$151,202
	-----	-----	-----
Operating profit (loss):			
United States.....	\$ 1,274	\$ (9,494)	\$ (2,224)
Europe.....	602	671	(840)
South Pacific.....	1,565	2,097	247
Adjustments and eliminations.....	(66)	(65)	(67)
	-----	-----	-----
Total.....	3,375	(6,791)	(2,884)
Net gain on sale of assets.....	323	9	127
General corporate expenses.....	(1,810)	(1,478)	(1,300)
Interest expense, net.....	(1,452)	(960)	(1,145)
	-----	-----	-----
Income (loss) before income taxes.....	\$ 436	\$ (9,220)	\$ (5,202)
	-----	-----	-----
Identifiable assets:			
United States.....	\$ 97,811	\$ 70,328	\$ 70,382
Europe.....	11,813	12,997	21,480
Far East and the South Pacific.....	11,842	11,400	19,553
Adjustments and eliminations.....	(2,575)	(1,588)	(4,588)
	-----	-----	-----
Total.....	\$118,891	\$ 93,137	\$106,827
	-----	-----	-----

</TABLE>

F-16

51

FARAH INCORPORATED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)  
NOVEMBER 5, 1993, NOVEMBER 6, 1992, AND OCTOBER 31, 1991

10. SUPPLEMENTARY QUARTERLY FINANCIAL DATA (UNAUDITED):

Quarterly unaudited information for fiscal 1993 compared to fiscal 1992 is as follows (in thousands, except share data):

<TABLE>  
<CAPTION>

	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER
	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>
1993				
Net sales.....	\$ 35,316	\$ 41,748	\$ 43,773	\$ 59,277
Gross profit.....	10,640	12,017	11,509	18,928
Net income (loss).....	604	1,289	(5,179)	3,418
Net income (loss) per share.....	0.08	0.17	(0.65)	0.42
Weighted average shares of common stock and common stock equivalents outstanding.....	7,318,463	7,742,098	7,939,768	8,124,443
1992				
Net sales.....	\$ 34,102	\$ 37,753	\$ 37,104	\$ 43,031
Gross profit.....	8,862	8,999	8,233	12,387
Net income (loss).....	(425)	(2,258)	(8,109)	1,203
Net income (loss) per share.....	(0.07)	(0.37)	(1.34)	.17
Weighted average shares of common stock and common stock equivalents outstanding.....	5,967,616	6,043,062	6,065,142	7,212,596

</TABLE>

The third quarter of 1993 includes \$4,000,000 of factory conversion expenses (see Note 1).

The third quarter of 1992 includes a provision for loss on Generra bankruptcy of \$6,146,000 (see Note 1).

In the fourth quarter of 1992 and second quarter of 1993, the Company sold 1,200,000 and 619,000 shares, respectively, of its common stock to Marciano Investments, Inc. and affiliated persons (see Note 4).

For loss quarters, common stock equivalents are excluded from "weighted average shares of common stock and common stock equivalents outstanding."

F-17

52

FARAH INCORPORATED AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED QUARTERLY  
FINANCIAL STATEMENTS  
FEBRUARY 4, 1994, AND FEBRUARY 5, 1993

1. BASIS OF PRESENTATION:

The attached condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. As a result, certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. The Company believes that the disclosures made are adequate to make the information presented not misleading. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes included in the Company's Consolidated Financial Statements.

The foregoing financial information reflects all adjustments (which consist only of normal recurring adjustments) which are, in the opinion of management, necessary to present a fair statement of the financial position and the results of operations and cash flows for the interim periods. The results of operations for the three months ended February 4, 1994, may not be indicative of the results to be expected for the full fiscal year.

2. CHANGE IN ACCOUNTING PRINCIPLES -- ACCOUNTING FOR INCOME TAXES:

In February 1992, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" ("SFAS 109"). SFAS 109 requires the recognition of deferred tax assets, net of applicable reserves, related to net operating loss carryforwards and certain temporary differences.

The adoption of SFAS 109 had no significant impact on the consolidated quarterly financial statements for the three months ended February 4, 1994, as compared to the Company's prior method of accounting under Statement of Financial Accounting Standards No. 96, "Accounting for Income Taxes".

The Company adopted SFAS 109 effective November 6, 1993, resulting in a deferred tax asset at November 6, 1993, of \$8,580,000, less a valuation allowance of the same amount, as follows:

<S>	<C>
Deferred tax assets:	
U.S. federal NOL carryforwards.....	\$1,352,000
Foreign NOL carryforwards.....	1,045,000
Gain on sale of building fully recognized for tax.....	3,167,000
Unrecognized capital loss.....	459,000
Foreign tax credit carryforwards.....	1,710,000
Other accrued expenses and reserves.....	1,840,000
Other deferred tax assets.....	273,000
	-----
Total deferred tax assets.....	9,846,000
	-----
Deferred tax liabilities:	
Tax over book depreciation and amortization.....	862,000
Other deferred tax liabilities.....	404,000
	-----
Total deferred tax liabilities.....	1,266,000
	-----
Net deferred tax asset.....	8,580,000
Valuation allowance.....	(8,580,000)
	-----
Net deferred tax asset, net of valuation allowance.....	\$ --
	-----

</TABLE>

F-18

53

FARAH INCORPORATED AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED QUARTERLY

Pursuant to the requirements of SFAS 109, a valuation allowance must be provided when it is more likely than not that the deferred tax asset will not be realized. The Company has provided a valuation allowance against the entire November 6, 1993, net deferred tax asset. In subsequent periods, the Company may reduce the valuation allowance, provided that utilization of the deferred tax asset is more likely than not as defined by SFAS 109.

At November 6, 1993, the Company's U.S. subsidiary had approximately \$3,977,000 of tax net operating loss carryforwards available to offset future taxable income. Approximately \$3,515,000 of this carryforward expires in 2007 and \$462,000 in 2008. The Company's United Kingdom and Ireland subsidiaries had approximately \$3,078,000 and \$296,000, respectively, of net operating loss carryforwards available to offset future taxable income in those countries. Carryforwards in these countries are available until used, for an indefinite future period. In addition, there were foreign tax credit carryforwards at November 6, 1993, available to offset limited classes of future taxable income of approximately \$1,710,000, which expire beginning in 1994, with all expiring by 1996.

F-19

54

{PHOTOS}

55

-----  
 -----  
 NO DEALER, SALESMAN OR ANY OTHER PERSON HAS BEEN AUTHORIZED TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATIONS OTHER THAN THOSE CONTAINED IN THE PROSPECTUS, AND, IF GIVEN OR MADE, SUCH INFORMATION OR REPRESENTATIONS MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY THE COMPANY, THE SELLING SHAREHOLDER OR ANY OF THE UNDERWRITERS. THIS PROSPECTUS DOES NOT CONSTITUTE AN OFFER TO SELL OR A SOLICITATION OF AN OFFER TO BUY ANY OF THE SHARES BY ANYONE IN ANY JURISDICTION IN WHICH SUCH OFFER OR SOLICITATION IS NOT AUTHORIZED, OR IN WHICH THE PERSON MAKING THE OFFER OR SOLICITATION IS NOT QUALIFIED TO DO SO, OR TO ANY PERSON TO WHOM IT IS UNLAWFUL TO MAKE SUCH OFFER OR SOLICITATION. UNDER NO CIRCUMSTANCES SHALL THE DELIVERY OF THIS PROSPECTUS OR ANY SALE MADE PURSUANT TO THIS PROSPECTUS CREATE ANY IMPLICATION THAT INFORMATION CONTAINED IN THIS PROSPECTUS IS CORRECT AS OF ANY TIME SUBSEQUENT TO THE DATE OF THIS PROSPECTUS.

-----  
 TABLE OF CONTENTS

<TABLE>  
 <CAPTION>

	PAGE
	----
<S>	<C>
Available Information.....	3
Incorporation of Certain Documents by Reference.....	3
Prospectus Summary.....	4
Investment Considerations.....	6
Use of Proceeds.....	8
Price Range of Common Stock.....	9
Dividend Policy.....	9
Capitalization.....	10
Selected Consolidated Financial Data...	11
Management's Discussion and Analysis of Financial Condition and Results of Operations.....	12
Business.....	19
Management.....	28
Principal and Selling Shareholders.....	30
Description of Capital Stock.....	32
Underwriting.....	32
Legal Matters.....	33
Experts.....	33
Index to Financial Statements.....	F-1

</TABLE>

-----  
 -----  
 -----  
 -----

3,100,000 SHARES

COMMON STOCK  
(NO PAR VALUE)  
(FARAH LOGO)

-----  
PROSPECTUS  
-----

BEAR, STEARNS & CO. INC.  
APRIL , 1994

-----  
-----  
56

PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

ITEM 14. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION

The table below sets forth the estimated expenses expected to be incurred in connection with the issuance and distribution of the Common Stock to be registered and offered hereby:

<TABLE>

<S>	<C>
SEC Registration Fee.....	\$ 24,630
NASD Filing Fee.....	6,647
NYSE Listing Fee.....	6,265
"Blue Sky" Fees and Expenses.....	4,000
Printing and Engraving Expenses.....	35,000
Legal Fees and Expenses (other than Blue Sky).....	125,000
Accounting Fees and Expenses.....	90,000
Transfer Agent and Registrar Fees.....	2,500
Miscellaneous.....	55,958
	-----
Total.....	\$350,000
	-----
	-----

</TABLE>

-----  
\* To be supplied by amendment.

Under contractual arrangements, the Company is paying all expenses of the Selling Shareholder, other than underwriting discounts and commissions.

ITEM 15. INDEMNIFICATION OF DIRECTORS AND OFFICERS

The bylaws of the Company provide that directors and officers may be indemnified to the maximum extent permitted by the Texas Business Corporation Act (the "TBCA"). The TBCA permits, and in some cases requires, corporations to indemnify officers, directors, agents and employees who are or have been a party to or are threatened to be made a party to litigation against judgments, penalties (including excise and similar taxes), fines, settlements and reasonable expenses under certain circumstances.

The Company has adopted provisions in its Articles of Incorporation that limit the liability of its directors to the fullest extent permitted by the corporation laws of the State of Texas. Under the Company's Articles of Incorporation, and as permitted by the corporation laws of the State of Texas, a director is not liable to the Company or its shareholders for monetary damages for an act or omission in the director's capacity as a director of the Company. Such limitation of liability does not affect a director's liability for a breach of a director's duty of loyalty to the Company, an act or omission not in good faith or that involves intentional misconduct or a knowing violation of the law, a transaction from which a director received an improper benefit, whether or not the benefit resulted from an action taken within the scope of the director's office, an act or omission for which the liability of a director is expressly provided by statute, or an act related to an unlawful stock repurchase or dividend payment. Such limitation of liability also does not affect the availability of equitable remedies such as injunctive relief or rescission.

In addition, the Company and certain other persons may be entitled, under the form of Underwriting Agreement filed as Exhibit 1, to indemnification by the Underwriters and the Selling Shareholder against certain liabilities, including liabilities under the Securities Act, or to contribution with respect to payments which the Company or such persons may be required to make in respect thereof.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to officers, directors, or persons controlling the Company pursuant to the foregoing provisions, the Company has been informed that in the opinion of the Commission such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable.

II-1

57

The Company has entered into indemnification agreements with each of its directors and executive officers and with two of its officers who are not executive officers. Each of these agreements, among other things, contractually obligates the Company to, under certain circumstances, indemnify the officer or director against certain expenses and liabilities arising out of legal proceedings which may be brought against such officer or director by reason of his status or service as a director or officer.

ITEM 16. EXHIBITS

<TABLE>

<CAPTION>

EXHIBIT NUMBER	DESCRIPTION
<S>	<C>
*1.1	-- Form of Underwriting Agreement.
**3.1	-- Restated Articles of Incorporation dated March 29, 1988.
**3.2	-- Articles of Amendment to Articles of Incorporation of Farah Incorporated dated March 26, 1993.
3.3	-- Amended and Restated Bylaws dated as of September 1, 1993 (incorporated by reference from Exhibit 3.2 to Form 10-K as of November 5, 1993).
4.1	-- Indenture dated as of February 1, 1994 (incorporated by reference from Exhibit 9(c)(1) to Schedule 13E-4 dated December 3, 1993).
**5.1	-- Opinion of Baker & McKenzie.
22	-- Subsidiaries of the Company (incorporated by reference from Exhibit 22 to Form 10-K as of November 5, 1993).
*23.1	-- Consent of Arthur Andersen & Co.
**23.2	-- Consent of Baker & McKenzie (included in Exhibit 5.1).
**24	-- Power of Attorney (see signature pages of Registration Statement).

</TABLE>

\* Filed herewith.

\*\* Previously filed with the Registration Statement.

ITEM 17. UNDERTAKINGS

1. The undersigned registrant hereby undertakes that, for purposes of determining any liability under the Securities Act of 1933, each filing of the registrant's annual report pursuant to section 13(a) or section 15(d) of the Securities Exchange Act of 1934 (and, where applicable, each filing of an employee benefit plan's annual report pursuant to section 15(d) of the Securities Exchange Act of 1934) that is incorporated by reference in the registration statement shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

2. The undersigned registrant hereby undertakes that:

A. For purposes of determining any liability under the Securities Act of 1933, the information omitted from the form of prospectus filed as part of a registration statement in reliance upon Rule 430A and contained in the form of prospectus filed by the registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act of 1933 shall be deemed to be part of the registration statement as of the time it was declared effective.

B. For the purpose of determining any liability under the Securities Act of 1933, each posteffective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

3. Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such

II-2

58

indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

II-3

59

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form S-3 and has duly caused this Amendment No. 2 to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of El Paso, State of Texas, on this 20th day of April, 1994.

FARAH INCORPORATED

By: /s/ RICHARD C. ALLENDER  
Richard C. Allender  
Chairman of the Board,  
President and Chief Executive  
Officer

<TABLE>  
<CAPTION>

SIGNATURE	TITLE	DATE
<S> /s/ RICHARD C. ALLENDER Richard C. Allender	<C> Chairman of the Board, President and Chief Executive Officer (Principal Executive Officer)	<C> April 20, 1994
/s/ JAMES C. SWAIM James C. Swaim	Executive Vice President, Chief Financial Officer, Treasurer and Director (Principal Financial and Accounting Officer)	April 20, 1994
* Clark L. Bullock	Director	April 20, 1994
* Christopher L. Carameros	Director	April 20, 1994
* Sylvan Landau	Director	April 20, 1994
* Michael R. Mitchell	Director	April 20, 1994
* Edward J. Monahan	Director	April 20, 1994
* Timothy B. Page	Director	April 20, 1994
* Charles J. Smith	Director	April 20, 1994
* Thomas G. Wyman	Director	April 20, 1994

\*By: /s/ RICHARD C. ALLENDER  
Richard C. Allender  
Attorney-in-fact

</TABLE>

II-4

60

INDEX TO EXHIBITS

<TABLE>  
<CAPTION>

EXHIBIT NUMBER	DESCRIPTION	SEQUENTIALLY NUMBERED PAGE
<S> <C> *1.1	-- Form of Underwriting Agreement.	<C>

\*\*3.1 -- Restated Articles of Incorporation dated March 29, 1988.  
\*\*3.2 -- Articles of Amendment to Articles of Incorporation of Farah  
Incorporated dated March 26, 1993.  
3.3 -- Amended and Restated Bylaws dated as of September 1, 1993 (incorporated  
by reference from Exhibit 3.2 to Form 10-K as of November 5, 1993).  
4.1 -- Indenture dated as of February 1, 1994 (incorporated by reference from  
Exhibit 9(c)(1) to Schedule 13E-4 dated December 3, 1993).  
\*\*5.1 -- Opinion of Baker & McKenzie.  
22 -- Subsidiaries of the Company (incorporated by reference from Exhibit 22  
to Form 10-K as of November 5, 1993).  
\*23.1 -- Consent of Arthur Andersen & Co.  
\*\*23.2 -- Consent of Baker & McKenzie (included in Exhibit 5.1).  
\*\*24 -- Power of Attorney (see signature pages of Registration Statement).

</TABLE>

- -----

\* Filed herewith.

\*\* Previously filed with the Registration Statement.



3,100,000 Shares of Common Stock

FARAH INCORPORATED

UNDERWRITING AGREEMENT

\_\_\_\_\_, 1994

BEAR, STEARNS & CO. INC.

As Representative of the  
several Underwriters named in  
Schedule I attached hereto

245 Park Avenue  
New York, N.Y. 10167

Ladies and Gentlemen:

Farah Incorporated, a Texas corporation (the "Company"), proposes to issue and sell to the several Underwriters named in Schedule I hereto (the "Underwriters") 1,650,000 shares of common stock, no par value, of the Company (the "Common Stock"), and the undersigned selling shareholders of the Company named in Schedule II hereto (collectively the "Selling Shareholder") proposes to sell to the Underwriters an additional 1,450,000 shares of Common Stock, which aggregate of 3,100,000 shares of Common Stock is herein referred to as the "Firm Shares." In addition, for the sole purpose of over-allotments in connection with the sale of the Firm Shares, the Company proposes to sell to the Underwriters, at the option of the Underwriters, up to an additional 465,000 shares of Common Stock (the "Additional Shares"). The Firm Shares and any Additional Shares purchased by the Underwriters are herein referred to as the "Shares."

The Shares are more fully described in the Registration Statement referred to below.

1. Representations and Warranties of the Company.

A. The Company represents and warrants to, and agrees with, each of the several Underwriters and the Selling Shareholder that:

(a) The Company has filed with the Securities and Exchange Commission (the "Commission") a registration statement, and an amendment or amendments thereto, on Form

2

S-3 (Registration No. 33-52811), for the registration of the Shares under the Securities Act of 1933, as amended (the "Securities Act"). Such registration statement, including the prospectus, financial statements, exhibits and all other documents filed as a part thereof, when it shall become effective, is herein called the "Registration Statement" and the prospectus, in the form first filed with the Commission pursuant to Rule 424(b) of the Rules and Regulations of the Commission (the "Regulations"), is herein called the "Prospectus." The term "Preliminary Prospectus" as used herein means any preliminary prospectus relating to the Shares as described in Rule 430 of the

Regulations. Reference made herein to the Registration Statement, the Preliminary Prospectus or the Prospectus shall include all documents incorporated by reference therein and shall be deemed to refer to and include any documents filed after the date of such Registration Statement, Preliminary Prospectus or Prospectus, as the case may be, and so incorporated by reference, under the Securities Exchange Act of 1934, as amended (the "Exchange Act").

(b) Neither the Commission nor the Blue Sky or securities authority of any jurisdiction has issued a stop order suspending the effectiveness of the Registration Statement, preventing or suspending the use of the Preliminary Prospectus, the Prospectus, the Registration Statement, or any amendment or supplement thereto, refusing to permit the effectiveness of the Registration Statement, or suspending the registration or qualification of the Shares, nor, to the Company's knowledge, has any of such authorities instituted or threatened to institute any proceedings with respect to a stop order.

(c) When the Registration Statement shall become effective, when any amendment to the Registration Statement becomes effective, when the Prospectus is first filed with the Commission pursuant to Rule 424(b) of the Regulations, when any supplement to or amendment of the Prospectus is filed with the Commission, and up to and at the Closing Date (and the Additional Closing Date, if any) (as hereinafter respectively defined), the Registration Statement and the Prospectus and any amendments thereof and supplements thereto will comply in all material respects with the applicable provisions of the Securities Act, the Exchange Act and the Regulations and will not contain an untrue statement of a material fact and will not omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading. At the time of the first filing of the Preliminary Prospectus with the Commission (whether filed as part of the Registration Statement for the registration of the Shares or any amendment thereto or pursuant to Rule 424(a) of the Regulations) and when any amendment thereof or supplement thereto was first filed with the Commission, such Preliminary Prospectus and any amendments thereof and supplements thereto complied in all material respects with the applicable provisions of the Securities Act, the Exchange Act and the Regulations and did not contain an untrue statement of a material fact and did not omit to state any material fact required to be stated therein or necessary in order to make the statements therein not misleading. No representation and warranty is made in this subsection (c), however, with respect to any information contained in or omitted from the Registration Statement or the Prospectus or the Preliminary Prospectus or any amendment thereof or supplement thereto in reliance upon and in conformity with information furnished in writing to the Company by or on behalf of any Underwriter through you as herein stated expressly for use in connection with the preparation thereof.

-2-

3

(d) The documents which are incorporated by reference in the Preliminary Prospectus, the Prospectus or the Registration Statement or from which information is so incorporated by reference, when they became effective or were first filed with the Commission, as the case may be, complied in all material respects with the requirements of the Securities Act or the Exchange Act, as applicable, and the Regulations, and, when read together with the other information in the Prospectus, at the time the Registration Statement shall become effective and at the Closing Date, will not contain an untrue statement of a material fact and will not omit to state any

material fact required to be stated therein or necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading. Any documents which are filed and incorporated by reference subsequent to the effective date of the Registration Statement shall, when they are filed with the Commission, conform in all material respects with the requirements of the Securities Act and the Exchange Act, as applicable, and the Regulations, and, when read together with the other information in the Prospectus, at the time the Registration Statement shall become effective and at the Closing Date, will not contain an untrue statement of a material fact and will not omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading.

(e) Arthur Andersen & Co., who have audited the consolidated financial statements, together with the related schedules and notes, of the Company that were or will be filed with the Commission as part of the Registration Statement and whose report is filed with the Commission as a part of the Registration Statement, are independent public accountants with regard to the Company as required by the Securities Act and the Regulations.

(f) Each of the Company, Farah U.S.A., Inc., a Texas corporation ("Farah U.S.A."), Farah International, Inc., a Texas corporation ("International"), and Value Slacks, Inc., a Texas corporation (with Farah U.S.A. and International, the "U.S. Subsidiaries"), has been duly organized and is validly existing as a corporation in good standing under the laws of the jurisdiction of its incorporation. Each of Farah Manufacturing (U.K.) Limited, an English corporation, Farah Australia Pty, Ltd., an Australian corporation, and Farah (New Zealand) Limited, a New Zealand corporation (the "Foreign Subsidiaries" and, together with the U.S. Subsidiaries, the "Subsidiaries"), is a company duly incorporated and existing in its jurisdiction of incorporation and no order or resolution for the winding up of, and no interim or final administrative order in relation to, and no notice of the appointment of a receiver, administrative receiver or administrator in relation to, any of the Foreign Subsidiaries has been made in, or presented to, the Registry of such jurisdiction. Farah (Fiji) Limited (the "Fiji J.V.") is a company duly incorporated and existing in the Fiji Islands and no order or resolution for the winding up of, and no interim or final, administrative order in relation to, and no notice of the appointment of a receiver, administrative receiver or administrator in relation to, the Fiji J.V. has been made in, or presented to, the Registry of such jurisdiction. Each of the Company, the Subsidiaries and the Fiji J.V. is duly qualified and in good standing as a foreign corporation in each jurisdiction in which the character or location of its properties (owned, leased or licensed) or the nature or conduct of its business makes such qualification necessary. Each of the Company, the Subsidiaries and the Fiji J.V. has all requisite power and authority, and all consents, approvals, authorizations, orders, registrations,

-3-

4

qualifications, licenses and permits of and from all public, regulatory or governmental agencies and bodies, necessary to own, lease and operate its properties and conduct its business as now being conducted and as described in the Registration Statement and the Prospectus. No such consent, approval, authorization, order, registration, qualification, license or permit contains a materially burdensome restriction not adequately disclosed in the Registration Statement and the Prospectus.

(g) All of the outstanding shares of Common Stock are duly and validly authorized and issued, are fully paid and nonassessable and were not issued in violation of or subject to any preemptive rights. As of the date of this Agreement, the Company had an authorized and outstanding capitalization as set forth in the Registration Statement and the Prospectus. The Shares to be purchased from the Company have been duly authorized for issuance. Except as set forth in the Registration Statement, no holders of Common Stock or other securities of the Company have registration rights with respect to any securities of the Company, and all holders of securities of the Company, other than the Selling Shareholder with respect to the shares of Common Stock being sold hereby, having rights to registration of shares of Common Stock, or other securities, as a result of the filing of the Registration Statement have, with respect to the offering contemplated thereby, waived such rights. The Shares, when delivered and sold in accordance with this Agreement, will be duly and validly issued and outstanding, fully paid and nonassessable. No preemptive right, co-sale right, right of first refusal or other similar right of shareholders exists with respect to any of the Shares or the issue or sale thereof. The Common Stock, including the Firm Shares and the Additional Shares, conforms to the descriptions thereof contained in the Registration Statement and the Prospectus.

(h) The Company does not own or control, directly or indirectly, any corporation, association or other entity other than the subsidiaries listed on Schedule 22 to the Company's Annual Report on Form 10-K for the year ended November 5, 1993. All the outstanding capital stock of each of the Subsidiaries is duly and validly issued, fully paid and nonassessable and is owned, with respect to the U.S. Subsidiaries, by the Company and, with respect to the Foreign Subsidiaries, by International, free and clear of any liens, pledges, encumbrances, claims, security interests and other defects in title whatsoever, other than the pledge of such capital stock pursuant to those certain financing arrangements pursuant to that certain Accounts Financing Agreement (Security Agreement), dated as of August 2, 1990, between Congress Financial Corp. (Southwest) and Farah U.S.A.

(i) Neither the Company nor the Subsidiaries is, or with the giving of notice or lapse of time, or both, would be, with respect to the Company and the U.S. Subsidiaries, in violation of its charter or bylaws, and, with respect to the Foreign Subsidiaries, in violation of its memorandum or articles of association, and neither the Company nor the Subsidiaries is, or with the giving of notice or lapse of time, or both, would be, in default in the performance or observance of any obligation, agreement, covenant or condition contained in any bond, debenture, note or other evidence of indebtedness or in any material contract, indenture, mortgage, deed of trust, loan agreement, lease, joint venture or other agreement or instrument to which the Company or any of the Subsidiaries is a party or by which any of their properties may be bound which default could reasonably be expected to have a material adverse effect on the Company or any of the Subsidiaries, or in violation of any law, order,

-4-

5

rule, regulation, writ, injunction, judgment or decree of any court or governmental agency or body, the violation of which could reasonably be expected to have a material adverse effect on the Company or any of the Subsidiaries.

(j) This Agreement has been duly and validly authorized, executed and delivered by the Company and is a valid and binding

obligation of the Company, enforceable against the Company in accordance with its terms, except to the extent rights to indemnity hereunder may be limited by federal or state securities laws or the public policy underlying such laws and except to the extent the enforcement hereof may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws relating to or affecting creditors' rights generally or by equitable principles.

(k) The execution, delivery and performance of this Agreement and the consummation of the transactions contemplated hereby will not (i) conflict with or result in a breach of any of the terms and provisions of, or constitute a default (or an event which with notice or lapse of time, or both, would constitute a default) or require consent under, or result in the creation or imposition of any lien, charge or encumbrance upon any property or assets of the Company or any of the Subsidiaries, pursuant to the terms of any agreement, instrument, franchise, license or permit to which the Company or any of the Subsidiaries is a party or by which any of such corporations or their respective properties or assets may be bound, or (ii) violate or conflict with any provision of the articles or certificate of incorporation or bylaws of the Company or any of the U.S. Subsidiaries, any provision of the memorandum or articles of association of any of the Foreign Subsidiaries, or any judgment, decree, order, statute, rule or regulation of any court or any public, governmental or regulatory agency or body having jurisdiction over the Company or any of the Subsidiaries or any of their respective properties or assets. No consent, approval, authorization, order, registration, filing, qualification, license or permit of or with any court or any public, governmental or regulatory agency or body having jurisdiction over the Company or any of the Subsidiaries or any of their respective properties or assets, and no further approval or authorization of any shareholder, the Board of Directors of the Company or others, is required for the execution, delivery and performance of this Agreement and the consummation of the transactions contemplated hereby, including the issuance, sale and delivery of the Shares to be issued, sold and delivered by the Company hereunder, except the registration of the Shares under the Act and such consents, approvals, authorizations, orders, registrations, filings, qualifications, licenses and permits as may be required under state securities or Blue Sky laws in connection with the Underwriters' purchase and distribution of the Shares.

(l) The consolidated financial statements of the Company, together with the related schedules and notes, forming part of the Registration Statement and Prospectus, fairly present the consolidated financial position and results of operations of the Company and the Subsidiaries at the respective dates and for the respective periods to which they apply. All consolidated financial statements of the Company, together with the related schedules and notes, filed with the Commission as part of the Registration Statement have been prepared in accordance with generally accepted accounting principles consistently applied throughout the periods involved. The selected and summary financial and statistical data included in the

Registration Statement present fairly the information shown therein and have been compiled on a basis substantially consistent with the financial statements presented therein.

(m) Subsequent to the respective dates as of which information is given in the Registration Statement and the Prospectus, except as set forth in the Registration Statement and the Prospectus,

there has not been (i) any material adverse change in the business, prospects, properties, operations, condition (financial or otherwise) or results of operations of the Company or any of the Subsidiaries, whether or not arising from transactions in the ordinary course of business, (ii) any transaction that is material to the Company or any of the Subsidiaries, except transactions in the ordinary course of business, (iii) any obligation or liability, direct or contingent, incurred by the Company or any of the Subsidiaries that is material to the Company or any of the Subsidiaries, except obligations and liabilities incurred or undertaken in the ordinary course of business, (iv) other than the Company's issuance of Common Stock upon exercise of stock options under the Company's employee stock option plan in effect on the date hereof, any change in the capital stock of the Company or any of the Subsidiaries, or (v) any dividend or distribution of any kind declared, paid or made on the capital stock of the Company or any of the Subsidiaries.

(n) Except as described in the Prospectus, there is not pending or, to the Company's knowledge, threatened any action, suit, claim or proceeding against the Company, any of the Subsidiaries or any of their respective officers or any of their properties, assets or rights before any court or governmental agency or body that might result in any material adverse change or any development involving a material adverse change in the business, prospects, properties, operations, condition (financial or other) or results of operations of the Company or any of the Subsidiaries or prevent the consummation of the transactions contemplated herein. There are no contracts or documents of the Company or any of the Subsidiaries that are required to be described in all material respects in the Prospectus or to be filed as exhibits to the Registration Statement by the Securities Act or the Regulations that have not been accurately described in the Prospectus or filed as exhibits to the Registration Statement.

(o) The Shares have been approved for listing on the New York Stock Exchange (the "NYSE").

(p) The conditions for use of Form S-3, set forth in the General Instructions thereto, have been satisfied.

(q) The Company has not taken and will not take, directly or indirectly, any action which constituted or which was designed to constitute or which might be reasonably expected to cause or result in stabilization or manipulation of the price of the shares of Common Stock.

B. The Selling Shareholder represents and warrants to, and agrees with, each of the several Underwriters that:

-6-

7

(a) The Selling Shareholder has (i) caused a certificate or certificates for the number of Shares to be sold by the Selling Shareholder hereunder to be delivered to James C. Swaim, endorsed in blank or with blank stock powers duly executed, with signatures appropriately guaranteed, such certificate or certificates to be held in the custody of James C. Swaim, in accordance with the terms of a custody agreement in the form heretofore delivered to you, for delivery pursuant to the provisions hereof on the Closing Date (the custody agreement executed by the Selling Shareholder being hereinafter referred to as the "Custody Agreement").

(b) The execution, delivery and performance of this Agreement and the Custody Agreement by or on behalf of the Selling

Shareholder and the consummation of the transactions contemplated hereby and thereby will not (i) conflict with or result in the breach of any of the terms and provisions of, or constitute a default (or an event which with notice or lapse of time, or both, would constitute a default) or require consent under, or result in the creation or imposition of any lien, charge or encumbrance upon any property or assets of the Selling Shareholder pursuant to the terms of any agreement, trust agreement, instrument, franchise, license or permit to which the Selling Shareholder is a party or by which the Selling Shareholder or any of the Selling Shareholder's property or assets may be bound, or (ii) violate or conflict with the Certificate of Incorporation or By-laws of the Selling Shareholder or any judgment, decree, order, statute, rule or regulation of any court or any public, governmental or regulatory agency or body having jurisdiction over the Selling Shareholder or the Selling Shareholder's properties or assets.

(c) The Selling Shareholder has, and at the time of delivery of the Shares to be sold by the Selling Shareholder will have, full legal right, power, authority and capacity, and, except as required under the Securities Act and state securities and Blue Sky laws, all necessary consents, approvals, authorizations, orders, registrations, filings, qualifications, licenses and permits of and from all public, regulatory or governmental agencies and bodies, as are required for the execution, delivery and performance of this Agreement and the Custody Agreement and the consummation of the transactions contemplated hereby and thereby, including the sale, assignment, transfer and delivery of the Shares to be sold, assigned, transferred and delivered by the Selling Shareholder hereunder.

(d) Each of this Agreement and the Custody Agreement has been duly authorized and duly and validly executed and delivered by or on behalf of the Selling Shareholder and is a valid and binding obligation of the Selling Shareholder, enforceable against the Selling Shareholder in accordance with its terms, except to the extent that rights to indemnity hereunder may be limited by applicable federal or state securities laws or the public policy underlying such laws and except to the extent the enforcement hereof may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws relating to or affecting creditors' rights generally or by equitable principles.

(e) The Selling Shareholder has good, valid and marketable title to the Shares to be sold by the Selling Shareholder pursuant to this Agreement, free and clear of all liens, pledges, encumbrances, claims, security interests, shareholders' agreements, voting trusts, other defects in title whatsoever and restrictions on transfer (other than those restrictions on

-7-

8

transfer imposed by the Securities Act and the securities or Blue Sky laws of certain jurisdictions), with full power to deliver such Shares hereunder, and, upon the delivery of and payment for such Shares as herein contemplated, each of the Underwriters will acquire good, valid and marketable title to the Shares purchased by it from the Selling Shareholder, free and clear of all liens, pledges, encumbrances, claims, security interests, shareholders agreements, voting trusts, other defects in title whatsoever and restrictions on transfer (other than those restrictions on transfer imposed by the Securities Act and the securities or Blue Sky laws of certain jurisdictions).

(f) The Selling Shareholder has not taken and will not take, directly or indirectly, any action which constituted or which

was designed to constitute or which might be reasonably expected to cause or result in stabilization or manipulation of the price of the shares of Common Stock in violation of federal or state securities laws.

(g) When the Registration Statement shall become effective, when any amendment to the Registration Statement becomes effective, when the Prospectus is first filed with the Commission pursuant to Rule 424(b) of the Regulations, when any amendment of or supplement to the Prospectus is filed with the Commission and at the Closing Date and the Additional Closing Date, if any, such parts of the Registration Statement and the Prospectus and any amendments thereof and supplements thereto as they relate to the Selling Shareholder and are based upon information furnished to the Company by or on behalf of the Selling Shareholder expressly for use therein will not contain an untrue statement of a material fact and will not omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances in which they were made, not misleading. When the Preliminary Prospectus was first filed with the Commission (whether filed as part of the Registration Statement for the registration of the Shares or any amendment thereto or pursuant to Rule 424(a) of the Regulations) and when any amendment thereof or supplement thereto was first filed with the Commission, such parts of the Preliminary Prospectus and any amendments thereof and supplements thereto as they relate to the Selling Shareholder and are based on information furnished to the Company by or on behalf of the Selling Shareholder expressly for use therein did not contain an untrue statement of a material fact and did not omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances in which they were made, not misleading.

(h) The Selling Shareholder (i) does not have any preemptive right, co-sale right or right of first refusal or other similar right to purchase any of the Shares that are to be sold by the Company to the Underwriters pursuant to this Agreement, and (ii) does not own any warrants, options or similar rights to acquire, and does not have any right or arrangement to acquire, any capital stock, rights, warrants, options or other securities from the Company.

(i) The Selling Shareholder does not possess any registration rights with respect to any securities of the Company, other than as set forth in that certain Amended and Restated Stock Purchase Agreement, dated as of March 12, 1993, among the Company, the Selling Shareholder and certain affiliates of the Selling Shareholder and that certain

-8-

9

(Registration Rights Agreement, dated as of April \_\_, 1994, among the Company and certain affiliates of the Selling Shareholder).

2. Purchase, Sale and Delivery of the Shares. On the basis of the representations, warranties, covenants and agreements herein contained, but subject to the terms and conditions herein set forth, (i) the Company agrees to issue and sell to the several Underwriters and each of the Underwriters, severally and not jointly, agrees to purchase from the Company, at a price of \$\_\_\_\_\_ per share, the number of Firm Shares set forth opposite the respective names of the Underwriters in Column (1) of Schedule I hereto, and (ii) the Selling Shareholder agrees to sell to the several Underwriters, and each of the Underwriters, severally and not jointly, agrees to purchase from the Selling Shareholder, at \$\_\_\_\_\_ per share, the number of Firm Shares set forth opposite the respective names of the Underwriters in Column (2) of



Schedule I hereto.

Delivery of certificates, and payment of the purchase price, for the Firm Shares shall be made at the offices of Bear, Stearns & Co. Inc., 245 Park Avenue, New York, New York 10167, or such other location as may be mutually acceptable. Such delivery and payment shall be made at 10:00 a.m., New York time, on the fifth full business day following the date the Registration Statement becomes effective (unless such time and date are postponed in accordance with the provisions of Section 9 hereof), or at such other time as shall be agreed upon by you, the Selling Shareholder and the Company. The time and date of such delivery and payment are herein called the "Closing Date." Delivery of the certificates for the Firm Shares shall be made to you for the respective accounts of the several Underwriters against payment by the several Underwriters through the Representative of the purchase price for the Firm Shares, to the order of the Company and the Selling Shareholder by certified or official bank checks in New York Clearing House funds.

Certificates for the Firm Shares shall be registered in such name or names and in such authorized denominations as you may request in writing at least two full business days prior to the Closing Date. The Company and the Selling Shareholder will permit you to examine and package such certificates for delivery at least one full business day prior to the Closing Date.

In addition, the Company hereby grants to the several Underwriters the option to purchase up to 465,000 shares of Additional Shares at the same purchase price per share to be paid by the several Underwriters to the Company for the Firm Shares as set forth in this Section 2, for the sole purpose of covering over-allotments in the sale of Firm Shares by the several Underwriters. This option may be exercised at any time (but not more than once) on or before the 30th day following the effective date of the Registration Statement, by written notice by you to the Company. Such notice shall set forth the aggregate number of Additional Shares as to which the option is being exercised and the date and time, as reasonably determined by you, when the Additional Shares are to be delivered (such date and time being herein sometimes referred to as the "Additional Closing Date"); provided, however, that the Additional Closing Date shall not be earlier than the Closing Date or earlier than the second full business day after the date on which the option shall have been exercised nor later than the eighth full business day after the date on which the option shall have been exercised (unless such time and date are postponed in accordance with the provisions of Section 9 hereof). Certificates for the Additional Shares shall be registered in such name or names and in such authorized denominations as you may request in writing at least two full business days prior to

-9-

10

the Additional Closing Date. The Company will permit you to examine and package such certificates for delivery at least one full business day prior to the Additional Closing Date.

The number of Additional Shares to be sold to each Underwriter shall be the number which bears the same ratio to the aggregate number of Additional Shares being purchased as the number of Firm Shares set forth opposite the name of such Underwriter in Column (1) of Schedule I hereto (or such number increased as set forth in Section 9 hereof) bears to the total number of Firm Shares, subject, however, to such adjustments to eliminate any fractional shares as you in your sole discretion shall make.

Payment for the Additional Shares shall be made by the several Underwriters through the Representative to the order of the Company by certified or official bank check in New York Clearing House funds at the

offices of Bear, Stearns & Co. Inc., 245 Park Avenue, New York, New York 10167, or such other location as may be mutually acceptable, upon delivery of the certificates for the Additional Shares to you for the respective accounts of the Underwriters.

3. Offering. It is understood that after the Registration Statement becomes effective the several Underwriters propose to offer the Shares for sale to the public as set forth in the Prospectus.

4. Covenants of the Company and the Selling Shareholder.

A. The Company covenants and agrees with the several Underwriters that:

(a) The Company will use its best efforts to cause the Registration Statement and any amendment thereof to become effective as promptly as possible and will notify you immediately (i) when the Registration Statement and any amendments thereto become effective, (ii) of any request by the Commission for any amendment of or supplement to the Registration Statement or the Prospectus or for any additional information, (iii) of the issuance by the Commission of any stop order suspending the effectiveness of the Registration Statement or any post-effective amendment thereto or of the initiation, or the threatening, of any proceedings therefor, (iv) of the receipt of any comments from the Commission, and (v) of the receipt by the Company of any notification with respect to the suspension of the qualification of the Shares for sale in any jurisdiction or the initiation or threatening of any proceeding for that purpose. If the Commission shall propose or enter a stop order at any time, the Company will make every reasonable effort to prevent the issuance of any such stop order and, if issued, to obtain the lifting of such order as soon as possible.

(b) The Company will not file at any time, whether before or after the effective date of the Registration Statement, any amendment to the Registration Statement or any amendment of or supplement to the Prospectus, or file any document under the Exchange Act before termination of the offering of the Shares by the Underwriters if such document would be deemed to be incorporated by reference into the Prospectus, unless (i) you shall have been provided a copy of such proposed amendment, supplement or document within a reasonable time before the proposed filing, (ii) such proposed amendment, supplement or document complies in all material respects with the Securities Act or Exchange Act, as

-10-

11

applicable, and the Regulations, and (iii) you shall have provided your consent to such proposed filing, which consent shall not be unreasonably withheld.

(c) If at any time when a prospectus relating to the Shares is required to be delivered under the Securities Act, any event shall have occurred as a result of which the Prospectus as then amended or supplemented includes an untrue statement of a material fact or omits to state any material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, or if it shall be necessary at any time to amend or supplement the Prospectus or Registration Statement to comply with the Securities Act or the Regulations or to file under the Exchange Act any document which would be deemed incorporated by reference in the Prospectus in order to comply with the Securities Act or the Exchange Act, the Company will

notify you promptly and prepare and file with the Commission an appropriate amendment or supplement or file such document (in form and substance satisfactory to you) which will correct such statement or omission or effect such compliance and will use its best efforts to have any amendment to the Registration Statement declared effective as soon as possible.

(d) The Company will promptly deliver to you two signed copies of the Registration Statement, including exhibits and all documents incorporated by reference therein and all amendments thereto, and the Company will promptly deliver to each of the several Underwriters such number of copies of any Preliminary Prospectus, the Prospectus, the Registration Statement and all amendments of and supplements to such documents (including any document filed under the Exchange Act and deemed to be incorporated by reference therein), if any, as you may reasonably request.

(e) The Company will endeavor in good faith, in cooperation with you, at or prior to the time the Registration Statement becomes effective, to qualify the Shares for offering and sale under the securities laws relating to the offering or sale of the Shares of such jurisdictions as you may designate and to maintain such qualification in effect for so long as required for the distribution thereof; provided, however, the Company shall not be obligated under this subsection (e) to qualify as a foreign corporation to do business under the laws of any jurisdiction in which it is not qualified as of the date of this Agreement.

(f) The Company will make generally available (within the meaning of Section 11(a) of the Act) to its security holders and to you as soon as practicable, but not later than 45 days after the end of its fiscal quarter in which the first anniversary date of the effective date of the Registration Statement occurs, an earnings statement (which need not be audited, but which shall satisfy the provisions of Section 11(a) of the Securities Act) covering a period of at least twelve consecutive months beginning after the effective date of the Registration Statement.

(g) During a period of 180 days from the effective date of the Registration Statement, the Company will not, without your prior written consent, issue, sell, offer or agree to sell, or otherwise dispose of, directly or indirectly, any Common Stock (or any securities convertible into, exercisable for or exchangeable for Common Stock), and the Company will obtain the undertaking of each of its directors not to engage in any of the aforementioned

-11-

12

transactions on the Company's behalf, other than (i) the sale of Shares hereunder and the Company's issuance of Common Stock upon the exercise of presently outstanding stock options, and (ii) issuances of options to purchase Common Stock under the Company's employee stock option plan in effect on the date hereof, provided such options are not exercisable within such 180-day period. In addition, notwithstanding anything to the contrary contained herein, during the period of 180 days from the effective date of the Registration Statement, the Company will not agree, without your prior written consent, with any holder of options to purchase Common Stock to amend or modify any such options, or take any other actions, to provide for such options to become exercisable within such 180-day period.

(h) During a period of three years from the effective date of the Registration Statement, the Company will furnish to the

Representative copies of (i) all reports to its shareholders, and (ii) all reports, financial statements and proxy or information statements filed by the Company with the Commission, any national securities exchange or the National Association of Securities Dealers, Inc. ("NASD").

(i) The Company will apply the net proceeds available to it from the sale of the Shares as set forth under "Use of Proceeds" in the Prospectus.

B. The Selling Shareholder covenants and agrees with the several Underwriters that the Selling Shareholder will cooperate with the Company in endeavoring to qualify the Shares for offering and sale under the securities laws relating to the offering or sale of the Shares of such jurisdictions as you may designate and will make such applications, file such documents, and furnish such information as may be reasonably required for that purpose.

5. Payment of Expenses. Whether or not the transactions contemplated in this Agreement are consummated or this Agreement is terminated, the Company agrees to pay all costs and expenses incident to the performance of the obligations of the Company and the Selling Shareholder hereunder, including those in connection with (i) preparing, printing, duplicating, filing and distributing the Registration Statement, as originally filed and all amendments thereof (including all exhibits thereto), any Preliminary Prospectus, the Prospectus and any amendments thereof or supplements thereto, the underwriting documents (including this Agreement) and all other documents related to the public offering of the Shares (including those supplied to the Underwriters in quantities as hereinabove stated), (ii) the issuance, transfer and delivery of the Shares to the Underwriters, including any transfer or other taxes payable thereon, (iii) the qualification of the Shares under state or foreign securities or Blue Sky laws, including the costs of printing and mailing a preliminary and final "Blue Sky Survey" and the fees of counsel for the Underwriters and such counsel's disbursements in relation thereto, (iv) listing of the Shares on the NYSE and (v) the filing fees for the review of the terms of the public offering of the Shares by the NASD.

6. Conditions of Underwriters' Obligations. The obligations of the several Underwriters to purchase and pay for the Firm Shares and the Additional Shares, as provided herein, shall be subject to the accuracy of the representations and warranties of the Company and the Selling Shareholder herein contained, as of the date hereof and as of the Closing Date (or in the case of the Additional Shares, as of the Additional Closing Date), to the absence from any certificates, opinions, written statements or letters furnished to you or to Gardere & Wynne, L.L.P. ("Underwriters'

-12-

13

Counsel"), pursuant to this Section 6 of any misstatement or omission, to the performance by the Company and the Selling Shareholder of their respective obligations hereunder, and to the following additional conditions:

(a) The Registration Statement shall have become effective not later than 5:00 p.m., New York time, on the date of this Agreement or at such later time and date as shall have been consented to in writing by you, and, at or prior to the Closing Date or the Additional Closing Date, as the case may be, no stop order suspending the effectiveness of the Registration Statement or any post-effective amendment thereof shall have been issued and no proceedings therefor shall have been initiated or threatened by the Commission.

(b) At the Closing Date and the Additional Closing Date, if any, you shall have received the opinion of Baker & McKenzie,

counsel for the Company, dated the Closing Date or the Additional Closing Date, as the case may be, addressed to the Underwriters and the Selling Shareholder and in form and substance satisfactory to Underwriters' Counsel, to the effect that:

(i) Each of the Company and the U.S. Subsidiaries is organized and is validly existing as a corporation in good standing under the laws of its jurisdiction of incorporation. Each of the Foreign Subsidiaries (other than Farah (New Zealand) Limited, as to which no opinion need be rendered) is a company duly incorporated and existing in its jurisdiction of incorporation and, to the knowledge of such counsel, no order or resolution for the winding up of, and no interim or final administrative order in relation to and no notice of the appointment of a receiver, administrative receiver or administrator in relation to, any of the Foreign Subsidiaries (other than Farah (New Zealand) Limited) has been made in, or presented to, the Registry of such jurisdiction. Each of the Company and the Subsidiaries is duly qualified and in good standing as a foreign corporation in each jurisdiction in which the character or location of its properties (owned, leased or licensed) or the nature or conduct of business makes such qualification necessary. Each of the Company and the Subsidiaries (other than Farah (New Zealand) Limited) has all requisite corporate power and authority to own, lease and license its respective properties and conduct its business and as described in the Registration Statement and the Prospectus.

(ii) All of the issued and outstanding shares of capital stock of each of the Subsidiaries other than Farah New Zealand have been duly and validly issued and are fully paid and nonassessable and free of statutory preemptive rights and, to the knowledge of such counsel, are free of any other preemptive rights and are owned, with respect to the U.S. Subsidiaries, by the Company and, with respect to the Foreign Subsidiaries, by International, free and clear of any lien, encumbrance, claim, security interest, restriction on transfer, shareholders' agreement, voting trust or other defect of title whatsoever, other than the pledge of such capital stock pursuant to that certain Accounts Financing Agreement (Security Agreement), dated as of August 2, 1990, between Congress Financial Corp. (Southwest) and Farah U.S.A., and, to the knowledge of such counsel, there are no outstanding options, warrants, or other rights

-13-

14

to purchase, or securities convertible into or exchangeable for, shares of capital stock of any of the Subsidiaries.

(iii) The authorized, issued and outstanding capital stock of the Company is as set forth in the Prospectus under the caption "Description of Capital Stock" as of the date stated therein. All of the outstanding shares of Common Stock have been duly and validly authorized and issued, are fully paid and nonassessable and are not in violation of any statutory preemptive rights, and, to the knowledge of such counsel, any other preemptive right, co-sale right, right of first refusal or other similar right.

(iv) The Shares to be issued and sold by the Company to the Underwriters pursuant to this Agreement have been duly and validly authorized and, upon issuance and delivery against payment therefor in accordance with this Agreement, will be duly and validly issued, fully paid and

nonassessable and will not have been issued in violation of any statutory preemptive rights, and, to the knowledge of such counsel, any other preemptive right, co-sale right, right of first refusal or other similar right.

(v) The form of certificate used to evidence the Common Stock complies with all statutory requirements under the laws of the State of Texas.

(vi) The terms and provisions of the capital stock of the Company conform in all material respects to the description thereof contained in the Registration Statement and the Prospectus.

(vii) The information in the Prospectus under the caption "Description of Capital Stock," to the extent it constitutes matters of law or legal conclusions, has been reviewed by such counsel and is correct in all material respects.

(viii) The descriptions in the Registration Statement and the Prospectus of provisions of the charter and bylaws of the Company and of statutes, regulations, legal or governmental proceedings, contracts and other documents are accurate in all material respects and fairly present the information required to be shown.

(ix) This Agreement has been duly and validly authorized, executed and delivered by the Company and is a valid and binding obligation of the Company, enforceable against the Company in accordance with its terms, except to the extent that rights to indemnity hereunder may be limited by federal or state securities laws or the public policy underlying such laws and except to the extent the enforcement hereof may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws relating to or affecting creditors' rights generally or by equitable principles.

(x) The execution, delivery and performance of this Agreement and the consummation of the transactions contemplated hereby by the Company will not (1)

-14-

15

conflict with or result in a breach of any of the terms and provisions of, or constitute a default (or an event which with notice or lapse of time, or both, would constitute a default) or require consent under, or result in the creation or imposition of any lien, charge or encumbrance upon any property or assets of the Company or any of the Subsidiaries pursuant to the terms of any agreement or instrument filed as an exhibit to the Registration Statement or any other material agreement, instrument, franchise, license or permit known to such counsel to which the Company or any of the Subsidiaries is a party or by which any of such corporations or their respective properties or assets may be bound, or (2) violate any provision of the articles or certificate of incorporation or bylaws of the Company or any of the U.S. Subsidiaries, or the memorandum or articles of association of the Foreign Subsidiaries, or, to the knowledge of such counsel, any judgment, decree, order, statute, rule or regulation of any court or any public, governmental or regulatory agency or body

having jurisdiction over the Company or any of the Subsidiaries or any of their respective properties or assets; provided, however, that no opinion need be rendered concerning state securities or Blue Sky laws.

(xi) No consent, approval, authorization, order, registration, filing, qualification, license or permit of or with any court or any public, governmental or regulatory agency or body having jurisdiction over the Company or any of the Subsidiaries or any of their respective properties or assets is required for the execution, delivery and performance of this Agreement and the consummation of the transactions contemplated hereby, except for (1) such as may be required under state securities or Blue Sky laws in connection with the purchase and distribution of the Shares by the Underwriters (as to which such counsel need express no opinion), and (2) such as have been made or obtained under the Securities Act.

(xii) To the knowledge of such counsel, there is no litigation or governmental or other action, suit, proceeding or investigation before any court or before or by any public, regulatory or governmental agency or body pending or threatened against, or involving the properties or business of, the Company or any of the Subsidiaries, which is of a character required to be disclosed in the Registration Statement and the Prospectus and which has not been properly disclosed therein.

(xiii) To the knowledge of such counsel, except as set forth in the Registration Statement and the Prospectus, no holders of Common Stock or other securities of the Company have registration rights with respect to the securities of the Company and all holders of securities of the Company, other than the Selling Shareholder with respect to the shares of Common Stock being sold hereby, having rights to registration of shares of Common Stock, or other securities, as a result of the filing of the Registration Statement have, with respect to the offering contemplated thereby, waived such rights.

(xiv) The Company is not in violation of its corporate charter or bylaws which violation would have a material adverse effect on the Company or any of the Subsidiaries and, to the knowledge of such counsel, neither the Company nor any of

-15-

16

the Subsidiaries is in default under (and no event has occurred which with notice, lapse of time, or both, would constitute a breach of, or a default under), any agreement, license, mortgage, deed of trust, bank loan, credit agreement, indenture or instrument filed as an exhibit to the Registration Statement, which violation or default would have a material adverse effect on the Company or any of the Subsidiaries.

(xv) To the knowledge of such counsel, there are no agreements, contracts, leases or documents of a character required to be described or referred to in the Registration Statement or the Prospectus or to be filed as an exhibit to the Registration Statement that are not described or referred to therein or filed as required.

(xvi) The Registration Statement and the Prospectus

and any amendments thereof or supplements thereto (other than the financial statements and schedules and other financial and statistical data included or incorporated by reference therein, as to which no opinion need be rendered) comply as to form in all material respects with the requirements of the Securities Act and the Regulations. The documents filed under the Exchange Act and incorporated by reference in the Registration Statement and the Prospectus and in any amendment thereof or supplement thereto (other than the financial statements and schedules and other financial and statistical data included or incorporated by reference therein, as to which no opinion need be rendered) comply as to form in all material respects with the Exchange Act and the Regulations.

(xvii) The Registration Statement has become effective under the Act, and, to the knowledge of such counsel, no stop order suspending the effectiveness of the Registration Statement or any post-effective amendment thereof has been issued and no proceedings therefor have been initiated or threatened by the Commission and all filings required by Rule 424(b) of the Regulations have been made.

(xviii) The conditions for use of Form S-3, set forth in the General Instructions thereto, have been satisfied.

In addition, such counsel shall state that, although they assume no responsibility for the accuracy or completeness of the statements in the Registration Statement and the Prospectus, they have participated in the preparation of the Registration Statement and Prospectus and in conferences with officers and other representatives of the Company, Underwriters' Counsel, representatives of the independent public accountants for the Company and your representatives at which the contents of the Registration Statement and Prospectus were discussed, and that no facts have come to the attention of such counsel that lead them to believe (1) that the Registration Statement (or any amendment thereof made prior to the Closing Date or Additional Closing Date, as the case may be, as of the date of such amendment or any document filed under the Exchange Act and deemed to be incorporated by reference into the Prospectus) contained at the time it became effective, or contains at the Closing Date or the Additional Closing Date, as the case may be, an untrue statement of a material fact or omitted to state any material fact required to be stated therein

-16-

17

or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading, or (2) that the Prospectus (or any amendment thereof or supplement thereto made prior to the Closing Date or the Additional Closing Date, as the case may be, as of the date of such amendment or supplement or any document filed under the Exchange Act and deemed to be incorporated by reference into the Prospectus) contained as of the date thereof, or contains at the Closing Date or the Additional Closing Date, as the case may be, an untrue statement of a material fact or omitted to state any material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading. Such counsel need express no belief or opinion with respect to the financial statements and schedules and other financial and statistical data included in the Registration Statement and the Prospectus.

In rendering its opinion hereunder, such counsel may rely as



to matters of fact, on certificates of responsible officers of the Company and certificates or other written statements of officers of departments of various jurisdictions having custody of documents regarding the corporate existence or good standing of the Company and the Subsidiaries provided that copies of any such statements or certificates shall be delivered to Underwriters' Counsel. The opinion shall also state that as used therein, the qualification "to the knowledge of such counsel" does not indicate or imply that counsel rendering the opinion have not conducted such review as they, in their professional judgment, have deemed necessary or appropriate to render such opinion, but does indicate that such counsel have relied upon factual certificates, representations and information from the Company and its representatives having such scope and form as counsel have deemed appropriate.

(c) At the Closing Date, you shall have received the favorable opinion of Donahue, Mesereau & Wells, counsel for the Selling Shareholder, dated the Closing Date, addressed to the Underwriters and in form and substance satisfactory to Underwriters' Counsel, to the effect that:

(i) This Agreement and the Custody Agreement have been duly executed and delivered by or on behalf of the Selling Shareholder and are valid and binding obligations of the Selling Shareholder, enforceable against the Selling Shareholder in accordance with their terms, except to the extent that rights to indemnity hereunder may be limited by applicable federal or state securities laws or the public policy underlying such laws and except to the extent the enforcement hereof and thereof may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws relating to or affecting creditors' rights generally or by equitable principles.

(ii) The Selling Shareholder has the requisite power and authority to enter into and to perform its obligations under this Agreement and the Custody Agreement and to sell, transfer, assign and deliver the Shares to be sold by the Selling Shareholder pursuant hereto.

(iii) No consents, approvals, authorizations, orders, registrations, filings, qualifications, licenses or permits are required for the execution, delivery and performance of this Agreement and the Custody Agreement, and the consummation

-17-

18

of the transactions contemplated hereby and thereby by the Selling Shareholder, except for (1) such as may be required under state securities or Blue Sky laws in connection with the purchase and distribution of the Shares by the Underwriters (as to which such counsel need express no opinion), and (2) such as have been made or obtained under the Securities Act.

(iv) Upon the delivery of and payment for the Shares to be sold by the Selling Shareholder pursuant to this Agreement as herein contemplated, and assuming each Underwriter takes delivery without knowledge of any adverse claims, such Underwriter will be a bona fide purchaser with respect to such shares within the meaning of Article VIII of the UCC and will acquire all rights of the Selling Shareholder in such Shares, free and clear of all adverse claims.

(v) Nothing has come to such counsel's attention that the statements in the Prospectus under the caption "Principal and Selling Shareholders," insofar as such statements disclose matters with respect to the Selling Shareholder, are inaccurate in any material respect.

In rendering its opinion hereunder, such counsel may rely as to matters of fact, on certificates of the Selling Shareholder, provided that copies of any such certificates shall be delivered to Underwriters' Counsel.

(d) At the Closing Date and Additional Closing Date, if any, you and the Selling Shareholder shall have received a certificate of the President and the Chief Financial Officer of the Company, dated the Closing Date or Additional Closing Date, as the case may be, to the effect that the condition set forth in subsection (a) of this Section 6 has been satisfied, that as of the date hereof and as of the Closing Date or Additional Closing Date, as the case may be, the representations and warranties of the Company set forth in Section 1 hereof are accurate, and that as of the Closing Date or the Additional Closing Date, as the case may be, the obligations of the Company to be performed hereunder on or prior thereto have been duly performed.

(e) At the Closing Date and Additional Closing Date, if any, you shall have received a certificate executed by the Selling Shareholder, dated the Closing Date or Additional Closing Date, as the case may be, to the effect that the representations and warranties of the Selling Shareholder set forth in Section 1 hereof are accurate, and that as of the Closing Date, the obligations of the Selling Shareholder to be performed hereunder on or prior thereto have been duly performed.

(f) At the time this Agreement is executed and at the Closing Date and Additional Closing Date, if any, you shall have received a letter from Arthur Andersen & Co., independent public accountants for the Company, dated as of the date of this Agreement and as of the Closing Date or Additional Closing Date, as the case may be, addressed to the Underwriters and the Selling Shareholder and in form and substance satisfactory to you, to the effect that: (i) they are independent certified public accountants with respect to the Company within the meaning of the Securities Act and the applicable published rules and

-18-

19

regulations of the Commission thereunder and stating that the answer to Item 10 of the Registration Statement is correct insofar as it relates to them; (ii) in their opinion, the financial statements and schedules of the Company included in the Registration Statement and the Prospectus or incorporated therein by reference and covered by their opinion therein comply as to form in all material respects with the applicable accounting requirements of the Securities Act and the Exchange Act and the applicable published rules and regulations of the Commission thereunder; (iii) on the basis of procedures (but not an examination made in accordance with generally accepted auditing standards) consisting of a reading of the latest available unaudited interim consolidated financial statements of the Company and the Subsidiaries, a reading of the minutes of meetings and consents of the shareholders and boards of directors of the Company and the Subsidiaries and the committees of such boards subsequent to November 4, 1993, inquiries of officers and other employees of the Company and the Subsidiary who have responsibility for financial and accounting

matters of the Company and the Subsidiaries with respect to transactions and events subsequent to November 4, 1993, and other specified procedures and inquiries to a date not more than five days prior to the date of such letter, nothing has come to their attention that would cause them to believe that: (A) the unaudited consolidated financial statements and schedules of the Company included in the Registration Statement and the Prospectus and incorporated therein by reference do not comply as to form in all material respects with the accounting requirements of the Securities Act and the Exchange Act and the Regulations or that such unaudited consolidated financial statements are not fairly presented in conformity with generally accepted accounting principles applied on a basis substantially consistent with that of the audited consolidated financial statements included in the Registration Statement and the Prospectus and incorporated therein by reference; (B) with respect to the period subsequent to February 4, 1994, there were, as of the date of the most recent available monthly consolidated financial statements of the Company and the Subsidiaries, if any, and as of a specified date not more than five days prior to the date of such letter, any changes in the capital stock or long-term indebtedness of the Company or any decrease in the net current assets or stockholders' equity of the Company, in each case as compared with the amounts shown in the most recent balance sheet included in or incorporated by reference into the Registration Statement and the Prospectus, except for changes or decreases which the Registration Statement and the Prospectus disclose have occurred or may occur or which are set forth in such letter; or (C) that during the period from February 5, 1994 to the date of the most recent available monthly consolidated financial statements of the Company and the Subsidiaries, if any, and to a specified date not more than five days prior to the date of such letter, there was any decrease, as compared with the corresponding period in the prior fiscal year, in total revenues, or total or per share net income, except for decreases which the Registration Statement and the Prospectus disclose have occurred or may occur or which are set forth in such letter; and (iv) stating that they have compared specific dollar amounts, numbers of shares, percentages of revenues and earnings, and other financial information pertaining to the Company and the Subsidiary set forth in or incorporated by reference into the Registration Statement and the Prospectus, which have been specified by you prior to the date of this Agreement, to the extent that such amounts, numbers, percentages and information may be derived from the general accounting and financial records of the Company and the Subsidiaries or from schedules furnished by the Company, and excluding any questions requiring an interpretation by legal counsel, with the results obtained from the application of specified readings, inquiries and other appropriate procedures specified by you

-19-

20

(which procedures do not constitute an examination in accordance with generally accepted auditing standards) set forth in such letter, and found them to be in agreement. In addition, you shall have received from Arthur Andersen & Co. a letter addressed to the Company and made available to you for use of the Underwriters stating that their review of the Company's system of internal accounting controls, to the extent they deemed necessary in establishing the scope of their examination of the Company's consolidated financial statements for the fiscal year ended November 5, 1993, did not disclose any weaknesses in internal controls that they considered to be material weaknesses.

(g) All proceedings taken in connection with the sale of the Firm Shares and the Additional Shares as herein contemplated shall be satisfactory in form and substance to you and to Underwriters' Counsel, and the Underwriters shall have received from said

Underwriters' Counsel a favorable opinion, dated as of the Closing Date and the Additional Closing Date, as the case may be, with respect to the issuance and sale of the Shares, the Registration Statement and the Prospectus and such other related matters, as you may reasonably require, and the Company and the Selling Shareholders shall have furnished to Underwriters' Counsel such documents as they request for the purpose of enabling them to pass upon such matters.

(h) At the time this Agreement is executed, you shall have received the agreement of each of the Georges Marciano Trust, a California Trust, the Paul Marciano Trust, a California Trust, Georges Marciano and Paul Marciano to the effect that during a period of 180 days from the effective date of the Registration Statement, each will not, without your prior written consent, sell, offer or agree to sell, or otherwise dispose of, directly or indirectly, any Common Stock other than in accordance with the terms of this Agreement and agreeing and consenting to the entry of stop transfer instructions with the Company's Common Stock held by them during such 180-day period without your prior written consent.

(i) Prior to the Closing Date and the Additional Closing Date, the Company and the Selling Shareholder shall have furnished to you such further information, certificates and documents as you may reasonably request.

If any of the conditions specified in this Section 6 shall not have been fulfilled when and as required by this Agreement, or if any of the certificates, opinions, written statements or letters furnished to you or to Underwriters' Counsel pursuant to this Section 6 shall not be in all material respects reasonably satisfactory in form and substance to you and to Underwriters' Counsel, all obligations of the Underwriters hereunder may be cancelled by you at, or at any time prior to, the Closing Date and the obligations of the Underwriters to purchase the Additional Shares may be cancelled by you at, or at any time prior to, the Additional Closing Date. Notice of such cancellation shall be given to the Company and the Selling Shareholder in writing, or by telephone, telex or telegraph, confirmed in writing.

#### 7. Indemnification.

(a) The Company agrees to indemnify and hold harmless each Underwriter and the Selling Shareholder, each person, if any, who controls any Underwriter or the Selling

-20-

21

Shareholder within the meaning of Section 15 of the Securities Act or Section 20(a) of the Exchange Act and each shareholder of the Selling Shareholder and trustee of such shareholder, against any and all losses, liabilities, claims, damages and expenses whatsoever (including but not limited to attorneys' fees and any and all expense whatsoever incurred in investigating, preparing or defending against any litigation, commenced or threatened, or any claim whatsoever, and any and all amounts paid in settlement of any claim or litigation), joint or several, to which they or any of them may become subject under the Securities Act, the Exchange Act or otherwise, insofar as such losses, liabilities, claims, damages or expenses (or actions in respect thereof) arise out of or are based upon any untrue statement or alleged untrue statement of a material fact contained in the Registration Statement, as originally filed or any amendment thereof, or any Preliminary Prospectus or the Prospectus, or in any supplement thereto or amendment thereof, or arise out of or are based upon the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading; provided, however, that the Company will not be liable in

any such case to the extent, but only to the extent, that any such loss, liability, claim, damage or expense arises out of or is based upon any such untrue statement or alleged untrue statement or omission or alleged omission made therein in reliance upon and in conformity with written information furnished to the Company by or on behalf of any Underwriter through you (or by or on behalf of the Selling Shareholder insofar as it relates to the Selling Shareholder) expressly for use therein. This indemnity agreement will be in addition to any liability which the Company may otherwise have, including under this Agreement.

(b) Each Underwriter severally, but not jointly, agrees to indemnify and hold harmless the Company and the Selling Shareholder, each of the directors of the Company, each of the officers of the Company who shall have signed the Registration Statement, each other person, if any, who controls the Company within the meaning of Section 15 of the Securities Act or Section 20(a) of the Exchange Act and each shareholder of the Selling Shareholder and trustee of such shareholder, against any losses, liabilities, claims, damages and expenses whatsoever (including but not limited to attorneys' fees and any and all expenses whatsoever incurred in investigating, preparing or defending against any litigation, commenced or threatened, or any claim whatsoever, and any and all amounts paid in settlement of any claim or litigation), joint or several, to which they or any of them may become subject under the Securities Act, the Exchange Act or otherwise, insofar as such losses, liabilities, claims, damages or expenses (or actions in respect thereof) arise out of or are based upon any untrue statement or alleged untrue statement of a material fact contained in the Registration Statement, as originally filed or any amendment thereof, or any Preliminary Prospectus or the Prospectus, or in any amendment thereof or supplement thereto, or arise out of or are based upon the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, in each case to the extent, but only to the extent, that any such loss, liability, claim, damage or expense arises out of or is based upon any such untrue statement or alleged untrue statement or omission or alleged omission made therein in reliance upon and in conformity with written information furnished to the Company by or on behalf of any Underwriter through you expressly for use therein. This indemnity will be in addition to any liability which any Underwriter may otherwise have, including under this Agreement. The Company and the Selling Shareholder acknowledge that the statements set forth in the last paragraph of the cover page and in the

-21-

22

first three paragraphs under the caption "Underwriting" in the Prospectus constitute the only information furnished in writing by or on behalf of any Underwriter expressly for use in the Registration Statement, as originally filed or in any amendment thereof, any Preliminary Prospectus or the Prospectus or in any amendment thereof or supplement thereto, as the case may be.

(c) The Selling Shareholder agrees to indemnify and hold harmless each Underwriter, the Company, each of the directors of the Company, each of the officers of the Company who shall have signed the Registration Statement and each person, if any, who controls the Company or any Underwriter within the meaning of Section 15 of the Securities Act or Section 20(a) of the Exchange Act, against any losses, liabilities, claims, damages and expenses whatsoever (including but not limited to attorneys' fees and any and all expenses whatsoever incurred in investigating, preparing or defending against any litigation, commenced or threatened, or any claim whatsoever, and

any and all amounts paid in settlement of any claim or litigation), joint or several, to which they or any of them may become subject under the Securities Act, the Exchange Act or otherwise, insofar as such losses, liabilities, claims, damages or expenses (or actions in respect thereof) arise out of or are based upon any untrue statement or alleged untrue statement of a material fact contained in the Registration Statement, as originally filed or any amendment thereof, or any Preliminary Prospectus or the Prospectus, or in any amendment thereof or supplement thereto, or arise out of or are based upon the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, in each case to the extent, but only to the extent, that any such loss, liability, claim, damage or expense arises out of or is based upon any such untrue statement or alleged untrue statement or omission or alleged omission made therein in reliance upon and in conformity with written information relating to the Selling Shareholder furnished to the Company by the Selling Shareholder, directly or through the Selling Shareholder's representative, expressly for use therein. This indemnity will be in addition to any liability which any such Selling Shareholder may otherwise have, including under this Agreement.

(d) Promptly after receipt by an indemnified party under subsection (a), (b) or (c) above of notice of the commencement of any action, such indemnified party shall, if a claim in respect thereof is to be made against the indemnifying party under such subsection, notify each party against whom indemnification is to be sought in writing of the commencement thereof (but the failure so to notify an indemnifying party shall not relieve it from any liability which it may have under this Section 7 except to the extent that it has been prejudiced in any material respect by such failure or from any liability which it may have otherwise). In case any such action is brought against any indemnified party, and it notifies an indemnifying party of the commencement thereof, the indemnifying party will be entitled to participate therein, and to the extent it may elect by written notice delivered to the indemnified party promptly after receiving the aforesaid notice from such indemnified party, to assume the defense thereof with counsel satisfactory to such indemnified party. Notwithstanding the foregoing, the indemnified party or parties shall have the right to employ its or their own counsel in any such case, but the fees and expenses of such counsel shall be at the expense of such indemnified party or parties unless (i) the employment of such counsel shall have been authorized in writing by one of the indemnifying parties in connection with the defense of such action, in which case such indemnifying party only shall be responsible for such fees and

-22-

23

expenses, (ii) the indemnifying parties shall not have employed counsel to have charge of the defense of such action within a reasonable time after notice of commencement of the action, or (iii) such indemnified party or parties shall have reasonably concluded that there may be defenses available to it or them which are different from or additional to those available to one or all of the indemnifying parties (in which case the indemnifying parties shall not have the right to direct the defense of such action on behalf of the indemnified party or parties with respect to such defenses), in any of which events such fees and expenses shall be borne by the indemnifying parties; provided, however, that the indemnifying parties shall, in connection with any one such action or separate actions substantially similar or related actions arising out of the same general allegations or circumstances, be liable for the fees and expenses of only one

separate firm of attorneys (in addition to any local counsel) at any time for all such indemnified parties, which firm, in the case of the Underwriters and controlling persons, shall be designated on behalf of the Underwriters by Bear, Stearns & Co. Inc. and, in the case of the Company and the Selling Shareholder, shall be designated by the Company. Anything in this subsection to the contrary notwithstanding, an indemnifying party shall not be liable for any settlement of any claim or action effected without its written consent; provided, however, that such consent was not unreasonably withheld.

8. Contribution. In order to provide for contribution in circumstances in which the indemnification provided for in Section 7(a) and (c) hereof is for any reason held to be unavailable from the Company or the Selling Shareholder or is insufficient to hold harmless a party indemnified thereunder, the Company, the Selling Shareholder and the Underwriters shall contribute to the aggregate losses, claims, damages, liabilities and expenses of the nature contemplated by such indemnification provisions (including any investigation, legal and other expenses incurred in connection with, and any amount paid in settlement of, any action, suit or proceeding or any claims asserted, but after deducting in the case of losses, claims, damages, liabilities and expenses suffered by the Company and any Selling Shareholder any contribution received by the Company or the Selling Shareholder from persons, other than the Underwriters, who may also be liable for contribution, including persons who control the Company within the meaning of Section 15 of the Securities Act or Section 20(a) of the Exchange Act, officers of the Company who signed the Registration Statement and directors of the Company) to which the Company, the Selling Shareholder and one or more of the Underwriters may be subject, in such proportions as is appropriate to reflect the relative benefits received by the Company, the Selling Shareholder and the Underwriters from the offering of the Shares or, if such allocation is not permitted by applicable law or indemnification is not available as a result of the indemnifying party not having received notice as provided in Section 7 hereof, in such proportion as is appropriate to reflect not only the relative benefits referred to above but also the relative fault of the Company, the Selling Shareholder and the Underwriters in connection with the statements or omissions which resulted in such losses, claims, damages, liabilities or expenses, as well as any other relevant equitable considerations. The relative benefits received by the Company, the Selling Shareholder and the Underwriters shall be deemed to be in the same proportion as (x) the total proceeds from the offering (net of underwriting discounts and commissions, but before deducting expenses) received by the Company and (y) the total proceeds from the offering (net of underwriting discounts and commissions, but before deducting expenses) received by the Selling Shareholder and (z) the underwriting discounts and commissions received by the Underwriters, respectively, in each case as set forth in the table on the cover page of the Prospectus. The relative fault of the Company, the Selling Shareholder and of the Underwriters shall be determined by reference to, among other things, whether the untrue or alleged untrue statement

-23-

24

of a material fact or the omission or alleged omission to state a material fact relates to information supplied by the Company, the Selling Shareholder or the Underwriters and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission. The Company, the Selling Shareholder and the Underwriters agree that it would not be just and equitable if contribution pursuant to this Section 8 were determined by pro rata allocation (even if the Underwriters were treated as one entity for such purpose) or by any other method of allocation which does not take account of the equitable considerations referred to above. Notwithstanding the provisions of this Section 8, (i) in no case shall any Underwriter (except as may be provided in the Agreement Among Underwriters) be liable or responsible for any amount in excess of the underwriting discount applicable to the Shares purchased by such Underwriter hereunder, and (ii) no person guilty of

fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. For purposes of this Section 8, each person, if any, who controls an Underwriter within the meaning of Section 15 of the Securities Act or Section 20(a) of the Exchange Act shall have the same rights to contribution as such Underwriter, and each person, if any, who controls the Company within the meaning of Section 15 of the Securities Act or Section 20(a) of the Exchange Act, each officer of the Company who shall have signed the Registration Statement and each director of the Company shall have the same rights to contribution as the Company, subject in each case to clauses (i) and (ii) of the immediately preceding sentence of this Section 8. Any party entitled to contribution will, promptly after receipt of notice of commencement of any action, suit or proceeding against such party in respect of which a claim for contribution may be made against another party or parties under this Section 8, notify such party or parties from whom contribution may be sought, but the omission to so notify such party or parties shall not relieve the party or parties from whom contribution may be sought from any obligation it or they may have under this Section 8 or otherwise. No party shall be liable for contribution with respect to any action or claim settled without its consent; provided, however, that such consent was not unreasonably withheld.

9. Default by an Underwriter.

(a) If any Underwriter or Underwriters shall default in its or their obligation to purchase Firm Shares or Additional Shares hereunder, and if the Firm Shares or Additional Shares with respect to which such default relates do not (after giving effect to arrangements, if any, made by you pursuant to subsection (b) below) exceed in the aggregate 10% of the number of shares of Firm Shares or Additional Shares, as the case may be, which all Underwriters have agreed to purchase hereunder, then such Firm Shares or Additional Shares to which the default relates shall be purchased by the non-defaulting Underwriters in proportion to the respective proportions which the numbers of Firm Shares set forth opposite their respective names in Column (1) of Schedule I hereto bear to the aggregate number of Firm Shares set forth opposite the names of the non-defaulting Underwriters.

(b) In the event that such default relates to more than 10% of the Firm Shares or Additional Shares, as the case may be, you may in your discretion arrange for yourself or for another party or parties (including any non-defaulting Underwriter or Underwriters who so agree) to purchase such Firm Shares or Additional Shares, as the case may be, to which such default relates on the terms contained herein. In the event that within 5 calendar days after such a default you do not arrange for the purchase of the Firm Shares or Additional Shares, as the case may be, to which such default relates as provided in this Section 9, this

-24-

25

Agreement or, in the case of a default with respect to the Additional Shares, the obligations of the Underwriters to purchase and of the Company to sell the Additional Shares, shall thereupon terminate, without liability on the part of the Company or the Selling Shareholder with respect thereto (except in each case as provided in Sections 5, 7(a) and (c) and 8 hereof) or the several Underwriters, but nothing in this Agreement shall relieve a defaulting Underwriter or Underwriters of its or their liability, if any, to the other several Underwriters, the Company and the Selling Shareholder for damages occasioned by its or their default hereunder.



(c) In the event that the Firm Shares or Additional Shares to which the default relates are to be purchased by the non-defaulting Underwriters, or are to be purchased by another party or parties as aforesaid, you or the Company shall have the right to postpone the Closing Date or Additional Closing Date, as the case may be, for a period, not exceeding five business days, in order to effect whatever changes may thereby be made necessary in the Registration Statement or the Prospectus or in any other documents and arrangements, and the Company agrees to file promptly any amendment or supplement to the Registration Statement or the Prospectus which, in the opinion of Underwriters' Counsel, may thereby be made necessary or advisable. The term "Underwriter" as used in this Agreement shall include any party substituted under this Section 9 with like effect as if it had originally been a party to this Agreement with respect to such Firm Shares and Additional Shares.

10. Survival of Representations and Agreements. All representations and warranties, covenants and agreements of the Underwriters, the Selling Shareholder and the Company contained in this Agreement, including the agreements contained in Section 5, the indemnity agreements contained in Section 7 and the contribution agreements contained in Section 8, shall remain operative and in full force and effect regardless of any investigation made by or on behalf of any Underwriter or any controlling person thereof or by or on behalf of the Company, any of its officers and directors or the Selling Shareholder, and shall survive delivery of and payment for the Shares to and by the several Underwriters. The representations contained in Section 1 and the agreements contained in Sections 5, 7, 8 and 11(d) hereof shall survive the termination of this Agreement including pursuant to Sections 9 or 11 hereof.

11. Effective Date of Agreement; Termination.

(a) This Agreement shall become effective at such time after notification of the effectiveness of the Registration Statement as you, the Company and the Selling Shareholder shall agree upon the initial public offering price and the purchase price per Share. If either the initial public offering price or the purchase price per Share has not been agreed upon prior to 5:00 p.m., New York time, on the seventh full business day after the Registration Statement shall have become effective, this Agreement shall thereupon terminate without liability to the Company, the Selling Shareholder or the Underwriters except as herein expressly provided. Until this Agreement becomes effective as aforesaid, it may be terminated by the Company by notifying you and the Selling Shareholder or by the Selling Shareholder by notifying the Company and you or by you notifying the Company and the Selling Shareholder. Notwithstanding the foregoing, the provisions of this Section 11 and of Sections 1, 5, 7 and 8 hereof shall at all times be in full force and effect.

-25-

26

(b) You shall have the right to terminate this Agreement at any time prior to the Closing Date or the obligations of the Underwriters to purchase the Additional Shares at any time prior to the Additional Closing Date, as the case may be, if any domestic or international event or act or occurrence has materially disrupted, or in your opinion will in the immediate future materially disrupt, securities markets; or if trading on the New York or American Stock Exchanges shall have been suspended, or minimum or maximum prices for trading shall have been fixed, or maximum ranges for prices for securities shall have been required, on the New York or American Stock Exchanges by the New York or American Stock Exchanges or by order of the Commission or any other governmental authority having jurisdiction; or if the United States shall have become involved in a

war or major hostilities; or if a banking moratorium has been declared by a state or federal authority, or if a moratorium in foreign exchange trading by major international banks or persons has been declared; or if any new restriction materially adversely affecting the distribution of the Firm Shares or the Additional Shares, as the case may be, shall have become effective; or if there shall have been such change in the market for the Company's securities or securities in general or in political, financial or economic conditions as in your judgment makes it inadvisable to proceed with the offering, sale and delivery of the Firm Shares, or the Additional Shares, as the case may be, on the terms contemplated by the Prospectus.

(c) Any notice of termination pursuant to this Section 11 shall be by telephone, telex or telegraph, confirmed in writing by letter.

(d) If this Agreement shall be terminated pursuant to any of the provisions hereof (otherwise than pursuant to (i) notification by you as provided in Section 11(a) hereof or (ii) Sections 9(b) or 11(b) hereof), or if the sale of the Shares provided for herein is not consummated because any condition to the obligations of the several Underwriters set forth herein is not satisfied or because of any refusal, inability or failure on the part of the Company or the Selling Shareholder to perform any agreement herein or comply with any provision hereof, the Company agrees, subject to demand by you, to reimburse the Underwriters for all out-of-pocket expenses (including the fees and expenses of their counsel), incurred by the several Underwriters in connection herewith.

12. Notice. All communications hereunder, except as may be otherwise specifically provided herein, shall be in writing and, if sent to any Underwriter, shall be mailed, delivered, or telexed or telegraphed and confirmed in writing, to such Underwriter c/o Bear, Stearns & Co. Inc., 245 Park Avenue, New York, N.Y. 10167, Attention: Corporate Finance; if sent to the Company, shall be mailed, delivered or telegraphed and confirmed in writing, to the Company, 8889 Gateway West, El Paso, Texas 79925, Attention: James C. Swaim; if sent to the Selling Shareholder, shall be mailed, delivered or telegraphed and confirmed in writing, to the Selling Shareholder, 9756 Wilshire Blvd., Beverly Hills, California 90021, Attention: Georges Marciano, with a copy, which shall not constitute notice, to Donahue, Mesereau & Wells, 1900 Avenue of the Stars, Suite 2700, Los Angeles, California 90067; Attention: Michael D. Donahue.

13. Parties. You represent that you are authorized to act on behalf of the several Underwriters named in Schedule I hereto, and the Company and the Selling Shareholder shall be entitled to act and rely on any request, notice, consent, waiver or agreement purportedly given on

-26-

27

behalf of the Underwriters when the same shall have been given by you on such behalf. This Agreement shall inure solely to the benefit of, and shall be binding upon, the several Underwriters, the Selling Shareholder and the Company and the controlling persons referred to in Sections 7 and 8, and their respective successors and assigns, and no other person shall have or be construed to have any legal or equitable right, remedy or claim under or in respect of or by virtue of this Agreement or any provision herein contained. The term "successors and assigns" shall not include a purchaser, in its capacity as such, of Shares from any of the Underwriters.

14. Construction. This Agreement shall be construed in accordance with the internal laws of the State of New York, without giving effect to the rules governing conflicts of laws.

-27-

28

If the foregoing correctly sets forth the understanding among you, the Company and the Selling Shareholder, please so indicate in the space provided below for that purpose, whereupon this letter shall constitute a binding agreement among us.

Very truly yours,

FARAH INCORPORATED

By: \_\_\_\_\_  
James C. Swaim  
Executive Vice President  
and Chief Financial Officer

MARCIANO INVESTMENTS, INC.

By: \_\_\_\_\_  
Its: \_\_\_\_\_

GEORGES MARCIANO TRUST

By: \_\_\_\_\_  
Its: \_\_\_\_\_

-28-

29

Accepted as of the date first above written.

BEAR, STEARNS & CO. INC.

By: \_\_\_\_\_  
Its: \_\_\_\_\_

On behalf of itself and the other several Underwriters named in Schedule I hereto.

-29-

30

SCHEDULE I

<TABLE>  
<CAPTION>

	(1) Number of Firm Shares to be Purchased from the Company	(2) Number of Firm Shares to be Purchased from the Selling Shareholder
Name of Underwriter ----- <S> Bear, Stearns & Co. Inc.	----- <C>	----- <C>

Total.....	----- 1,650,000 =====	----- 1,450,000 =====
------------	-----------------------------	-----------------------------

</TABLE>

SCHEDULE II

<TABLE>  
<CAPTION>

Names of Selling Shareholders -----	Number of Firm Shares to Be Sold -----
<S> Marciano Investments, Inc. Georges Marciano Trust	<C> 1,200,000 250,000 -----
Total	1,450,000 =====

</TABLE>

## CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Farah Incorporated:

As independent public accountants, we hereby consent to the use and the incorporation by reference of our reports dated December 15, 1993, on Farah Incorporated and subsidiaries' consolidated financial statements as of November 5, 1993, and November 6, 1992, and for each of the years ended November 5, 1993, November 6, 1992, and October 31, 1991, and the Supplemental Schedules II and X included in Farah Incorporated and Subsidiaries Form 10-K and all references to our firm included in or made a part of this registration statement.

ARTHUR ANDERSEN & CO.

Dallas, Texas

April 20, 1994