

# SECURITIES AND EXCHANGE COMMISSION

## FORM 10-K405

Annual report pursuant to section 13 and 15(d), Regulation S-K Item 405

Filing Date: **1999-03-26** | Period of Report: **1998-12-26**  
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### FILER

#### HANOVER DIRECT INC

CIK: **320333** | IRS No.: **138053260** | State of Incorpor.: **NV** | Fiscal Year End: **1227**  
Type: **10-K405** | Act: **34** | File No.: **001-08056** | Film No.: **99574828**  
SIC: **5961** Catalog & mail-order houses

Mailing Address  
1500 HARBOR BLVD  
WEEHAWKEN NJ 07087

Business Address  
1500 HARBOR BLVD  
WEEHAWKEN NJ 07087  
2018653800

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 SECURITIES AND EXCHANGE COMMISSION  
 WASHINGTON, D.C. 20549  
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FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)  
 OF THE SECURITIES EXCHANGE ACT OF 1934  
 FOR THE FISCAL YEAR ENDED DECEMBER 26, 1998

COMMISSION FILE NUMBER 1-12082  
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HANOVER DIRECT, INC.  
 (EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

DELAWARE  
 (STATE OR OTHER JURISDICTION OF INCORPORATION  
 OR ORGANIZATION)

1500 HARBOR BOULEVARD, WEEHAWKEN, NEW JERSEY  
 (ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)

13-0853260  
 (IRS EMPLOYER IDENTIFICATION NO.)

07087  
 (ZIP CODE)

(201) 863-7300  
 (REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE)

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

<TABLE>  
 <CAPTION>

TITLE OF EACH CLASS -----	NAME OF EACH EXCHANGE ON WHICH REGISTERED -----
<S> COMMON STOCK, \$.66 2/3 PAR VALUE	<C> AMERICAN STOCK EXCHANGE

</TABLE>

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT: None

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

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

As of March 17, 1999, the aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant was \$420,163,710 (based on the closing price of the Common Stock on the American Stock Exchange on March 17, 1999).

As of March 17, 1999, the registrant had 210,827,854 shares of Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

The Company's definitive proxy statement to be filed by the Company pursuant to Regulation 14A is incorporated into items 10, 11, 12 and 13 of Part III of this Form 10-K.

## PART I

## ITEM 1. BUSINESS

## GENERAL

Hanover Direct, Inc. (the "Company") is a leading specialty direct marketer with a diverse branded portfolio of home fashions, general merchandise, men's and women's apparel and gift catalogs delivered via direct mail and electronic commerce. The Company's catalog titles are organized into six brand groups -- Home Fashions -- Mid-Market brands, Home Fashions-Upscale brands, General Merchandise brands, Women's Apparel brands, Men's Apparel brands and Gift brands groups -- each consisting of one or more catalog titles. All of these brand groups utilize the Company's common systems platform and central purchasing, telemarketing, fulfillment, distribution and administrative functions.

The Company's Home Fashions-Mid-Market brands includes Domestications(R), a leading specialty home fashions catalog, and Colonial Garden Kitchens(R), featuring work saving and lifestyle enhancing items for the kitchen and home. The Home Fashions-Upscale brands includes The Company Store(R), an upscale home fashions catalog focusing on high quality down comforters and other down and related products for the home including sheets and towels, and Kitchen & Home(R), an upscale kitchen and home product catalog. The General Merchandise brands includes Improvements(R), a do-it-yourself home improvements catalog, and The Safety Zone(R), offering safety, prevention and protection products. The Women's Apparel brands includes Silhouettes(R), featuring everyday, workout, special occasion and career fashions for larger sized women, and Tweeds(R), the European-inspired women's fashion catalog. The Men's Apparel brands includes International Male(R), offering unique men's fashions with an international flair, Austad's(R), featuring golf equipment, apparel and accessories, and Undergear(R), a leader in activewear, workout wear and fashion underwear for men. The Gift brands includes Gump's By Mail(R), a leading upscale catalog of jewelry and luxury gifts, and Gump's, the well known retail store based in San Francisco.

The Company reviews its portfolio of catalogs as well as new opportunities to acquire or develop catalogs from time to time. No catalog brands were discontinued during the 1996, 1997 or 1998 fiscal years. However, in the fourth quarter of 1998, the Company selected Austad's, Tweeds and Colonial Garden Kitchens for repositioning away from traditional catalog operations.

Early in 1999, the Company began the repositioning efforts for Austad's, Tweeds and Colonial Garden Kitchens primarily as e-commerce brands. If these repositioning efforts are unsuccessful, these brands are likely to be sold or discontinued.

During 1998, the Company mailed approximately 242 million catalogs. The Company maintains a proprietary customer list currently containing approximately 12 million names of customers (the same as in 1997 but down from approximately 14 million names in 1996) who have made purchases from at least one of the Company's catalogs within the past 36 months. Approximately 4 million of the names on the list represent customers who have made purchases from at least one of the Company's catalogs within the last 12 months (the same as in 1997 but down from approximately 6 million names in 1996).

The Company is incorporated in Delaware with its principal executive office at 1500 Harbor Boulevard, Weehawken, New Jersey 07087. The Company's telephone number is (201) 863-7300. Richemont Finance S.A. ("Richemont"), a Luxembourg company, owns approximately 49% of the Company's common stock on a fully diluted basis. Additionally, on June 1, 1998 Richemont entered into an agreement with a third party, whereby Richemont was granted an irrevocable proxy to vote approximately 9.3 million shares currently held by the third party. Richemont is a wholly owned subsidiary of Compagnie Financiere Richemont, A.G., a Swiss public company engaged in luxury goods, tobacco and other business. The Company is a successor in interest to The Horn & Hardart Company, a restaurant company founded in 1911, and Hanover House Industries, Inc., founded in 1934.

## STRATEGIC REALIGNMENT

The Company recently adopted plans for a strategic realignment of the Company pursuant to which it will create two separate business units, a brand marketing division and a web services division.

The brand marketing division will be a marketing/merchandising organization comprised of the Company's branded portfolio of home fashions, apparel and gift catalogs and associated e-commerce sites as well as all related inventory. It will also contain customer lists, databases and trademarks/intellectual property. Credit marketing agreements as well as internet strategic partnerships and alliances, such as those already in effect with Excite, ArtSelect and Xoom, will also fall within the business unit's responsibility.

The web services division will offer the full range of back-end services required by companies wanting to conduct e-commerce including a comprehensive range of fulfillment, order management and web marketing services as well as web site development, system platform interface, and the back-end services of Keystone Fulfillment, a Company affiliate launched last year, which currently provides services to a growing portfolio of customers. In addition to its existing contracts, the web services division has the warehouses and telephone centers as well as the means to flexibly add capacity as needed. Its system platform performs the high volume logistical services required by e-commerce companies and is supported by a state-of-the-art MACS II system, a warehouse management system and data warehouse applications. Its Internet Management Group is equipped to provide services both to the Hanover portfolio as well as others wanting to sell on-line.

Inter-company agreements will be put in place whereby the brand marketing division will utilize the services of the web services division for web hosting, system interface, fulfillment and corporate services. Rakesh K. Kaul will continue as President and Chief Executive Officer of the Company, overseeing both of the newly created business units.

#### THE COMPANY'S CATALOGS

Each of the Company's specialty catalogs targets distinct market segments offering a focused assortment of merchandise designed to meet the needs and preferences of its target customers. Each catalog's merchandise strategy, including the appropriate price points, mailing plans and presentation of its products is determined through market research and ongoing testing of new products and concepts. The Company is continuing its development of exclusive or private label products for a number of its catalogs, including Domestications, The Company Store and Improvements, to further enhance the brand identity of the catalogs.

The Company's specialty catalogs typically range in size from 32 to 132 pages with six to 12 new editions per year depending on the seasonality and fashion content of the products offered. Each edition may be mailed several times each season with variations in format and content. Each catalog employs the services of an outside creative agency or has its own creative staff which is responsible for the design, layout, copy, feel and theme of the book. Generally, the initial sourcing of new merchandise for a catalog begins two to six months before the catalog is mailed.

The following is a description of the Company's catalogs in each of the Company's six brand groups:

#### Home Fashions -- Mid-Market Brands:

Domestications is a leading specialty home fashions catalog and a fashion decorating source book for today's value-oriented and style-conscious consumer. Domestications features sheets, towels, comforters, tablecloths, draperies and other items for the home, and offers coordinated decorating ideas for the home at value prices.

Colonial Garden Kitchens features work saving and lifestyle enhancing items for the kitchen and home.

#### Home Fashions -- Upscale Brands:

The Company Store is an upscale home fashions catalog focusing on high quality down comforters and other down and related products for the home including sheets and towels. The Company Store also features designer brand name sheets, towels and other bedding accessories.

Kitchen & Home features distinctive and highly functional kitchen and home products for entertaining and decorating.

General Merchandise Brands:

Improvements is a leading do-it-yourself home improvement catalog featuring home improvement accessories.

The Safety Zone offers safety, protection and prevention products.

Women's Apparel Brands:

Silhouettes is a leading fashion authority for larger sized women specializing in casual, career and special occasion apparel for this customer's lifestyle needs.

Tweeds features apparel with a European flair for contemporary women.

Men's Apparel Brands:

International Male is positioned as an authority for unique men's fashion with an international flair.

Undergear is a leader in activewear, workout wear and fashion underwear for men.

Austad's features golf equipment and related apparel and accessories.

Gift Brands:

Gump's By Mail is a leading upscale catalog featuring jewelry, luxury gifts, specialized housewares and other unique items.

Gump's is the well-known San Francisco retailer.

MARKETING AND DATABASE MANAGEMENT

The Company maintains a proprietary customer list currently containing approximately 12 million names of customers who have purchased from one of the Company's catalogs within the past 36 months. The list contains name, gender, residence and historical transaction data. This database is selectively enhanced with demographic, socioeconomic, lifestyle and purchase behavior overlays from other sources.

The Company utilizes modeling and segmentation analysis to devise catalog marketing and circulation strategies that are intended to maximize customer contribution by catalog. This analysis is the basis for the Company's determination of which of the Company's catalogs will be mailed and how frequently to a particular customer, as well as the promotional incentive content of the catalog(s) such customer receives.

The primary source of new customers for the Company's catalogs is lists rented from other mailers and compilers. Prior to mailing these lists, the lists are edited using statistical segmentation tools to enhance their probable performance. Other sources of new customers include traditional print space advertisements and promotional inserts in outbound merchandise packages. In addition, many of the catalogs participate in a consortium database of catalog buyers whereby new customers are obtained by the periodic submission of desired customer buying behavior and interests to the consortium and the subsequent rental of non-duplicative names from the consortium. The Internet as a source of new customers continues to grow in importance. The Websites for each brand are promoted within each catalog, at Hanover's partner websites, in traditional print media advertising and most recently in TV commercials for several of the Company's brands.

The Company maintains an active presence on the Internet by having a commerce-enabled Web site for each one of its catalogs which offers its merchandise, takes catalog requests, and accepts orders for not only Web site merchandise but also from any print catalog already mailed. The Company also utilizes commissionable marketing opportunities available to it by posting its catalog merchandise and accepting orders on third party Web sites. Publicly announced alliances include with WebTV as well as Excite.

The Company continues to use direct response television marketing, having taken advantage of the opportunity to offer a particular catalog's merchandise on a 24-hour television shopping channel and on long-form television infomercials. In addition, the Company has entered into an agreement to post some of its catalog merchandise offerings on electronic marketing channels which are not directed to residences but to airport lounges, hotel rooms and airplane electronic networks.

#### TELEMARKETING

The Company receives approximately 84% of its orders through its toll-free telephone service which offers customer access seven days per week, 24 hours per day. The Company has created a telephone network to link its three primary telemarketing facilities in Hanover, Pennsylvania, LaCrosse, Wisconsin and San Diego, California. The Company's telemarketing facilities utilize state-of-the-art telephone switching equipment which enables the Company to route calls between telemarketing centers and thus provide prompt customer service. The Company handled approximately 9 million telephone order and customer service calls in 1998. As part of its December 1996 plan to reduce operating costs, the Company shut down its telemarketing capacity in its Roanoke, Virginia facility in February 1997. In the first quarter of 1997, the Company entered into a call center services agreement with MCI Communications Corp. which resulted in significant cost savings for such services. See "Purchasing."

The Company trains its telemarketing service representatives to be courteous, efficient and knowledgeable about the Company's products. Telemarketing service representatives generally receive 40 hours of training in selling products, services, systems and communication skills through simulated as well as actual phone calls. A substantial portion of the evaluation of telemarketing service representatives' performance is based on how well the representative meets customer service standards. While primarily trained with product knowledge to serve customers of one or more specific catalogs, telemarketing service representatives also receive cross-training that enables them to take overflow calls from other catalogs. The Company utilizes customer surveys as an important measure of customer satisfaction.

#### DISTRIBUTION

The Company presently operates three distribution centers in three principal locations: one in Roanoke, Virginia, one in Hanover, Pennsylvania, and one in LaCrosse, Wisconsin. The Company's facilities processed approximately 7 million packages in 1998. As part of its 1996 plan to reduce annual operating costs, the Company developed a plan to consolidate certain of its operations in Roanoke, VA and its Hanover, PA operations into its distribution center in Roanoke, VA. The apparel operations and two of the six catalogs located in Hanover, PA were consolidated into the Roanoke distribution center in the second half of 1997. Two other catalogs were consolidated into the Roanoke distribution center in 1998.

The Company mails its catalogs through the United States Postal Service ("USPS") utilizing pre-sort, bulk mail and other discounts. Most of the Company's packages are shipped through the USPS. Overall, catalog mailing and package shipping costs approximated 15% of the Company's net revenues in 1998. The Company obtains rate discounts from the USPS by automatically weighing each parcel and sorting and trucking packages to a number of USPS drop points throughout the country. Some packages are shipped using a consolidator for less frequently used drop points. The USPS increased mailing rates effective January 1999 (see Item 7. Management's Discussion and Analysis of Consolidated Financial Condition and Results of Operations). The Company also utilizes United Parcel Service, Federal Express and other delivery services. United Parcel Service raised its rates for domestic deliveries by 3.6% for ground rates and 3.3% for air rates effective February 7, 1998.

#### PURCHASING

The Company's large sales volume permits it to achieve a variety of purchasing efficiencies, including the ability to obtain prices and terms that are more favorable than those available to smaller companies or than would be available to the Company's individual catalogs were they to operate independently. Major goods and services used by the Company are purchased or leased from selected suppliers by its central buying staff.

These goods and services include: paper, catalog printing and printing related services such as order forms and color separations, communication systems including telephone time and switching devices, packaging materials, expedited delivery services, computers and associated network software and hardware.

The Company's telephone telemarketing costs (both inbound and outbound calls) are typically contracted for a three-year period. In the first quarter of 1997, the Company entered into a three-year call center services agreement with MCI Communications Corp. under which it obtained a material reduction in the rate which it had been paying pursuant to its then current telecommunications contract and savings with respect to certain database services which are provided to it. See "Telemarketing."

The Company generally enters into annual arrangements for paper and printing with a limited number of suppliers. These arrangements permit periodic price increases or decreases based on prevailing market conditions, changes in supplier costs and continuous productivity improvements. For 1998, paper costs approximated 7% of the Company's net revenues.

#### MANAGEMENT INFORMATION SYSTEMS

The Company has successfully converted all catalogs to its integrated mail order and catalog system operating on its mid-range computer systems. Additionally, the remaining fulfillment center migrated to the newly developed warehouse management system. The migration of the Company's business applications to mid-range computers was an important part of the Company's overall systems plan which defined the long-term systems and computing strategy for the Company. The Company modified and installed, on a catalog by catalog basis, these new integrated systems for use in managing all phases of the Company's operations. These systems have been designed to meet the Company's requirements as a high volume publisher of multiple catalogs. The Company is continuing to devote resources to improving its systems.

The new software system is an on-line, real-time system which includes order processing, fulfillment, inventory management, list management and reporting. The software provides the Company with a flexible system that offers data manipulation and in-depth reporting capabilities. The new management information systems are designed to permit the Company to achieve substantial improvements in the way its financial, merchandising, inventory, telemarketing, fulfillment and accounting functions are performed. Two catalogs were brought onto the Company's common systems platform in 1994. The Company brought eight additional catalogs onto the Company's common systems platform in 1995, one in 1996 and the balance of the catalogs onto the Company's common systems platform in 1997. As of December 26, 1998, the Company had invested capitalized costs of approximately \$18.6 million in such systems.

Based on its identification and assessment of year 2000 issues, the Company estimates it will incur total expenditures of \$3.6 million to modify its computer information systems enabling proper processing of transactions relating to the year 2000 and beyond. The Company continues to take appropriate courses of corrective action, including replacement of certain systems and contracting with a consultant to develop contingency plans. The Company does not expect the amounts required to be expensed over the next year related to the year 2000 modifications to have a material effect on its financial position or results of operations. The Company has contacted vendors and others on whom it relies to assure that their systems will be timely converted. However, there can be no assurance that the systems of other companies on which the Company relies also will be timely converted or that any such failure to convert by another company would not have an adverse effect on the Company's operations.

#### CREDIT MANAGEMENT

Several of the Company's catalogs, including Domestications, International Male and Gump's by Mail, offer their own private label credit cards. The Company has a five year \$75 million credit facility with General Electric Credit Corporation ("GECC") expiring in the year 2000 which provides for the sale and servicing of accounts receivable originating from the Company's revolving credit cards. GECC's servicing responsibilities include credit processing, collections, billing/payment processing, reporting and credit card issuance. The

Company is required to maintain certain financial covenants related to this

agreement which the Company failed to maintain, but has received a waiver for the event of default at December 26, 1998. In March 1999, the Company entered into an account purchase and credit card marketing and services agreement with Capital One Services, Inc. and Capital One Bank establishing that Capital One will provide services generally of a type provided previously by GECC with respect to the Company's private label credit card program. Capital One will do this by purchasing from the Company the existing portfolio of credit card accounts on terms which will create neither a gain or loss to the Company on the closing date. The purchase is currently scheduled for July 1999.

#### INVENTORY MANAGEMENT

The Company's inventory management strategy is designed to maintain inventory levels that provide optimum in-stock positions while maximizing inventory turnover rates and minimizing the amount of unsold merchandise at the end of each season. The Company manages inventory levels by monitoring sales and fashion trends, making purchasing adjustments as necessary and by promotional sales. Additionally, the Company sells excess inventory in its special sale catalogs, its outlet stores and to jobbers.

The Company acquires products for resale in its catalogs from numerous domestic and foreign vendors. No single source supplied more than 5% of the Company's products in 1998. The Company's vendors are selected based on their ability to reliably meet the Company's production and quality requirements, as well as their financial strength and willingness to meet the Company's needs on an ongoing basis.

#### FINANCING

Credit Facility. The Congress Credit Facility is comprised of a revolving line of credit of up to \$65 million and term loans aggregating \$14.0 million at December 26, 1998. The Congress Facility is secured by all assets of the Company and places limitations on the incurrence of additional indebtedness. The amount that can be borrowed under the Congress Facility is based on percentages of eligible inventory and accounts receivable as reported to Congress from time to time. An inventory appraisal was completed in March 1997 and the advance rate remained the same through the balance of 1997. In November 1997, a new inventory appraisal was completed and advance rates were increased along with other modifications that increased the Company's availability under the Facility. At that time, negotiations for the refinancing of the Revolving Credit Facility commenced. Under the terms of the renegotiated Credit Facility, effective March 1998, the facility was extended to January 31, 2001.

The Congress Revolving Credit Facility, prior to the amendment, bore interest at 1.25% above the prime rate and the Revolving Term Note bore interest at 1.5% above prime rate. As amended, the Revolving Credit Facility bears interest at prime plus .5% or Eurodollar plus 2.5% and the Revolving Term Note bears interest at prime plus .75% or Eurodollar plus 2.75%. The Company is required to maintain minimum net worth and working capital throughout the terms of the agreement. The Company was in compliance with such covenants at December 26, 1998. At December 26, 1998, the Company had no revolving indebtedness and \$14.0 million outstanding in Revolving Term Notes, respectively. As of December 27, 1997, the Company also had no revolving indebtedness and \$7.9 million outstanding in Revolving Term Notes, respectively. The face amount of unexpired documentary letters of credit at December 26, 1998 and December 27, 1997 were \$2.8 million and \$3.0 million, respectively. At December 26, 1998, availability under the Congress Facility was approximately \$49 million, including cash on hand. The Congress Facility financial covenant requirements are as follows:

<TABLE>	
<CAPTION>	
WORKING CAPITAL (AS DEFINED)	AMOUNT
-----	-----
<S>	<C>
December 1997 and forward.....	\$(10,000,000)
</TABLE>	

<TABLE>	
<CAPTION>	
NET WORTH	AMOUNT
-----	-----
<S>	<C>
June 1997 and thereafter.....	\$ 21,500,000
</TABLE>	

Reimbursement Agreement. In December 1996, the Company finalized its agreement (the "Reimbursement Agreement") with Richemont Finance S.A. ("Richemont") that provided the Company with up to approximately \$28 million of letters of credit through Swiss Bank Corporation, New York Branch. The three letters of credit, which were to expire on February 18, 1998, carry an interest rate of 3.5% above the prime rate, payable to Swiss Bank Corporation quarterly on amounts drawn under the letters of credit. The Company also agreed to pay a facility fee to Richemont equal to 5% of the principal amount of the letters of credit as well as other fees incurred in connection with providing the facility. In the event that the Company has not paid in full, by the expiration date, any outstanding balances under the letters of credit, Richemont shall have the option, exercisable at any time prior to payment in full of all amounts outstanding under the letters of credit to convert such amount into Common Stock of the Company at the mean of the bid and ask prices of the Company's Common Stock on November 8, 1996, or the mean of the bid and ask prices of the Company's Common Stock on each of the thirty days immediately prior to the date of exercise of the conversion privilege. The Reimbursement Agreement is subordinate to the Credit Facility.

In November 1997, Richemont definitively agreed to extend its guarantee under the Reimbursement Agreement to March 30, 1999. As consideration for this transaction, the Company agreed to pay to Richemont a fee of 4% of the principal amount of each letter of credit, which fee aggregated \$1,073,483.28. The extension required the approval of Congress and Swiss Bank which approvals were obtained in February 1998, and was subject to certain other conditions. On February 18, 1998, the extension of the Richemont guarantee and the closing of this transaction were consummated. Accordingly, the expiration dates of two of the letters of credit were extended through March 30, 1999, and the letters of credit were amended to reflect the assignment of all obligations thereon from Swiss Bank, New York Branch to Swiss Bank, Stamford Branch. A substitute letter of credit having an expiration date of March 30, 1999 was issued to replace the third letter of credit. On each of October 1, 1997 and October 1, 1998 the Company paid down approximately \$1 million of the underlying debt thus reducing the principal amount of the letters of credit to \$25.8 million.

In the first quarter of 1999, Richemont agreed to extend its guarantee under the Reimbursement Agreement to March 31, 2000. As consideration for this transaction, the Company agreed to pay to Richemont a facility fee of 9.5% of the principal amount of each letter of credit. The extension required the approval of Congress and UBS AG which approvals were obtained in March 1999, and was subject to certain other conditions. In March 1999, the extension of the Richemont guarantee and the closing of this transaction will be consummated. Accordingly, the expiration dates of the letters of credit will be extended through March 31, 2000.

1997 Rights Offering. The Company commenced a \$50 million rights offering (the "1997 Rights Offering") on April 29, 1997. Holders of record of the Company's Common Stock, par value \$.66 2/3 per share (the "Common Stock"), and Series B Convertible Additional Preferred Stock, par value \$.01 and stated value \$10.00 per share (the "Series B Preferred"), as of April 28, 1997, the record date, were eligible to participate in the 1997 Rights Offering. The rights were exercisable at a price of \$.90 per share. Shareholders received .38 rights for each share of Common Stock held and .57 rights for each share of Series B Preferred held as of the record date. The 1997 Rights Offering expired on May 30, 1997, with 55,654,623 rights to purchase shares exercised, and it closed on June 6, 1997.

Richemont entered into a standby purchase agreement (the "Richemont Standby Purchase Agreement") to purchase all shares in the 1997 Rights Offering not subscribed to by shareholders of record at the subscription price. Richemont purchased 40,687,970 shares in the 1997 Rights Offering and, as a result, then owned approximately 20.3% of the Company. The Company paid in cash, from the proceeds of the 1997 Rights Offering, to Richemont on the closing date, a standby purchase fee of approximately \$1.8 million which represented an amount equal to 1% of the aggregate offering price of the aggregate number of shares issuable upon closing of the 1997 Rights Offering other than with respect to the shares of Common Stock held by NAR Group Limited ("NAR") or its affiliates plus an amount equal to one-half of one percent of the aggregate number of shares acquired by NAR upon exercise of their rights (Standby Fee) plus an amount equal to 4% of the aggregate offering price in respect to all unsubscribed shares (Take-Up Fee). In connection with the entering of the Richemont Standby Purchase Agreement, the Company named two Richemont representatives, Messrs. Jan P. DuPlessis and Howard M.S. Tanner, to its Board of Directors.

On April 26, 1997, NAR irrevocably agreed with the Company, subject to and upon the consummation of the 1997 Rights Offering, to exercise certain of the rights distributed to it for the purchase of 11,111,111 shares of Common Stock that had an aggregate purchase price of approximately \$10 million. NAR agreed to pay for and the Company agreed to accept as payment for the exercise of such rights the surrender by NAR of the principal amount due under a subordinated promissory note dated September 1996 due by the Company to Intercontinental Mining & Resources Incorporated, an affiliate of NAR ("IMR"), in the principal amount of \$10 million the ("IMR Promissory Note") and cancellation thereof.

In order to facilitate vendor shipments and to permit the commencement of the Company's plan to consolidate certain of its warehouse facilities, Richemont advanced \$30 million as of April 23, 1997 against its commitment to purchase all of the unsubscribed shares pursuant to the Richemont Standby Purchase Agreement. The Company then executed a subordinated promissory note in the amount of \$30 million to evidence this indebtedness (the "Richemont Promissory Note") which was repaid out of the proceeds of the 1997 Rights Offering.

The Company issued 55,654,623 shares as a result of the 1997 Rights Offering which generated gross cash proceeds of approximately \$40 million (after giving effect to the acquisition and exercise by NAR of rights having an aggregate purchase price of \$10 million which were paid for by the surrender and cancellation of the IMR Promissory Note). The proceeds of the 1997 Rights Offering were used by the Company: (i) to repay the \$30 million principal amount outstanding under the Richemont Promissory Note, and (ii) for working capital and general corporate purposes including repayment of amounts outstanding under the Credit Facility with Congress.

#### ADDITIONAL INVESTMENTS

In November 1997, SMALLCAP World Fund, Inc. ("SMALLCAP"), a mutual fund and substantial investor in the Company, agreed to purchase 3.7 million shares of the Company's Common Stock at \$1.41 per share for an aggregate purchase price of approximately \$5.2 million in a private placement. This transaction was consummated on November 6, 1997. These shares were restricted and were subsequently registered under the Securities Act of 1933, as amended, pursuant to a registration rights agreement with SMALLCAP that called for the Company to use its best efforts to effect the registration of such shares as soon as practicable after April 1, 1998.

On July 31, 1998, Richemont acquired 5,646,490 additional shares of Common Stock of the Company pursuant to the exercise of certain common stock purchase warrants with exercise prices from \$1.95 to \$2.59 per share and an aggregate total exercise price of \$13.6 million. The Company used the proceeds of the warrant exercise to reduce the amounts outstanding under the Congress Credit Facility.

#### EMPLOYEES

The Company currently employs approximately 2,800 persons on a full time basis and approximately 600 persons on a part time basis. Approximately 300 employees at one of the Company's subsidiaries are represented by a union. The Company believes its relations with its employees are good.

#### SEASONALITY

The Company has experienced substantially increased sales in the fourth quarter of each year as compared to the first three quarters, due in part to the Company mailing more catalogs in the second part of the year, holiday season purchases and decreasing apparel sales as a percentage of total sales.

#### COMPETITION

The Company believes that the principal bases upon which it competes are quality, value, service, product offerings, catalog design, convenience and efficiency. The Company's catalogs compete with other mail order catalogs, both specialty and general, and retail stores, including department stores, specialty stores and discount stores. Competitors also exist in each of the Company's catalog specialty areas of women's

apparel, home fashions, general merchandise, men's apparel and gifts. A number

of the Company's competitors have substantially greater financial, distribution and marketing resources than the Company.

The Company is maintaining an active commerce-enabled Internet Web site presence for all of its catalogs. A substantial number of each of the Company's catalog competitors maintain an active commerce-enabled Internet Web site presence as well. A number of such competitors have substantially greater financial, distribution and marketing resources than the Company. Sales from the Internet for Web site merchandisers have grown in 1998. The Company believes strongly in the future of the Internet and online commerce, including the speed at which marketing opportunities are evolving in this medium, and is adjusting its marketing focus, resources, and manpower to that end.

#### TRADEMARKS

Each of the Company's catalogs has its own federally registered trademark. The Company also owns numerous trademarks, copyrights and service marks on its logos, products and catalog offerings. The Company has also protected various trademarks internationally. The Company vigorously protects such marks and believes there is substantial goodwill associated with them.

#### GOVERNMENT REGULATION

The Company is subject to Federal Trade Commission regulations governing its advertising and trade practices, Consumer Product Safety Commission and Food and Drug Administration regulations governing the safety of the products it sells in its catalogs and other regulations relating to the sale of merchandise to its customers. The Company is also subject to the Department of Treasury-Customs regulations with respect to any goods it directly imports.

The imposition of a sales and use tax collection obligation on out-of-state catalog companies in states to which they ship products was the subject of a case decided in 1994 by the United States Supreme Court. While the Court reaffirmed an earlier decision that allowed direct marketers to make sales into states where they do not have a physical presence without collecting sales taxes with respect to such sales, the Court further noted that Congress has the power to change this law. The Company believes that it collects sales tax in all jurisdictions where it is currently required to do so.

#### ITEM 2. PROPERTIES

The Company's corporate headquarters are located in a modern 85,000-square-foot office in Weehawken, New Jersey. The facility houses merchandising and marketing personnel, catalog production personnel and corporate and administrative offices. The Weehawken facility is leased for a 15-year term expiring in 2005. The Company has subleased a portion of these premises effective April 1998 as part of its plan to further reduce costs. In addition to this office facility, the Company leases administrative facilities for men's apparel in San Diego, California, maintains 15,000 square feet of administrative facilities for the Gump's retail business in its store facility in San Francisco, California discussed below and maintains administrative facilities for the Improvements business in Beachwood, Ohio.

The Company currently operates three warehouses and fulfillment facilities in three principal locations: one in Roanoke, Virginia for home fashions, apparel and general merchandise, one in Hanover, Pennsylvania for hardgoods, including sporting goods and giftware, and one in LaCrosse, Wisconsin for upscale home fashions.

In Roanoke, Virginia, the Company owns a 633,000 square-foot home fashions distribution center. The facility became operational in the second half of 1995 and handled all of Domestications' fulfillment processing. As a result of the Company's cost reduction plan, the Company transferred during 1997 the fulfillment functions for two of the six catalogs previously fulfilled from the Hanover, Pennsylvania distribution facility as well as all the fulfillment functions handled by the apparel distribution facility located in Roanoke, Virginia to the home fashions distribution center in Roanoke, Virginia. See "Distribution." The apparel distribution center in Roanoke, Virginia is a 175,000 square-foot facility which the Company leases from a

partnership in which it owns a 50% interest. The Company and the partnership are currently looking for a sublessee for this facility.

In Hanover, Pennsylvania, the Company owns a distribution center of approximately 265,000 square feet which handles hardgoods, including sporting goods and giftware. Two of the six catalogs serviced by such facility were consolidated with and into the home fashions distribution center in Roanoke, Virginia in 1997. Two other catalogs were consolidated into the Roanoke, Virginia distribution center in 1998. During 1999, the Company intends to use the Hanover, Pennsylvania distribution center for third-party fulfillment and processing.

In LaCrosse, Wisconsin, the Company leases a warehouse and fulfillment center of 185,000 square feet under a short-term lease. The Company also owns a 150,000 square-foot home fashions manufacturing and assembly facility and a 58,000 square-foot telemarketing and customer service facility in LaCrosse, Wisconsin.

In addition to the LaCrosse, Wisconsin facility, the Company utilizes portions of facilities in San Diego, California and Hanover, Pennsylvania as telemarketing and customer service facilities. Specifically, in Hanover, Pennsylvania, the Company leases a telemarketing and administrative office facility of 123,000 square feet. Renewal terms on this telemarketing center extend through 2009.

The Company's principal retail operations consist of the Gump's retail store, which occupies approximately 43,000 square feet in a building in downtown San Francisco, California which is leased pursuant to a 15-year lease. A portion of the Gump's facility is subleased and a portion is used for administrative offices. The Company also operates and leases 10 other retail and outlet stores at various locations.

The Company leases premises in Edgewater, New Jersey which it vacated in 1995. The Company has sublet a portion of the Edgewater facility and is actively seeking to sub-lease the remainder. The Company sold its interest in a Cleveland facility in May 1997.

<TABLE>  
<CAPTION>

LOCATION -----	STATUS -----	APPROXIMATE SQUARE FOOTAGE -----
<S>	<C>	<C>
WAREHOUSE AND FULFILLMENT CENTERS:		
Roanoke, VA	Owned	633,000
Roanoke, VA	Vacant	175,000
Hanover, PA	Leased/Owned	277,500
LaCrosse, WI	Leased	185,000
CORPORATE AND ADMINISTRATIVE OFFICES:		
Weehawken, NJ	Leased	84,700 (a)
Edgewater, NJ	Leased	65,000
San Diego, CA	Leased	30,000 (b)
San Francisco, CA	Leased	15,000 (c)
Beachwood, OH	Leased	7,740 (d)
TELEMARKETING AND CUSTOMER SERVICE:		
Hanover, PA	Leased	123,000
LaCrosse, WI	Owned	58,000
San Diego, CA	Leased	30,000 (b)
RETAIL STORES:		
San Francisco, CA	Leased	43,000 (c)
San Diego, CA	Leased	3,800
West Hollywood, CA	Leased	3,600
Mayfield Heights, OH	Leased	3,750
Hanover, PA	Leased	24,000
Kenosha, WI	Leased	5,500
LaCrosse, WI	Leased	13,326
Madison, WI	Leased	5,206

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<TABLE>  
<CAPTION>

LOCATION -----	STATUS -----	APPROXIMATE SQUARE FOOTAGE -----
<S>	<C>	<C>
Oshkosh, WI	Leased	2,000

Philadelphia, PA	Leased	3,017
Roanoke, VA	Leased	7,389
MANUFACTURING AND ASSEMBLY:		
LaCrosse, WI	Owned	150,000

- 
- (a) After sublease of approximately 20,000 square feet to an outside tenant effective April 1998, approximate square footage will be utilized by the Company for the 65,000 square feet of office space.
  - (b) Telemarketing and corporate/administrative functions are all located and performed at the one facility. Square footage stated represents the entire facility.
  - (c) Retail and office space are all located at the one facility. Square footage stated represents allocations to administrative, retail and retail storage space.
  - (d) Administration and product development for Improvements catalog.

ITEM 3. LEGAL PROCEEDINGS

The Company is involved in various routine lawsuits of a nature which are deemed customary and incidental to its businesses. In the opinion of management, the ultimate disposition of such actions will not have a material adverse effect on the Company's financial position or results of operations.

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

None.

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PART II

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

The Common Stock is traded on the American Stock Exchange (Symbol: HNV). The following table sets forth, for the periods shown, the high and low sale prices of the Common Stock reported on the American Stock Exchange Composite Tape.

<TABLE>  
<CAPTION>

	HIGH	LOW
	----	---
<S>	<C>	<C>
1997		
First Quarter	\$ 1 1/8	\$ 5/8
Second Quarter	1 1/8	5/8
Third Quarter	1 11/16	1 1/16
Fourth Quarter	3	1 1/4
1998		
First Quarter	\$ 3 1/2	\$ 2 3/8
Second Quarter	3 5/8	2 11/16
Third Quarter	3 7/16	2 9/16
Fourth Quarter	3 7/16	1 15/16

The Company is restricted from paying dividends on its Common Stock or from acquiring its capital stock by certain debt covenants contained in agreements to which the Company is a party.

As of March 18, 1999, there were approximately 4,010 holders of record of Common Stock.

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ITEM 6. SELECTED FINANCIAL DATA

The following table presents selected financial data for each of the years indicated:

<TABLE>  
<CAPTION>

	1994	1995	1996	1997	1998
	-----	-----	-----	-----	-----
	(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)				
<S>	<C>	<C>	<C>	<C>	<C>
INCOME STATEMENT DATA:					
Revenues	\$ 768,884	\$ 749,767	\$ 700,314	\$ 557,638	\$ 546,114
Special charges (credits)	--	1,563	36,724	(2,209)	(485)
Depreciation and amortization	6,157	9,020	12,192	8,227	9,478
Operating (loss) income	15,975	(22,619)	(94,497)	(1,849)	(16,807)
Interest expense, net	2,813	4,531	8,398	8,028	7,778
Income (loss) before extraordinary items	14,838	(28,153)	(103,895)	(10,876)	(25,585)
Extraordinary items	--	(1,837)	(1,134)	--	--
Net income (loss)	14,838	(29,990)	(105,029)	(10,876)	(25,585)
Preferred stock dividends	(135)	(240)	(225)	(190)	(578)
Net income (loss) applicable to common stockholders	\$ 14,703	\$ (30,230)	\$ (105,254)	\$ (11,066)	\$ (26,163)
EBITDA (earnings before interest, taxes, depreciation and amortization)					
	\$ 22,132	\$ (13,599)	\$ (82,305)	\$ 6,378	\$ (7,329)
EBITDA before special charges	\$ 22,132	\$ (12,036)	\$ (45,581)	\$ 4,169	\$ (7,814)
PER SHARE:					
Income (loss) before extraordinary items	\$ .16	\$ (.30)	\$ (.93)	\$ (.06)	\$ (.13)
Extraordinary items	--	(.02)	(.01)	--	--
Net income (loss) -- basic and diluted	\$ .16	\$ (.32)	\$ (.94)	\$ (.06)	\$ (.13)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING:					
Basic	93,285,190	93,029,816	111,441,247	176,621,080	206,508,110
Diluted	93,285,190	93,029,816	111,441,247	176,621,080	206,508,110
BALANCE SHEET DATA (END OF PERIOD):					
Working capital (deficit)	\$ 58,501	\$ 28,774	\$ (1,507)	\$ 47,570	\$ 43,929
Total assets	262,246	279,009	220,827	230,299	218,870
Total debt(1)	37,915	62,802	65,189	59,958	58,859
Shareholders' equity	109,725	87,210	31,740	75,551	66,470

</TABLE>

(1) The amounts for 1997 and 1998 include obligations under receivable financing of \$21,918 and \$18,998, respectively, pursuant to SFAS No. 125.

There were no cash dividends declared on the Common Stock in any of the periods.

See Notes to Consolidated Financial Statements.

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

The following table sets forth, for the fiscal years indicated, the percentage relationship to revenues of certain items in the Company's Consolidated Statements of Income (Loss):

<TABLE>  
<CAPTION>

FISCAL YEAR		
-----	-----	-----
1996	1997	1998
-----	-----	-----

<S>	<C>	<C>	<C>
Revenues	100.0%	100.0%	100.0%
Cost of sales and operating expenses	68.4	64.2	62.9
Write-down of inventory of discontinued catalogs	.2	--	.7
Special charges (credit)	5.2	(.4)	(.1)
Selling expenses	27.9	25.3	27.2
General and administrative expenses	10.1	9.7	10.6
Depreciation and amortization	1.7	1.5	1.7
Loss from operations	(13.5)	(.3)	(3.1)
Interest expense, net	1.2	1.4	1.4
Net (loss)	(15.0)%	(2.0)%	(4.8)%

</TABLE>

## RESULTS OF OPERATIONS

1998 Compared with 1997

Net (Loss). The Company reported a net loss of \$25.6 million or \$(.13) per common share, compared with a net loss of \$10.9 million, or (\$.06) per common share, for 1997. Per share amounts are expressed after deducting preferred dividends of \$.6 million and \$.2 million in 1998 and 1997, respectively. The weighted average number of shares outstanding was 206,508,110 for the year ended December 26, 1998 compared to 176,621,080 in 1997. The increase in weighted average shares outstanding is primarily due to a rights offering completed in June 1997.

The higher loss in fiscal 1998 is attributed to:

- (i) a \$3.7 million charge for the writedown of non core catalog inventory as well as a \$2.2 million charge for other costs associated with plans to discontinue certain under performing company catalog brands
- (ii) higher promotional activity primarily in the fourth quarter
- (iii) costs related to new business initiatives
- (iv) higher selling expenses due to increased promotional activity and more competitive mailings in advance of the 1999 postal rate increase
- (v) the 1997 special credit exceeded the amount recorded in 1998 by \$1.7 million
- (vi) 1997 income from the partial recovery of previously written-off investment securities amounting to \$1.3 million

partially offset by,

- (i) improved gross margins from reductions in the cost of merchandise resulting from the benefits of improved purchasing strategies and efficiencies in inventory management for the core catalog brands, as well as the positive impact of upsell promotions.
- (ii) reduced distribution costs resulting from the completion of the consolidation of distribution activities into the Company's Roanoke, Virginia facility.

Revenues. Revenues decreased in 1998 to \$546.1 million from \$557.6 million in 1997, primarily as a result of the under performing (non core) catalog brands, (Tweeds, Austad's and Colonial Garden Kitchens)

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partially offset by revenue growth in other brands and the impact of upsell promotions. The Company's revenues for 1998 for the core catalog brands increased 3% over 1997.

Catalog circulation decreased to 242 million in 1998 from 244 million in 1997.

Operating Costs and Expenses. Cost of sales and operating expenses, which include fulfillment and telemarketing costs, decreased by \$14.7 million from 1997. This decrease was the result of a reduction in catalog sales and reduced merchandise costs as the Company's margins were enhanced by improved product sourcing and merchandise mix as well as continued improvement in telemarketing and fulfillment costs. Additionally, the Company attained inventory management

efficiencies resulting in improved order fill rates, lower product delivery costs and lower backorder levels.

Selling expenses increased \$7.4 million in 1998 as a result of the increased utilization of name list rentals, additional catalog production costs and new marketing initiatives partially offset by the benefit of reduced, more targeted circulation strategies. These expenses also include \$2.2 million of charges related to the aforementioned discontinuance of certain under performing company catalog brands.

General and administrative expenses increased \$4.0 million in 1998 primarily due to an increase in spending to support growth initiatives, including electronic commerce, as well as the impact of an offset to general and administrative expenses (\$1.3 million of income) recorded in 1997 as a result of asset distributions made to the Company relating to previously written-off investment securities.

The operating results for 1998 and 1997 include benefits of \$0.5 million and \$2.2 million, respectively, relating to the reversal of a portion of the restructuring charges that were recorded in 1996. The 1998 reversal related to the Company's decision to remain in its Hanover, Pa. fulfillment center. The 1997 reversal related primarily to the Company's decision to remain in its Weehawken corporate facility.

Depreciation and amortization increased \$1.3 million in 1998 resulting from fixed asset additions associated with the improvements in the distribution center in Roanoke, Virginia.

(Loss) from Operations. The Company's loss from operations increased \$15.0 million to \$16.8 million in 1998 from a loss of \$1.8 million in 1997. As discussed above, the 1998 operating results include \$5.9 million in charges related to discontinuing certain non core catalog brands as the Company focuses on building brands with a strong core customer base. The operating results also include infrastructure costs related to the Company e-commerce initiatives. The operating results for 1998 and 1997 include a \$0.5 and \$2.2 million credit, respectively, relating to the reversal of a portion of the restructuring charges that were recorded in 1996.

Interest Expense, Net. Interest expense, net decreased \$0.2 million to \$7.8 million in 1998 from \$8.0 million in 1997. This improvement was primarily due to lower interest rates and lower amortization of capitalized debt costs.

Income Taxes. The Company did not record a Federal income tax provision in 1998 or 1997 based on each years' net operating losses. The Company's state tax provision was \$1.0 million in 1998 and 1997.

Shareholders' Equity. The number of shares of Common Stock outstanding increased by 6,672,063 in 1998 due to 5.6 million shares issued in connection with the exercise of certain common stock purchase warrants, its equity and incentive plans, and other activities. At December 26, 1998, there were 210,427,385 shares of Common Stock outstanding compared to 203,755,322 shares of Common Stock outstanding at December 27, 1997.

1997 Compared with 1996

Net (Loss). The Company reported a net loss of \$10.9 million or \$(.06) per common share, compared with a net loss before an extraordinary item of \$104 million, or (\$.93) per common share, for 1996. The 1996 extraordinary item of \$1.1 million, or (\$.01) per common share relates to the early extinguishment of debt. After giving effect to the extraordinary item, the net loss for 1996 was \$105 million, or (\$.94) per common share. Per share amounts are expressed after deducting preferred dividends of \$.2 million in both 1997 and 1996. The weighted average number of shares outstanding was 176,621,080 for the year ended December 27,

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1997 compared to 111,441,247 in 1996. The increase in weighted average shares outstanding is due to two \$50 million rights offerings which were completed in August 1996 and June 1997, respectively.

The improved operating results in fiscal 1997 are attributed to (i) reduced circulation to prospective customers and to customers other than core customers, which resulted in decreased catalog costs, (ii) increased circulation to core customers, focusing on core products, which resulted in lower selling expenses

relative to sales, (iii) reduced costs of merchandise as the Company began to realize improvements in its product offerings, (iv) reduced fixed overhead costs due to the planned relocation and consolidation of facilities, as well as the Company's cost reduction plan implemented in 1997, (v) improved liquidity, reduced backorder levels and improved inventory in-stock positions due to the Company's 1997 Rights Offering, all of which contributed to operating efficiencies, and (vi) the reversal of a portion of certain non-recurring charges accrued in the prior year.

**Revenues.** Revenues decreased in 1997 to \$557.6 million from \$700.3 million in 1996, primarily as a result of a decrease in sales for discontinued catalogs of \$93.8 million. Revenues from continuing catalog brands decreased \$48.9 million to \$548.6 million from \$597.5 million for the prior year. The Company's revenues for 1997 were planned at reduced levels from 1996 due to the Company's business formula of reduced circulation, reduced prospecting for most catalogs and a concentrated focus on core customers with core products. Circulation of catalogs decreased 7.9% to 243.8 million in 1997.

**Operating Costs and Expenses.** Cost of sales and operating expenses, which include fulfillment and telemarketing costs, decreased by \$121 million from 1996. This decrease was primarily the result of reduced merchandise costs of \$91.2 million and other cost reductions of \$29.8 million for telemarketing and fulfillment activities, which are attributable to the planned sales reduction for 1997, as well as savings created by the consolidation of telemarketing and fulfillment facilities during the year. In addition, on an overall basis, the Company's margins were enhanced by improved purchasing strategies and efficiencies attained through inventory management.

Selling expenses decreased \$53.6 million to \$141.4 million from \$195 million in 1996 as a result of the reduced circulation plan implemented in 1997. The Company experienced substantial paper price increases in 1997. In spite of these increased paper prices, the Company was able to reduce its paper costs by 2% as a percentage of net revenues versus 1996 as a result of more targeted circulation strategies.

General and administrative expenses decreased \$16.8 million to \$53.8 million in 1997. This decrease resulted from the Company's previously announced cost reduction plan. These savings were achieved from the reduced overhead structure resulting from the reorganization of management and operations that began at the end of 1996. The Company also experienced approximately \$2.9 million of decreased costs and bad debt expense associated with its private label credit program as compared with 1996. In addition, general and administrative expenses were offset by \$1.3 million of income recorded in 1997 as a result of asset distributions made to the Company relating to previously written-off investment securities.

The operating results for 1997 include a \$2.2 million benefit relating to the reversal of a portion of the restructuring charges that were recorded in 1996. The reversal relates primarily to the Company's decision to remain in its Weehawken corporate facility.

Depreciation and amortization decreased \$4.0 million to \$8.2 million in 1997 as a result of the Company's decision to write-off certain intangible assets and close certain of its facilities at the end of the 1996 fiscal year.

**(Loss) from Operations.** The Company's loss from operations decreased to \$1.8 million in 1997 from a loss of \$94.5 million in 1996. The Company's focus on building brands with a core customer base coupled with the cost savings programs implemented in 1997, as discussed above, has resulted in an improved operating margin.

**Interest Expense, Net.** Interest expense, net decreased \$.4 million to \$8.0 million in 1997, which includes amortization on debt costs paid in prior years of \$2.3 million. Throughout the 1997 year, the Company maintained lower debt levels than the prior year due to better management of its working capital.

This improvement was partially offset by increased amortization of debt costs related to the Company's \$26.9 million letter of credit facility.

**Income Taxes.** The Company did not record a Federal income tax provision in 1997 or 1996 based on each year's net operating losses. The Company's state tax provision was \$1.0 million in 1997 and 1996.

Shareholders' Equity. The number of shares of Common Stock outstanding increased by 59,107,424 in 1997 due to shares issued in connection with the Company's 1997 Rights Offering, its equity and incentive plans, and other activities. At December 27, 1997, there were 203,755,322 shares of Common Stock outstanding compared to 144,647,898 shares of Common Stock outstanding at December 28, 1996.

#### LIQUIDITY AND CAPITAL RESOURCES

Liquidity. The Company had \$12.2 million and \$14.8 million of cash and cash equivalents at December 26, 1998 and December 27, 1997, respectively. Working capital and current ratio were \$43.9 million and 1.47 to 1 at December 26, 1998 compared to working capital and current ratio of \$47.6 million and 1.48 to 1 at December 27, 1997. The primary sources of cash in 1998 were the \$13.6 million in proceeds resulting from the exercise of warrants held by Richemont in addition to \$7.3 million in proceeds resulting from additional term loan borrowings under the Congress Credit Facility. The primary sources of cash in 1997 were the 1997 Rights Offering, which provided \$40.1 million of cash and the \$5.2 million issuance of the Company's Common Stock to SMALLCAP WorldFund, Inc. in a private placement. Cash was used in 1998 primarily to fund a \$12.1 million use of cash in operating activities, capital expenditures of \$6.1 million, the \$2.8 million repayment of The Company Store 6% mortgage notes and to reduce the amounts outstanding under its secured Revolving Credit Facility with Congress.

In 1996, as a result of the Company's continued operating losses, the Company experienced tightened vendor credit and increased levels of debt. Order cancellation rates increased and negatively affected initial fulfillment which resulted in an increase in split shipments and higher customer inquiry calls in 1996 and the first quarter of 1997. As a result of these factors, the Company decided in late 1996 that it was necessary to obtain relief under its Credit Facility and to investigate an equity infusion. In December 1996, the Company closed its agreement with Richemont that provided the Company with approximately \$28 million of letters of credit to replace letters of credit which were issued under the Credit Facility with Congress. Although this agreement provided the Company added liquidity, its timing, on December 19, 1996, had minimal effect on reducing back orders in 1996. Therefore, these back orders carried over to the first quarter of 1997 and caused an increase in the order cancellation rates in the period. When the 1996 final financial results became known to the Company, it concluded such results would have a further negative impact on the Company's ability to conduct business on normal trade terms. Therefore, the Company decided it was necessary to obtain an additional equity infusion which would restore the Company's equity base and provide the Company with additional liquidity.

On March 26, 1997, the Company announced that it intended to distribute subscription rights to subscribe for and purchase additional shares of Common Stock to holders of record of the Company's Common Stock and Series B Convertible Additional Preferred Stock. The 1997 Rights Offering expired on May 30, 1997 and closed on June 6, 1997. The 1997 Rights Offering generated gross proceeds of approximately \$40 million after giving effect to the \$10 million of indebtedness NAR Group Limited ("NAR") applied to acquire its shares. Richemont purchased 40,687,970 shares of Common Stock with rights which were not subscribed for and purchased by shareholders in the 1997 Rights Offering per an agreement with the Company. On April 23, 1997, Richemont advanced \$30 million against this commitment. This advance was used to repay approximately \$13 million of indebtedness under the revolving line of credit, bring past due vendor accounts current and for other general corporate purposes. The Company also incurred fees of approximately \$3 million in relation to the 1997 Rights Offering which were paid from such gross proceeds.

The agreement by which Richemont provided the Company with a \$27.9 million letter of credit facility was to expire in February 1998. On October 1, 1997, the Company paid down \$1 million of the underlying debt, reducing the letters of credit to approximately \$26.9 million. The letters of credit carry an interest rate of

3.5% above the prime rate, currently 11.25%. At that time, Richemont agreed to extend its guarantee to March 30, 1999. As consideration for this transaction, the Company paid to Richemont, in 1998, a fee equal to 4% of the \$26.9 million outstanding letters of credit. On October 1, 1998, the Company paid down an additional \$1 million of the underlying debt, reducing the letters of credit to approximately \$25.8 million. In March 1999, Richemont again definitively agreed to extend its guarantee under the Reimbursement Agreement to March 31, 2000. As consideration for this transaction, the Company agreed to pay to Richemont a

facility fee of 9.5% of the principal amount of each letter of credit.

On July 31, 1998, Richemont acquired 5,646,490 additional shares of Common Stock of the Company pursuant to the exercise of certain common stock purchase warrants with exercise prices ranging from \$1.95 to \$2.59 per share and an aggregate total exercise price of \$13.6 million. The Company used the proceeds of the warrant exercise to reduce amounts outstanding under the Congress Credit Facility.

In March 1997, the Company received waivers for events of default which existed at December 28, 1996 under the Credit Facility with Congress. At that time, Congress and the Company agreed to new working capital and net worth covenants.

On March 25, 1998, Congress agreed to extend the Revolving Credit Facility and the Revolving Term Notes to January 31, 2001. The Company is required to maintain certain financial covenants related to the Credit Facility with Congress with which the Company was in compliance at December 26, 1998.

At December 26, 1998, the Company had \$2.6 million of current debt. Based upon the December 26, 1998 balance of the Revolving Term Notes, the Company will continue to make principal payments of \$125,000 per month. The Company had zero amounts outstanding on the Congress Credit Facility at December 26, 1998 and at December 27, 1997. The total amount available under the Facility at December 26, 1998 was \$49 million, including cash on hand.

The Company experiences seasonality in its working capital requirements and fluctuations in the revolving Credit Facility with peak borrowing requirements normally occurring during the first and fourth quarters of the year.

Foreign Currency Translation. The Company minimizes currency risks by making most foreign purchases in U.S. dollars and does not utilize hedging instruments.

Effect of Inflation and Cost Increases. The Company normally experiences increased costs of sales and operating expenses as a result of the general rate of inflation and commodity price fluctuations. Operating margins are generally maintained through internal cost reductions and operating efficiencies and then through selective price increases where market conditions permit. The Company's inventory is primarily mail-order merchandise which undergoes sufficiently high turnover so that the cost of goods sold approximates replacement cost. Because sales are not dependent on a particular supplier or product brand, the Company can adjust product mix to mitigate the effects of inflation on its overall merchandise base.

Paper and Postage. The Company mails its catalogs and ships most of its merchandise through the United States Postal Service (USPS), with catalog mailing and product shipment expenses representing approximately 15% of revenues in 1998 and 14% of revenues in 1997. Paper costs represented approximately 7% of revenues in 1998 and 6% of revenues in 1997.

The USPS increased its mailing rates in early 1999. The Company is implementing plans to mitigate the effect of these increases. If the Company does not successfully implement any such plans, it may have a material adverse effect on the results of operations. The United Parcel Service (UPS) raised its rates for domestic deliveries by 3.6 percent for ground rates and 3.3 percent for air rates effective February 7, 1998. It has generally been the experience and the intention of the Company as well as its policy to recover the costs of shipping, including outbound freight, and handling from its customers.

#### YEAR 2000 ISSUE

The Year 2000 issue relates to the way computer systems and programs interpret calendar date entries in two-digit date code fields. A system could fail or make miscalculations due to the inability to distinguish the

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year 2000 from the year 1900. Also, some other systems not normally characterized as information technology systems may contain embedded hardware or software that would be susceptible to this problem. As a result, many companies will need to upgrade or replace computer systems in order to comply with Year 2000 requirements.

During 1996, the Company initiated a strategy to begin the process of correcting the Year 2000 problems. As part of this strategy, the Company formed

a project team to address internal and external Year 2000 issues related to both information technology and non-information technology systems. The project was divided into the following phases: 1) Discovery -- identification of all systems with potential Year 2000 problems and inventorying those systems which must be modified or replaced, 2) Assessment -- evaluating, categorizing and prioritizing of Year 2000 issues, 3) Remediation -- correction of Year 2000 issues by performing modifications to existing systems or converting to new systems, and 4) Testing/Deployment -- validation testing of Year 2000 readiness to ensure all problems which were discovered are adequately corrected. At the present time, the remediation and testing/deployment phases for the Company's information technology infrastructure are approximately 90% complete and should be completed by July 1999.

The Company has also performed surveys of its suppliers to determine their Year 2000 readiness. At October 1998, 34% of all suppliers and 80% of the top 100 suppliers represented their products and services to be Year 2000 compliant. The Company is requesting remaining suppliers to represent their Year 2000 readiness while it also conducts searches for alternate suppliers.

The Company believes the critical systems which it operates will be Year 2000 compliant by July 1999 and believes it is not likely to encounter any significant operational problems. However, there is no guarantee that a Year 2000 related failure will not arise. This uncertainty is due, to a large extent, to the uncertainty surrounding potential third party related Year 2000 problems as well as the potential failure to discover all its own susceptible internal systems. The risk to the Company resulting from the failure of third party or internal systems is similar to other database marketing firms and, for the most part, to other businesses. A reasonable worst case scenario could involve the failure of Company or supplier systems which would cause a material disruption to the Company's operations. For example, this could result in an interruption of certain normal business activities or operations such as a temporary inability to process transactions, send invoices or engage in certain business activities. If the worst case scenario should occur (for any significant duration), it could have a material adverse impact on the Company's business, results of operations, liquidity and financial position. However, at this time the Company is unable to completely determine the financial consequences of such potential Year 2000 failures.

While the Company expects that its efforts will provide reasonable assurance that material disruptions will not occur, the potential for interruption still exists. Accordingly, the Company has contracted with a consulting firm to develop a contingency plan to provide for the continuation of processing based upon the outcome of its Year 2000 testing program as well as the results of surveying its major suppliers. Such a contingency plan may include securing alternate sources of supply, securing redundant telecommunication sources, accelerating 1999 year end shipments and any other measures deemed appropriate. At this time, the Company cannot estimate the additional cost, if any, that might develop from the implementation of such contingency plans.

The Company believes it is taking the necessary steps to become Year 2000 compliant. The Company's total cost associated with the necessary modifications is not expected to be material to its financial position. To date, the Company has spent an estimated \$0.2 million and arranged for the replacement of equipment in 1999 at a cost of \$2.9 million. The entire cost estimated for this project is \$3.6 million. These costs primarily represent planned expenditures to upgrade or replace computer hardware and software in 1999, as well as the costs of staff and consultants to perform the project and the costs of software tools for discovery and testing.

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#### CAUTIONARY STATEMENTS

The following statements constitute forward looking statements which involve risks and uncertainties:

The Company does not expect the amount required to be expensed over the next year to have a material effect on its financial position or results of operations.

The following are important factors, among others, that could cause the Company's actual results to differ materially from those expressed in any forward-looking statements made by, or on behalf, of the Company:

A general deterioration of economic conditions in the United States leading to increased competitive activity including a business failure of a substantial size company in the retail industry, a reduction in consumer spending generally, or specifically with reference to the types of merchandise the Company offers in its catalogs. The failure of the Internet generally to achieve the projections for it with respect to growth of e-commerce or otherwise.

The ability of the Company's computer system to connect with the systems of others and to be able to serve the other's fulfillment needs.

The Company has a history of operating losses. Continuation of the operating losses may prevent the Company from making the investments in e-commerce which are required to be made to achieve a position of leadership in serving the e-commerce needs of companies doing business or desiring to do business on the Internet.

The ability of the Company to attract management with the requisite experience in e-commerce or in Internet businesses and to develop a culture which is consistent with the manner in which e-commerce is managed.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

None.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Shareholders of Hanover Direct, Inc.:

We have audited the accompanying consolidated balance sheets of Hanover Direct, Inc. (a Delaware corporation) and subsidiaries as of December 26, 1998 and December 27, 1997, and the related consolidated statements of income (loss), shareholders' equity and cash flows for each of the three fiscal years in the period ended December 26, 1998. These consolidated financial statements and the schedule referred to below are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and schedule 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 Hanover Direct, Inc. and subsidiaries as of December 26, 1998 and December 27, 1997 and the results of their operations and their cash flows for each of the three fiscal years in the period ended December 26, 1998 in conformity with generally accepted accounting principles.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedule of valuation and qualifying accounts is presented for purposes of complying with the Securities and Exchange Commission's rules and is not part of the basic financial statements. The schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly states in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

ARTHUR ANDERSEN LLP

New York, New York  
February 16, 1999 (except with respect to  
the matter discussed in Note 7,  
as to which the date is March 2, 1999)

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## CONSOLIDATED BALANCE SHEETS

AS OF DECEMBER 27, 1997 AND DECEMBER 26, 1998  
(IN THOUSANDS)

&lt;TABLE&gt;

&lt;CAPTION&gt;

	DECEMBER 27, 1997	DECEMBER 26, 1998
	-----	-----
<S>	<C>	<C>
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 14,758	\$ 12,207
Accounts receivable, net of allowance for doubtful accounts of \$3,358 in 1997 and \$2,544 in 1998	17,684	22,737
Accounts receivable under financing agreement	21,918	18,998
Inventories	64,330	62,322
Prepaid catalog costs	20,684	16,033
Deferred tax asset, net	3,300	3,300
Other current assets	3,083	2,402
	-----	-----
Total Current Assets	145,757	137,999
	-----	-----
PROPERTY AND EQUIPMENT, AT COST:		
Land	4,909	4,634
Buildings and building improvements	16,486	22,724
Leasehold improvements	9,040	9,303
Furniture, fixtures and equipment	47,210	51,193
Construction in progress	4,519	113
	-----	-----
	82,164	87,967
Accumulated depreciation and amortization	(29,712)	(37,884)
	-----	-----
Property and Equipment, net	52,452	50,083
	-----	-----
Goodwill, net	17,412	16,890
Deferred tax asset, net	11,700	11,700
Other assets	2,978	2,198
	-----	-----
Total Assets	\$ 230,299	\$ 218,870
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current portion of long-term debt and capital lease obligations	\$ 5,305	\$ 2,573
Accounts payable	58,799	64,594
Accrued liabilities	30,259	22,212
Customer prepayments and credits	3,824	4,691
	-----	-----
Total Current Liabilities	98,187	94,070
	-----	-----
NON-CURRENT LIABILITIES:		
Long-term debt	32,735	37,288
Obligations under receivable financing	21,918	18,998
Other	1,908	2,044
	-----	-----
Total Non-current Liabilities	56,561	58,330
	-----	-----
Total Liabilities	154,748	152,400
	=====	=====
COMMITMENTS AND CONTINGENCIES (Note 16)		
SHAREHOLDERS' EQUITY:		
Series B Convertible Additional Preferred Stock, \$.01 par value, authorized, issued and outstanding 634,900 shares in 1997 and 1998	5,938	6,128
Common Stock, \$.66 2/3 par value, authorized 225,000,000 shares; issued 204,441,538 shares in 1997 and 210,785,688 in 1998	136,294	140,524
Capital in excess of par value	285,165	297,751
Accumulated deficit	(347,652)	(373,815)
	-----	-----
	79,745	70,588
	-----	-----
Less:		

Treasury stock, at cost (686,216 shares in 1997 and 358,303 shares in 1998)	(968)	(813)
Notes receivable from sale of Common Stock	(3,226)	(3,305)
	-----	-----
Total Shareholders' Equity	75,551	66,470
	-----	-----
Total Liabilities and Shareholders' Equity	\$ 230,299	\$ 218,870
	=====	=====

</TABLE>

See Notes to Consolidated Financial Statements.

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CONSOLIDATED STATEMENTS OF INCOME (LOSS)

FOR THE YEARS ENDED DECEMBER 28, 1996, DECEMBER 27, 1997 AND DECEMBER 26, 1998  
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

<TABLE>

<CAPTION>

	1996	1997	1998
	-----	-----	-----
<S>	<C>	<C>	<C>
REVENUES	\$ 700,314	\$557,638	\$546,114
	-----	-----	-----
OPERATING COSTS AND EXPENSES:			
Cost of sales and operating expenses	479,155	358,219	343,554
Write-down of inventory of discontinued catalogs	1,100	--	3,726
Special charges (credit)	36,724	(2,209)	(485)
Selling expenses	195,032	141,411	148,767
General and administrative expenses	70,608	53,839	57,881
Depreciation and amortization	12,192	8,227	9,478
	-----	-----	-----
	794,811	559,487	562,921
	-----	-----	-----
(LOSS) FROM OPERATIONS	(94,497)	(1,849)	(16,807)
Interest expense, net	(8,398)	(8,028)	(7,778)
(Loss) before income taxes	(102,895)	(9,877)	(24,585)
Income tax provision	1,000	999	1,000
	-----	-----	-----
(Loss) before extraordinary item	(103,895)	(10,876)	(25,585)
Extraordinary item (Note 8)	(1,134)	--	--
	-----	-----	-----
NET (LOSS)	(105,029)	(10,876)	(25,585)
Preferred stock dividends	(225)	(190)	(578)
	-----	-----	-----
NET (LOSS) APPLICABLE TO COMMON SHAREHOLDERS	\$ (105,254)	\$ (11,066)	\$ (26,163)
	=====	=====	=====
COMPREHENSIVE INCOME	\$ (105,254)	\$ (11,066)	\$ (26,163)
	=====	=====	=====
NET (LOSS) PER SHARE:			
Loss before extraordinary item	\$ (.93)	\$ (.06)	\$ (.13)
Extraordinary item	(.01)	--	--
	-----	-----	-----
Net (loss) per share -- basic and diluted	\$ (.94)	\$ (.06)	\$ (.13)
	=====	=====	=====
Weighted average common shares outstanding -- basic and diluted	111,441	176,621	206,508
	=====	=====	=====

</TABLE>

See Notes to Consolidated Financial Statements.

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CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 28, 1996, DECEMBER 27, 1997, AND DECEMBER 26, 1998  
(IN THOUSANDS)

<TABLE>

<CAPTION>

	1996	1997	1998
	-----	-----	-----

<S>	<C>	<C>	<C>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net (loss)	\$ (105,029)	\$ (10,876)	\$ (25,585)
Adjustments to reconcile net (loss) to net cash (used) by operating activities:			
Depreciation and amortization including deferred fees	13,277	10,581	11,466
Provision for doubtful accounts	6,805	3,973	3,278
Provision for catalog and facility closings	14,720	(2,209)	(485)
Write-down of inventory of discontinued catalogs	1,100	--	3,726
Write-off of long-lived assets	22,000	--	--
Extraordinary item-early extinguishment of debt	1,134	--	--
Provision for losses on notes receivable and marketable securities	888	--	--
Other, net	53	--	--
Compensation expense related to stock options	540	1,800	2,684
Recovery from investments previously written off	--	(1,274)	--
Changes in assets and liabilities, net of effects of acquired businesses and dispositions of assets:			
Accounts receivable, net	(7,863)	7,742	(8,331)
Inventories	10,571	3,280	(1,718)
Prepaid catalog costs	13,717	2,717	4,651
Accounts payable	(13,704)	(20,788)	5,795
Accrued liabilities	679	(6,583)	(7,562)
Customer prepayments and credits	(2,430)	(893)	867
Other	1,332	(205)	(867)
Net cash (used) by operating activities	(42,210)	(12,735)	(12,081)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Acquisitions of property and equipment, net	(8,862)	(4,222)	(6,111)
Proceeds from sales of businesses	1,980	--	--
Proceeds from investment	794	1,274	--
Net cash (used) by investing activities	(6,088)	(2,948)	(6,111)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Net proceeds (payments) under revolving credit facility	11,699	(13,710)	--
Proceeds from term loan facility	--	--	7,272
Proceeds from issuance of debt	10,000	--	--
Payments of long-term debt and capital lease obligations	(17,625)	(3,575)	(5,433)
Payment of stock issuance costs	(1,670)	(3,073)	--
Payment of debt issuance costs	(1,490)	--	--
Proceeds from issuance of Common Stock	50,653	45,351	561
Proceeds from issuance of Warrant Exercise	--	--	13,640
Other, net	(778)	275	(399)
Net cash provided by financing activities	50,789	25,268	15,641
Net increase (decrease) in cash and cash equivalents	2,491	9,585	(2,551)
Cash and cash equivalents, beginning of year	2,682	5,173	14,758
Cash and cash equivalents, end of year	\$ 5,173	\$ 14,758	\$ 12,207
<b>SUPPLEMENTAL CASH FLOW DISCLOSURE:</b>			
Interest paid	\$ 7,773	\$ 5,674	\$ 5,095
Income taxes paid	\$ 1,096	\$ 685	\$ 447

</TABLE>

See Notes to Consolidated Financial Statements.

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CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

FOR THE YEARS ENDED DECEMBER 28, 1996, DECEMBER 27, 1997 AND DECEMBER 26, 1998  
(IN THOUSANDS, EXCEPT SHARE AMOUNTS)

<TABLE>	<CAPTION>							
	PREFERRED STOCK		PREFERRED STOCK		COMMON STOCK		CAPITAL	
	SERIES B		SERIES A, 6.0%		2/3 PAR6VALUE		IN EXCESS	
	CUMULATIVE						OF	
	SHARES	AMOUNT	SHARES	AMOUNT	SHARES	AMOUNT	PAR VALUE	ACCUM.
	-----	-----	-----	-----	-----	-----	-----	-----

<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
BALANCE AT JANUARY 1, 1996	634,900	\$5,558	78,300	\$795	93,693,162	\$ 62,461	\$255,390	\$ (231,332)
Net income/(loss) applicable to common shareholders								(105,254)
Shares issued in Rights Offering					48,748,785	32,499	16,467	
Preferred Stock dividends and accretion		190		35				
Conversion of the 6% Preferred Stock			(78,300)	(830)	819,733	546	284	
Purchase of treasury stock								
Transfer of treasury stock related to employment agreement							(2,750)	
Sale of treasury stock							28	
Issuances & forfeitures of Common Stock for employee stock plan					1,778,235	1,187	678	
BALANCE AT DECEMBER 28, 1996	634,900	\$5,748	0	\$ 0	145,039,915	\$ 96,693	\$270,097	\$ (336,586)
Net income/(loss) applicable to common shareholders								(11,066)
Preferred stock accretion		190						
Stock options granted							2,340	
Shares issued in 1997 Rights Offering, net of issue costs					55,654,623	37,103	9,958	
Issuance of Common Stock to SMALLCAP World Fund, Inc.					3,700,000	2,467	2,750	
Issuances & forfeitures of Common Stock for employee stock plan					47,000	31	20	
BALANCE AT DECEMBER 27, 1997	634,900	\$5,938	0	\$ 0	204,441,538	\$136,294	\$285,165	\$ (347,652)
Net income/(loss) applicable to common shareholders								(26,163)
Cash received for tandem receivable								
Preferred stock accretion		190						
Stock options granted							2,684	
Exercise of Warrants					5,646,490	3,764	9,876	
Issuances & forfeitures of Common Stock for employee stock plan					697,660	466	26	
BALANCE AT DECEMBER 26, 1998	634,900	\$6,128	0	\$ 0	210,785,688	\$140,524	\$297,751	\$ (373,815)

<CAPTION>

<S>	TREASURY STOCK		NOTES RECEIVABLE FROM SALE OF COMMON STOCK		DEFERRED COMPEN-SATION	TOTAL
	SHARES	AMOUNT				
BALANCE AT JANUARY 1, 1996	(1,157,061)	\$ (3,345)	\$ (2,023)	\$ (294)	\$ 87,210	
Net income/(loss) applicable to common shareholders					(105,254)	
Shares issued in Rights Offering					48,966	
Preferred Stock dividends and accretion					225	
Conversion of the 6% Preferred Stock					0	
Purchase of treasury stock	(301,623)	(396)			(396)	
Transfer of treasury stock related to employment agreement	916,667	2,750			0	
Sale of treasury stock	150,000	178			206	
Issuances & forfeitures of Common Stock for employee stock plan			(1,376)	294	783	
BALANCE AT DECEMBER 28, 1996	(392,017)	\$ (813)	\$ (3,399)	\$ 0	\$ 31,740	
Net income/(loss) applicable to common shareholders					(11,066)	
Preferred stock accretion					190	
Stock options granted					2,340	
Shares issued in 1997 Rights						

Offering, net of issue costs					47,061
Issuance of Common Stock to SMALLCAP World Fund, Inc.					5,217
Issuances & forfeitures of Common Stock for employee stock plan	(294,199)	(155)	173		69
	-----	-----	-----	-----	-----
BALANCE AT DECEMBER 27, 1997	(686,216)	\$ (968)	\$ (3,226)	\$ 0	\$ 75,551
Net income/(loss) applicable to common shareholders					(26,163)
Cash received for tandem receivable			69		69
Preferred stock accretion					190
Stock options granted					2,684
Exercise of Warrants					13,640
Issuances & forfeitures of Common Stock for employee stock plan	327,913	155	(148)		499
	-----	-----	-----	-----	-----
BALANCE AT DECEMBER 26, 1998	(358,303)	\$ (813)	\$ (3,305)	\$ 0	\$ 66,470
	=====	=====	=====	=====	=====

</TABLE>

See Notes to Consolidated Financial Statements.

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#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 28, 1996, DECEMBER 27, 1997 AND DECEMBER 26, 1998

#### 1. BACKGROUND OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations -- Hanover Direct, Inc., a Delaware corporation ("HDI"), is a leading specialty direct marketer with a diverse branded portfolio of home fashions, general merchandise, men's and women's apparel and gift catalogs, delivered via direct mail and electronic commerce platforms. The Company currently operates in one line of business direct marketing, through its branded portfolio of specialty catalogs and related retail operations. The operations of the Company are directed principally by the Chief Executive Officer, with oversight by the Executive Committee of the Board of Directors.

The Company utilizes a common support platform for the management of its operations, consisting of uniform telemarketing, distribution, and inventory management strategies, as well as a shared financial and accounting organization and universal information systems that provide customer database management and support the e-commerce marketing plan. All business is domestic in nature with no operations or sales outside the United States. Accordingly, there are no specific operating or geographic segment disclosures, pursuant to SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information", other than the consolidated financial position and results of operations.

Principles of Consolidation -- The Consolidated Financial Statements include the accounts of HDI and all subsidiaries (the "Company"). Intercompany transactions and balances have been eliminated. Certain prior year amounts have been reclassified to conform to the current year presentation.

Fiscal Year -- The Company operates on a 52 or 53 week fiscal year. Effective for fiscal 1997, the Company changed its fiscal year to the last Saturday in December. The years ended December 26, 1998, December 27, 1997 and December 28, 1996 were 52 week years. Had the Company not changed its year end, fiscal 1997 would have been a 53 week year and the net loss for 1997 would have increased by approximately \$0.6 million.

Use of Estimates -- The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Inventories -- Inventories consist principally of merchandise held for resale and are stated at the lower of cost or market. Cost is determined using the first-in, first-out (FIFO) method. The Company considers slow moving inventory to be surplus and calculates a loss on the impairment as the

difference between an individual item's cost and the net proceeds anticipated to be received upon disposal. Such inventory is directly written down to its net realizable value. The costs capitalized by the Company are the costs of the product and freight-in charges.

Prepaid Catalog Costs -- Prepaid catalog costs consist of direct response advertising costs related to catalog production and mailing. These costs are deferred and amortized as selling expenses over the estimated period in which the sales associated with such advertising are generated, in accordance with SOP 93-7, "Reporting on Advertising Costs". Total catalog expense was \$193.5 million, \$139.0 million and \$145.0 million, respectively, in 1996, 1997 and 1998.

Depreciation and Amortization -- Depreciation and amortization of property and equipment is provided on the straight-line method over the following lives: buildings and building improvements, 30-40 years; furniture, fixtures and equipment, 3-10 years; and leasehold improvements, over the shorter of the estimated useful lives or the terms of the related leases. Expenditures for maintenance and repairs are charged to operations as incurred.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

YEARS ENDED DECEMBER 28, 1996, DECEMBER 27, 1997 AND DECEMBER 26, 1998

Goodwill, Net -- Excess of cost over the net assets of acquired businesses is amortized on a straight-line basis over periods of up to forty years. Accumulated amortization was \$3.5 million and \$4.0 million at December 27, 1997 and December 26, 1998, respectively.

Mailing Lists -- The costs of acquired mailing lists are amortized over a five year period. Mailing lists, included in Other assets, amounted to \$.7 million and \$.3 million at December 27, 1997 and December 26, 1998, respectively, and are carried net of accumulated amortization of \$2.5 million and \$2.9 million, respectively.

Asset Recoverability -- In accordance with Statement of Financial Accounting Standards (SFAS) No. 121, "Accounting for the Improvement of Long-lived Assets and Long-Lived Assets to be Disposed Of," the Company reviews the carrying values of its long-lived and identifiable intangible assets for possible impairment whenever events or changes in circumstances indicate that the carrying amount of assets may not be recoverable. Based upon the assessment of undiscounted cash flows for certain underperforming catalogs, the Company recorded a charge related to impaired assets of \$22.0 million for the fiscal year ended December 28, 1996 (Note 3). No such adjustment was recorded in 1997 or 1998.

Accounting for Stock Based Compensation -- The Company accounts for its stock based compensation to employees using the fair value-based method under SFAS No. 123, "Accounting for Stock-Based Compensation."

Accounting for Income Taxes -- The Company accounts for income taxes in accordance with SFAS No. 109, "Accounting for Income Taxes." It requires an asset and liability approach for financial accounting and reporting for income taxes. The provision for income taxes is based on income after adjustment for those temporary and permanent items which are not considered in the determination of taxable income. Deferred taxes result when the Company recognizes revenue or expenses for income tax purposes in a different year than for financial reporting purposes.

Accounting for Transfers of Credit Card Receivables -- The Company accounts for transfers and servicing of financial assets in accordance with SFAS No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." This statement provides consistent standards for distinguishing transfers of financial assets that are sales from transfers that are secured borrowings. The adoption of this statement in fiscal 1997 resulted in the recognition of approximately \$21.9 million and \$19.0 million of additional accounts receivable and associated long-term debt at December 27, 1997 and December 26, 1998, respectively. This adjustment was based on the terms of the Company's agreement with an unrelated third party for the sale and servicing of accounts receivable. The provisions of this pronouncement were applied prospectively, from January 1, 1997.

Cash and Cash Equivalents -- Cash and cash equivalents include cash and all highly liquid investments with original maturities of ninety days or less.

Net (Loss) per Share -- Net (loss) per share is computed using the weighted average number of common shares outstanding in accordance with the provisions of SFAS No. 128, "Earnings Per Share." The weighted average number of shares used in the calculation for both basic and diluted net (loss) per share in 1996, 1997 and 1998 was 111,441,247, 176,621,080 and 206,508,110 shares, respectively. Diluted earnings per share equals basic earnings per share as the dilutive calculation would have an antidilutive impact as a result of the net loss incurred in each of the years 1996, 1997 and 1998.

Recently Issued Accounting Standards -- In June 1998, the Financial Accounting Standards Board ("FASB") issued Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 133 establishes new accounting and reporting standards for derivative financial instruments, including certain derivative instruments embedded in other contracts, and hedging activities. This statement is effective for fiscal years beginning after June 15, 1999. As

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

YEARS ENDED DECEMBER 28, 1996, DECEMBER 27, 1997 AND DECEMBER 26, 1998

the Company currently does not engage in derivative instruments and hedging activities, this statement is not expected to have a significant impact on the Company's financial statements.

Revenues -- The Company recognizes revenue at the time merchandise is shipped to the customer. Amounts billed to customers for postage and handling charges are recognized as revenue at the time that the revenues on the product shipment are recognized. The Company provides a reserve for expected future returns at the time the sale is recorded based upon historical experience.

Fair Value of Financial Instruments -- The fair value of financial instruments does not materially differ from their carrying values.

SUPPLEMENTAL DISCLOSURE OF NON-CASH ACTIVITIES

<TABLE>

<CAPTION>

	1996	1997	1998
	-----	-----	---
	(IN THOUSANDS)		
<S>	<C>	<C>	<C>
Capital lease obligations	\$ --	\$ 163	\$--
	-----	-----	---
Other equity issuances and exchanges	\$2,855	\$10,000	\$--
	-----	-----	---

</TABLE>

2. ACQUISITIONS AND INVESTMENTS

Acquisitions -- During fiscal 1995, the Company acquired the entities described below, which were accounted for by the purchase method of accounting. The operating results of these acquired businesses have been included in the consolidated statements of income (loss) from the date of acquisition.

Improvements -- In January 1995, the Company acquired substantially all of the assets of Leichtung, Inc., a direct marketer of wood-working and home improvement tools and related products sold under the Improvements and Leichtung Workshops names, for a purchase price of approximately \$12.8 million in cash and the assumption of certain liabilities. The excess purchase price over the fair values of the net assets acquired (goodwill) was \$7.3 million. Approximately \$1.4 million of customer mailing list intangible assets were also purchased in this transaction.

In the first quarter of 1996, the Company sold the assets of the Leichtung Workshops catalog for \$.9 million in cash and short-term notes and relocated all Improvements' telemarketing and fulfillment operations to the Company's Hanover, PA facility. There was no gain or loss recognized on the sale of the assets of the Leichtung Workshops catalog. The distribution facility in Ohio, which was being held for sale, was written down to its estimated net realizable value as of December 28, 1996. During fiscal 1997, the Company sold this facility.

The Safety Zone -- In February 1995, the Company acquired the remaining 80%

of the outstanding common stock it did not already own of Aegis Safety Holdings, Inc. ("Aegis"), publisher of The Safety Zone catalog, through the issuance of 634,900 shares of a newly-created Series B Convertible Additional Preferred Stock ("Series B Stock") of the Company with a stated value of \$10 per share. Dividends are payable on the Series B Stock at various rates and times and are contingent on specific earnings targets. The Series B Stock is also convertible, subject to antidilution, as discussed in Note 9. The excess purchase price over the fair values of the net assets acquired (goodwill) was \$7.1 million. In December 1996, the Company wrote-off the goodwill related to this acquisition in accordance with SFAS No. 121 (Note 3).

Austad's -- In May 1995, the Company acquired 67.5% of the outstanding shares of Austad's Holdings, Inc. ("Austad's"), which owned The Austad Company ("TAC"), the publisher of the Austad's catalog, featuring golf equipment, apparel and gifts, for a purchase price of \$1.8 million in cash. The excess purchase price over the fair values of the net assets acquired (goodwill) was \$4.5 million. Approximately \$1.2 million of

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

YEARS ENDED DECEMBER 28, 1996, DECEMBER 27, 1997 AND DECEMBER 26, 1998

customer mailing list intangible assets were also acquired in this transaction. In December 1996, the Company wrote-off the goodwill and mailing lists in accordance with SFAS No. 121 (Note 3).

Other Investments -- Other investments, which are recorded in Other assets in the accompanying consolidated balance sheets, include the following:

Blue Ridge Associates -- In January 1994, the Company purchased for \$1.1 million a 50% interest in Blue Ridge Associates ("Blue Ridge"), a partnership which owns the apparel distribution center in Roanoke, VA. The remaining 50% interest is held by an unrelated third party. This investment is accounted for by the equity method of accounting. The Company's investment in Blue Ridge was approximately \$.9 million at December 27, 1997 and December 26, 1998. In December 1996, the Company decided to consolidate fulfillment and telemarketing activities handled at this facility into its home fashions distribution facility in Roanoke, VA and attempted to sublease the vacated space. The partnership is currently looking for a sub-lessee for the apparel distribution center.

Regal Communications, Inc. -- During 1994, the Company invested approximately \$2.7 million in convertible debt securities of Regal Communications, Inc. ("Regal"). In September 1994, Regal filed for protection under Chapter 11 of the United States Code. As a result, during 1994, the Company wrote down the convertible debentures to the estimated fair value of \$1.7 million. The convertible debt matures on June 15, 2008, only \$.8 million of distributions were received through 1996. Due to the uncertainty that recoverability of substantially all of the remaining investment balance was subject to a favorable outcome, in December 1996 the Company wrote-off the remaining \$.9 million balance as the decline in fair value was considered an other-than-temporary impairment. In the third and fourth quarters of 1997, the Company received approximately \$1.3 million related to distributions made by Regal. This amount was recorded as income and is reflected as a reduction in general and administrative expenses in the accompanying consolidated statements of income (loss).

3. SPECIAL CHARGES

In December 1996, the Company recorded special charges aggregating approximately \$36.7 million. These charges consisted of severance and facility exit/relocation costs and fixed asset write-offs related to the downsizing of the Company. In addition, the special charges included a write-off for impairment of long-lived assets of certain underperforming catalogs. In December 1997, the Company adjusted its previous estimates for severance, facility exit/relocation and fixed asset write-offs based upon exit plan modifications related to its Weehawken, NJ corporate facility and delays in relocating from its Hanover, PA distribution center. Such adjustments resulted in a reduction of special charges of approximately \$2.2 million which consisted of \$.4 million in restructuring reserve reductions and \$1.8 million related to the reversal of the reserve for fixed assets expected to be abandoned. In 1998, the Company further adjusted its estimate for fixed asset write-offs by \$0.5 million based upon its decision not to exit its distribution facility in Hanover, PA.

Severance -- The cost of employee severance includes termination benefits

for line and supervisory personnel in fulfillment, telemarketing, MIS, merchandising, and various levels of corporate and catalog management. The Company paid approximately \$0.6 million and \$2.7 million of severance during fiscal 1998 and 1997, respectively. No remaining reserve was required at December 26, 1998 for severance costs.

Facility Exit/Relocation Costs and Fixed Asset Write-Offs -- These costs are primarily composed of the Company's decision to sublet its Weehawken, NJ corporate facility, and consolidate its Roanoke, VA apparel distribution center and Hanover, PA distribution center into its Roanoke, VA home fashion distribution center. As of December 27, 1997, the Company consolidated the Roanoke, VA apparel distribution center and relocated two of six catalogs from its Hanover, PA distribution center into its Roanoke, VA home fashion distribution center. Two of the remaining four catalogs were relocated by the end of fiscal 1998, while the other two catalogs will remain in the Hanover, PA distribution center. In addition, the Company modified its

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

YEARS ENDED DECEMBER 28, 1996, DECEMBER 27, 1997 AND DECEMBER 26, 1998

plan to vacate from its Weehawken, NJ corporate facility by agreeing to sublet a portion of the facility. Approximately \$3.3 million and \$4.4 million of these costs are recorded in Accrued liabilities in the accompanying consolidated balance sheets at December 26, 1998 and December 27, 1997, respectively.

Impairment of Long-Lived Assets -- The Company considers a history of catalog operating losses to be its primary indicator of potential impairment. Assets are grouped and evaluated for impairment at the lowest level for which there are identifiable cash flows that are independent of the cash flows of other groups of assets. The assets are deemed to be impaired if a forecast of undiscounted future operating cash flows is less than the carrying amounts. Considerable management judgment is necessary to estimate discounted future cash flows and, accordingly, actual results could vary significantly from such estimates. The Company recognized an impairment loss of approximately \$22.0 million in fiscal 1996 which was primarily composed of the write-off of goodwill and mailing lists associated with Tweeds, Austad's and The Safety Zone.

4. WRITE-DOWN OF INVENTORY OF DISCONTINUED CATALOGS

In 1998, the Company made a decision to discontinue the traditional catalog operations of the Tweeds, Austad's and Colonial Garden Kitchens catalog brands. These brands are to be repositioned primarily as e-commerce brands. The three non core catalogs generated revenues of \$96.2 million, \$65.6 million and \$46.3 million and variable contribution losses of \$6.6 million, \$1.9 million and \$8.9 million in 1996, 1997 and 1998, respectively. The variable contribution losses in 1998 include provisions of approximately \$3.7 million related to the write-down of inventory associated with these catalogs to their net realizable value based on the planned liquidation of such inventory and \$2.2 million of additional fourth quarter charges relating to prepaid catalog costs associated with the discontinuance of the catalog operations.

In 1995, the Company made a decision to discontinue six catalog brands. The six discontinued catalog brands generated revenues of \$20 million and \$0.6 million and losses of \$5.1 million and \$0.1 million in 1996 and 1997, respectively. The loss in 1996 includes a provision of approximately \$1.1 million primarily related to the write-down of inventory associated with these catalog brands to their net realizable value based on the planned liquidation of such inventory. This write-down was required due to lower than anticipated recovery rates on liquidation of such inventory.

The Company utilizes various methods to dispose of the inventory related to discontinued catalogs, including special sale catalogs, sales sections in other catalogs and liquidations of remaining inventory through off-price merchants. These losses represent an incremental provision in excess of the original provision included in cost of sales expense.

5. ACCOUNTS RECEIVABLE, NET

The Company currently maintains an agreement with an unrelated third party which provides for the sale and servicing of accounts receivable originating from the Company's revolving credit cards. The agreement expires in December 2000. The Company remains obligated to repurchase uncollectible accounts pursuant to the recourse provisions of the agreement and is required to maintain

a specified percentage of all outstanding receivables sold under the program as a deposit with the third party to secure its obligations under the agreement. The Company is required to maintain certain annual financial covenants related to this agreement and was not in compliance at December 26, 1998 and subsequently has received waivers for the default.

On March 9, 1999, the Company executed an agreement with a third party whereby the third party will replace the current service provider of the Company's private label credit card program. The agreement provides for the sale of the existing portfolio to the third party, at similar terms, and also provides for the Company to share credit risk with the third party above an agreed upon benchmark for the first eighteen months of the agreement. After the expiration of this period, the transaction is non-recourse to the Company. No gain or loss will be recognized upon execution of the new agreement. The agreement expires in

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

YEARS ENDED DECEMBER 28, 1996, DECEMBER 27, 1997 AND DECEMBER 26, 1998

March 2002 and can be renewed for additional one year terms. There are no financial covenants associated with this agreement. The Company expects conversion to the new program to occur by mid 1999.

The proceeds to the Company relating to the sale of receivables for 1996, 1997 and 1998 were \$39.2 million, \$39.0 million, and \$33.3 million respectively. At December 27, 1997 and December 26, 1998, the uncollected balances under this program were \$29.4 million and \$24.7 million, respectively, of which \$4.0 million and \$3.5 million respectively represent deposits under the agreement which are included in Accounts receivable, net. The total reserve balances maintained for the repurchase of uncollectible accounts were \$2.5 million and \$2.0 million at December 27, 1997 and December 26, 1998, of which \$1.4 million at December 27, 1997 and \$1.5 million at December 26, 1998 are included in Accrued liabilities and the remaining balance is included in the allowance for doubtful accounts.

Because the Company's sales are primarily made to individual customers located throughout the United States, the Company believes there are no concentrations of credit risks.

In addition, in accordance with SFAS No. 125 (Note 1), the Company has reflected approximately \$19.0 million of balances transferred pursuant to the agreement with the unrelated third party as Accounts receivable under financing agreement and as a long-term obligation on the consolidated balance sheet at December 26, 1998.

6. ACCRUED LIABILITIES

Accrued liabilities consist of the following (in thousands):

<TABLE>  
<CAPTION>

	DECEMBER 27, 1997	DECEMBER 26, 1998
	-----	-----
<S>	<C>	<C>
Restructuring	\$ 5,424	\$ 3,286
Reserve for future sales returns	6,043	4,778
Compensation	7,189	3,999
Taxes	1,983	1,211
Reserve for repurchase of accounts receivable sold with recourse	1,397	1,491
Other	8,223	7,447
	-----	-----
Total	\$30,259	\$22,212
	=====	=====

</TABLE>

7. LONG-TERM DEBT

Long-term debt consists of the following (in thousands):

<TABLE>  
<CAPTION>

	DECEMBER 27, 1997	DECEMBER 26, 1998
	-----	-----
<S>	<C>	<C>
Congress Facility	\$ 7,917	\$14,033
Term Financing Facility	18,000	17,000
6% Mortgage Notes Payable due 1998	2,787	--
Industrial Revenue Bonds due 2003	8,000	8,000
7.5% Convertible Subordinate Debentures due 2007	751	751
Obligations under Capital Leases	585	77
	-----	-----
	38,040	39,861
Less: current portion	5,305	2,573
	-----	-----
Total	\$32,735	\$37,288
	=====	=====

</TABLE>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

YEARS ENDED DECEMBER 28, 1996, DECEMBER 27, 1997 AND DECEMBER 26, 1998

Congress Facility -- The Congress Facility is comprised of a revolving line of credit of up to \$65 million and term loans aggregating \$14.0 million at December 26, 1998. The amount that can be borrowed under the Congress Facility is based on percentages of eligible inventory and accounts receivable. The Congress Facility is secured by all assets of the Company. On March 25, 1998, the Company amended its agreement with Congress to extend the facility until January 31, 2001. The Congress Facility places limitations on the incurrence of additional indebtedness. Beginning in November 1996, Congress lowered the advance rate by which the available inventory is calculated. Pursuant to the amendment discussed above, advance rates were increased along with other modifications that increased the Company's availability under the Facility. The Congress Revolving Credit Facility, prior to the amendment, bore interest at 1.25% above the prime rate and the Revolving Term Notes bore interest at 1.5% above prime rate. As amended, the Revolving Credit Facility bears interest at prime plus .5% or Eurodollar plus 2.5% and the Revolving Term Note bears interest at prime plus .75% or Eurodollar plus 2.75%. The Company is required to maintain minimum net worth and working capital throughout the terms of the agreement. The Company was in compliance with such covenants at December 26, 1998. At December 26, 1998 and for the remainder of the agreement, net worth and working capital are required to be \$21.5 and \$(10) million, respectively. The rates of interest related to the Congress Revolving Credit Facility and Revolving Term Notes at December 26, 1998 were 8.25% and 8.5%, respectively. As of December 26, 1998, the Company had no revolving indebtedness and \$14.0 million outstanding in Revolving Term Notes, respectively. As of December 27, 1997, the Company also had no revolving indebtedness and \$7.9 million outstanding in Revolving Term Notes, respectively. The face amount of unexpired documentary letters of credit at December 27, 1997 and December 26, 1998 were \$3.0 million and \$2.8 million respectively. At December 26, 1998, availability under the Congress Facility was approximately \$49 million, including cash on hand.

Term Financing Facility -- The Company borrowed \$10 million in each of 1994 and 1995 under a Term Financing Facility. The interest rate on the Term Financing Facility is based on the equivalent rate of A-1 commercial paper existing at the time of each borrowing. The face rate ranged from 5.24% to 5.91% at December 26, 1998 and 5.13% to 6.04% at December 27, 1997. The Term Financing Facility was reduced by annual principal payments of \$1.0 million in October 1997 and 1998 and requires annual principal payments of \$1.0 million in October 1999 with this amount increasing to \$1.6 million for each of the nine years thereafter. The Term Financing Facility continues to be outstanding and in effect under its original terms.

In December 1996, the Company finalized its agreement (the "Reimbursement Agreement") with Richeumont Finance S.A. ("Richeumont"), who along with the family of Alan G. Quasha, Chairman of the Board of the Company, jointly own NAR Group Limited ("NAR"), that provided the Company with approximately \$27.9 million of letters of credit through Swiss Bank, New York Branch issued under the Congress Facility. These letters of credit were issued for \$8.6 million related to the Industrial Revenue Bonds due 2003 and \$19.3 million related to the Term Financing Facility. On October 1, 1997 and October 1, 1998, the Company paid down \$1 million of the underlying debt, reducing the letters of credit to approximately \$25.8 million. The letters of credit were originally due on

February 18, 1998, however, the term was extended through March 30, 1999 and the letters of credit were modified to reflect assignment of obligations to Swiss Bank, Stamford Branch. The letters of credit carry an interest rate of 3.5% above the prime rate, currently 11.25%. In 1998, the Company paid a facility fee of \$1.1 million which is equal to 4% of the principal amount of the letters of credit. On March 2, 1999, Richemont agreed to extend its guarantee under the Reimbursement Agreement to March 31, 2000. As consideration for this guarantee, the Company agreed to pay to Richemont a facility fee of 9.5% of the principal amount of the letters of credit.

In the event that the Company has not paid in full, by the expiration date, any outstanding balances under the letters of credit, Richemont shall have the option, exercisable at any time prior to payment in full of all amounts outstanding under the letters of credit to convert such amount into common stock of the Company at the mean of the bid and ask prices of the Company's Common Stock on November 8, 1996, or the mean of

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

YEARS ENDED DECEMBER 28, 1996, DECEMBER 27, 1997 AND DECEMBER 26, 1998

the bid and ask prices of the Company's Common Stock on each of the thirty days immediately prior to the date of exercise of the conversion privilege. The Reimbursement Agreement is subordinate to the Congress Facility.

6% Mortgage Notes Payable Due 1998 -- In connection with The Company Store acquisition, subsidiaries of the Company executed and delivered two secured notes in the aggregate amount of \$3.5 million with interest at 6% per annum with principal and interest payments payable monthly on a fifteen-year amortization schedule with the remaining balance due in August 1998. The notes were repaid in full in August 1998.

Industrial Revenue Bonds Due 2003 -- The Industrial Revenue Bonds are due on December 1, 2003 and are secured by the related assets purchased from the proceeds of the bonds and by the Reimbursement Agreement. The obligations are guaranteed by the Company.

General -- At December 26, 1998, the aggregate annual principal payments required on debt instruments are as follows (in thousands): 1999 -- \$2,573; 2000 -- \$3,104; 2001 -- \$12,633; 2002 -- \$1,600; 2003 -- \$9,600 and thereafter -- \$10,351.

8. RIGHTS OFFERINGS AND ADDITIONAL INVESTMENTS

1997 RIGHTS OFFERING

The Company commenced a \$50 million rights offering (the "1997 Rights Offering") on April 29, 1997. Holders of record of the Company's Common Stock and Series B Convertible Additional Preferred Stock as of April 28, 1997, the record date, were eligible to participate in the 1997 Rights Offering. The Rights were exercisable at \$.90 per share. The 1997 Rights Offering expired on May 30, 1997, with 55,654,623 rights to purchase shares exercised, and it closed on June 6, 1997.

Richemont entered into a standby purchase agreement to purchase all shares not subscribed for by shareholders of record at the subscription price. Richemont purchased 40,687,970 shares in the 1997 Rights Offering and, as a result, then owned approximately 20.3% of the Company. The Company paid in cash, from the proceeds of the 1997 Rights Offering, to Richemont on the closing date approximately \$1.8 million, which represented an amount equal to 1% of the aggregate offering price of the aggregate number of shares issuable upon closing of the 1997 Rights Offering other than with respect to the shares of Common Stock held by NAR or its affiliates plus an amount equal to one-half of one percent of the aggregate number of shares acquired by NAR upon exercise of their rights (Standby Fee) plus an amount equal to 4% of the aggregate offering price in respect to all unsubscribed shares (Take-Up Fee).

On April 26, 1997, NAR irrevocably agreed with the Company, subject to and upon the consummation of the 1997 Rights Offering, to exercise certain of the rights distributed to it for the purchase of 11,111,111 shares of Common Stock that had an aggregate purchase price of approximately \$10 million. NAR agreed to pay for, and the Company agreed to accept as payment, for the exercise of such rights the surrender by NAR of the principal amount due under the Intercontinental Mining & Resources Limited ("IMR") Promissory Note dated

September 1996 in the principal amount of \$10 million and cancellation thereof.

In order to facilitate vendor shipments and to permit the commencement of the Company's plan to consolidate certain of its warehousing facilities, Richemont advanced \$30 million as of April 23, 1997 against its commitment to purchase all of the unsubscribed shares pursuant to the standby purchase agreement. The Company executed a subordinated promissory note in the amount of \$30 million to evidence this indebtedness (the "Richemont Promissory Note").

The gross cash proceeds from the 1997 Rights Offering of \$40 million (after giving effect to the acquisition and exercise by NAR of rights having an aggregate purchase price of \$10 million which were paid for by surrender and cancellation of the \$10 million IMR Promissory Note) were used to repay the \$30 million principal amount outstanding under the Richemont Promissory Note and the balance of the proceeds

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

YEARS ENDED DECEMBER 28, 1996, DECEMBER 27, 1997 AND DECEMBER 26, 1998

were used for working capital and general corporate purposes, including repayment of amounts outstanding under the Company's Revolving Credit Facility.

1996 RIGHTS OFFERING

The Company commenced its \$50 million Rights Offering (the "1996 Rights Offering") on July 19, 1996. Holders of record of the Company's Common Stock, 6% Series A Convertible Additional Preferred Stock and Series B Convertible Additional Preferred Stock as of July 18, 1996 were eligible to participate in the 1996 Rights Offering. The rights were exercisable at a price of \$1.03 per share.

Shareholders received 0.51 rights for each share of Common Stock held, 3.72 rights for each share of Series A Convertible Additional Preferred Stock held and 0.77 rights for each share of Series B Convertible Additional Preferred Stock held as of the record date. The 1996 Rights Offering closed on August 23, 1996.

Due to the Company's continued operating losses, the Company requested that NAR advance up to \$25 million against all the rights distributed to it and/or its commitment to purchase all of the unsubscribed shares. In May 1996, NAR advanced the Company \$25 million under a promissory note. Under the provisions of the promissory note, the Company repaid NAR the \$25 million advance plus accrued interest upon the closing of the 1996 Rights Offering.

The Company issued 48,748,785 shares pursuant to the 1996 Rights Offering which generated proceeds of approximately \$48 million, net of expenses. NAR received rights entitling it to purchase 24,015,964 shares in the 1996 Rights Offering and exercised such rights. In addition, the Company and NAR entered into a Standby Purchase Agreement, pursuant to which NAR purchased 6,898,866 shares not subscribed for by shareholders and received approximately \$.5 million as a fee. The proceeds of the 1996 Rights Offering were used by the Company: (i) to repay the \$14 million principal amount of 9.25% Notes held by an affiliate of NAR plus accrued interest, (ii) to repay the \$25 million principal amount advanced under the promissory note plus accrued interest and (iii) to repay approximately \$9 million under the Congress Facility. The Company recorded an extraordinary expense related to the early extinguishment of the 9.25% Notes, representing a write-off of the unamortized debt issuance costs of approximately \$1.1 million.

ADDITIONAL INVESTMENTS

In November 1997, the Company announced that SMALLCAP World Fund, Inc. ("SMALLCAP"), a mutual fund and substantial investor in the Company, agreed to purchase 3.7 million shares of the Company's Common Stock at \$1.41 per share, which represented fair market value, for an aggregate purchase price of approximately \$5.2 million in a private placement. This transaction was consummated on November 6, 1997. These shares were restricted and were subsequently registered under the Securities Act of 1933, as amended, pursuant to a registration rights agreement with SMALLCAP that called for the Company to use its best efforts to effect the registration of such shares as soon as practicable after April 1, 1998.

On July 31, 1998, Richemont acquired 5,646,490 additional shares of Common Stock of the Company pursuant to the exercise of certain common stock purchase

warrants with exercise prices from \$1.95 to \$2.59 per share and an aggregate total exercise price of \$13.6 million. The Company used the proceeds of the warrant exercise to reduce the amounts outstanding under the Congress Credit Facility.

#### 9. CAPITAL STOCK

Series B Convertible Additional Preferred Stock -- In February 1995, the Company issued 634,900 shares of its Class B Convertible Additional Preferred Stock ("Series B Stock") to acquire the remaining 80% of the outstanding common stock of Aegis Safety Holdings, Inc. ("Aegis"), publisher of The Safety Zone catalog. The Series B Stock has a stated value of \$10 per share. Non-cumulative dividends were to accrue and be paid at 5% per annum during each of the first three years after the February 1995 closing if Aegis attains at least \$1

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#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

YEARS ENDED DECEMBER 28, 1996, DECEMBER 27, 1997 AND DECEMBER 26, 1998

million in earnings before interest and taxes each year. In years four and five, dividends are cumulative and will accrue and be paid at 7% per annum and are not contingent on the achievement of any earnings target. Dividends were not paid in 1996 and 1997 based on The Safety Zone catalog's operating results for the year. In 1998 no dividend was paid, however, an accrual was made for \$388,000 to cover the dividend requirement for a portion of the fourth year at a rate of 7%.

The Series B Stock is convertible at any time, at \$6.66 per share, subject to antidilution, at the option of the holder and is convertible at the Company's option if the market value of the Company's Common Stock is greater than \$6.66 per share, subject to antidilution, for 20 trading days in any consecutive 30 day trading period. If, after five years, the Series B Stock is not converted, it is mandatorily redeemable, at the Company's option, in cash or for 952,352 shares of the Company's Common Stock provided the market value of the stock is at least \$6.33 per share, subject to antidilution. If the market value of the Company's Common Stock does not meet this minimum, the redemption rate is subject to adjustment which would increase the number of shares for which the Series B Stock is redeemed. In December 1996, the Company filed a registration statement on Form S-3 with the Securities and Exchange Commission registering 952,352 shares of the Company's Common Stock related to the future conversion of the Series B Stock.

The fair value of the Series B Stock, which is based on an independent appraisal, was \$.9 million less than the stated value at February 1995. This discount is being amortized over a five year period and resulted in a charge of \$.2 million to preferred stock dividends in the consolidated statements of income (loss) in 1996, 1997 and 1998.

General -- At December 26, 1998, there were 210,427,385 shares of Common Stock and 634,900 shares of Series B Stock outstanding. Additionally, an aggregate of 14,362,830 shares of Common Stock were reserved for issuance pursuant to the exercise of outstanding options.

Dividend Restrictions -- The Company is restricted from paying dividends on its Common Stock or from acquiring its capital stock by certain debt covenants contained in agreements to which the Company is a party.

#### 10. STOCK BASED COMPENSATION PLANS

The Company has established several stock based compensation programs for the benefit of its employees. As discussed in Note 1, the Company adopted the fair value provisions of SFAS No 123. The Company has recorded compensation charges of \$2.7 million, \$1.8 million and \$.5 million in 1998, 1997 and 1996, respectively. The effects of applying SFAS No. 123 for recognizing compensation costs are not indicative of future amounts. SFAS No. 123 does not apply to awards prior to 1996 and additional awards in the future are anticipated. The information below details each of the respective plans, including the changes during the years presented.

1978 Stock Option Plan -- Pursuant to the Company's Stock Option Plan (the "1978 Plan"), an aggregate of 2,830,519 shares were approved for issuance to employees and consultants of the Company. The option price and the periods over which an option is exercisable are specified by the Compensation Committee of the Board of Directors.

Options expire five years from the date of grant and generally vest over three to four years. Payment for shares purchased upon the exercise of an option shall be in cash or stock of the Company. If paid in cash, a partial payment may be made with the remainder in installments evidenced by promissory notes at the

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

YEARS ENDED DECEMBER 28, 1996, DECEMBER 27, 1997 AND DECEMBER 26, 1998

discretion of the Compensation Committee. Changes in options outstanding, expressed in numbers of shares, are as follows:

1978 STOCK OPTION PLAN

<TABLE>  
<CAPTION>

	1996		1997		1998	
	SHARES	WEIGHTED AVERAGE EXERCISE PRICE	SHARES	WEIGHTED AVERAGE EXERCISE PRICE	SHARES	WEIGHTED AVERAGE EXERCISE PRICE
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Options outstanding, beginning of period	90,000	\$2.42	70,000	\$2.11	30,000	\$2.25
Granted	--	--	--	--	--	--
Exercised	--	--	--	--	--	--
Forfeited	--	--	(40,000)	\$2.00	--	--
Expired	(20,000)	\$3.50	--	--	--	--
Options outstanding, end of period	70,000	\$2.11	30,000	\$2.25	30,000	\$2.25
Options exercisable, end of period	23,333	\$2.11	20,000	\$2.25	30,000	\$2.25

</TABLE>

The options outstanding at December 26, 1998 have a weighted average exercise price of \$2.25 with a weighted average contractual life of 1.8 years.

Director Options -- In June 1994, one director was granted non-qualified options to purchase shares at an exercise price of \$6.125 per share, of which 50,000 shares will expire in March 2000. In February 1996, four directors were granted options to purchase 5,000 shares each, at the current market price, which at the time was \$1.44. These options expire in February 2001. In 1998, 5,000 options were canceled for a director no longer on the board.

Executive Equity Incentive Plan -- In December 1992, the Board of Directors adopted the 1993 Executive Equity Incentive Plan (the "Incentive Plan"). The Incentive Plan was approved by shareholders at the 1993 Annual Meeting. Pursuant to the Incentive Plan, options to purchase shares of the Company's Common Stock will be granted from time to time by the Compensation Committee of the Board of Directors to selected executives of the Company or its affiliates. For each such option granted up to a maximum of 250,000, the selected executive will receive the right to purchase on a specified date (the "Tandem Investment Date") a number of shares of the Company's Common Stock ("Tandem Shares") equal to one-half the maximum number of shares of the Company's Common Stock covered by such option. Company financing is

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

YEARS ENDED DECEMBER 28, 1996, DECEMBER 27, 1997 AND DECEMBER 26, 1998

available under the Incentive Plan to pay for the purchase price of the Tandem Shares. Changes in shares and options outstanding, expressed in numbers of shares, for the Incentive Plan are as follows:

EXECUTIVE EQUITY INCENTIVE PLAN

<TABLE>  
<CAPTION>

	1996		1997		1998	
	SHARES	WEIGHTED AVERAGE EXERCISE PRICE	SHARES	WEIGHTED AVERAGE EXERCISE PRICE	SHARES	WEIGHTED AVERAGE EXERCISE PRICE
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Shares outstanding, beginning of period	877,163		1,062,496		1,109,496	
Shares purchased	202,000		47,000		--	
Shares forfeited	(16,667)		--		(2,000)	
Shares outstanding, end of period	1,062,496		1,109,496		1,107,496	
Options outstanding, beginning of period	1,021,170	\$2.66	640,498	\$1.73	664,000	\$1.53
Granted	350,000	\$1.00	94,000	\$1.00	--	--
Forfeited	(730,672)	\$2.68	(70,498)	\$2.60	(50,000)	\$2.50
Options outstanding, end of period	640,498	\$1.73	664,000	\$1.53	614,000	\$1.44
Options exercisable, end of period	173,832	\$2.56	130,000	\$2.58	80,000	\$2.63

</TABLE>

The fair value of each option granted is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions for grants in 1996 and 1997: risk free interest rate of 6.06% -- 6.37%, expected lives of 6 years, expected volatility of 39.07% -- 40.81%, and no expected dividends.

The following table summarizes information about stock options outstanding at December 26, 1998:

RANGE OF EXERCISE PRICES	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
	NUMBER OUTSTANDING AT 12/26/98	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER EXERCISABLE AT 12/26/98	WEIGHTED AVERAGE EXERCISE PRICE
<S>	<C>	<C>	<C>	<C>	<C>
\$ .69 to \$1.00	444,000	3.8	\$ .97	--	--
\$2.50 to \$3.00	170,000	1.4	\$2.65	80,000	\$2.63
Total	614,000	3.1	\$1.44	80,000	\$2.63

</TABLE>

Options granted under the Incentive Plan become exercisable three years after the dates of grant and expire six years from the dates of grant. The purchase price is payable in full at the time of purchase in cash or shares of the Company's Common Stock valued at their fair market value or in a combination thereof.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

YEARS ENDED DECEMBER 28, 1996, DECEMBER 27, 1997 AND DECEMBER 26, 1998

Changes to the notes receivable related to the Incentive Plan are as follows:

	1996	1997	1998
<S>	<C>	<C>	<C>
Notes receivable balance, beginning of			

period	\$1,651,000	\$1,742,000	\$1,734,000
Additions	202,000	32,000	--
Payments	(111,000)	(40,000)	(31,000)
	-----	-----	-----
Notes receivable, end of period	\$1,742,000	\$1,734,000	\$1,703,000
	=====	=====	=====

</TABLE>

Under the terms of the Incentive Plan, the purchase price for shares is based upon the market price at the date of purchase, and payment is made in the form of a 20% cash down payment and a six year note that bears interest at the mid-term applicable federal rate, as determined by the Internal Revenue Service, as of the month of grant of such shares. The Incentive Plan participants purchased shares at prices ranging from \$1.00 to \$4.94, with the Company accepting notes bearing interest at rates ranging from 5.00% to 7.75%.

All Employee Equity Investment Plan -- In December 1992, the Board of Directors adopted the 1993 All Employee Equity Investment Plan (the "Investment Plan"). Such plan was approved by the shareholders at the 1993 Annual Meeting. Each full-time or permanent part-time employee of the Company or its affiliates who has attained the age of 18, has met certain standards of continuous service with the Company or an affiliate of the Company and is not covered by a collective bargaining agreement may participate in the Investment Plan. The plan was terminated on July 31, 1996 and closed to any future purchases.

Under the Investment Plan, employees were given the opportunity to purchase shares of the Company's Common Stock at a 40% discount from the average market value of a share of stock over a 20-day period prior to subscription. Shares became vested over a three-year period and upon such date when a participant ceased employment, any unvested shares were forfeited.

Changes in shares outstanding expressed in numbers of shares for the Investment Plan were as follows:

<TABLE>

<CAPTION>

	1996	1997	1998
	-----	-----	-----
<S>	<C>	<C>	<C>
Shares outstanding, beginning of period	508,134	521,032	482,771
Shares purchased	80,550	--	--
Shares forfeited	(67,652)	(38,261)	(10,432)
	-----	-----	-----
Shares outstanding, end of period	521,032	482,771	472,339
	=====	=====	=====

</TABLE>

As of December 26, 1998, a total of 11,027 of outstanding shares are scheduled to vest in February 1999. There are no other outstanding shares purchased under the Investment Plan which have not yet been vested.

Restricted Stock Award Plan -- In December 1992, the Board of Directors adopted the 1993 Restricted Stock Award Plan (the "Restricted Stock Plan"). An aggregate of 500,000 shares of the Company's Common Stock have been reserved for issuance under the Restricted Stock Plan. During 1993, 224,300 shares were awarded to participants.

1996 Stock Option Plan -- Pursuant to the Company's 1996 Stock Option Plan (the "1996 Plan"), an aggregate of 7,000,000 shares of the Company's Common Stock were approved for issuance to employees of the Company. The option exercise price is the fair market value as of the date of grant. The exercise price of incentive stock options granted to an employee who owns more than 10% of the total combined voting power of all classes of stock of the Company is equal to 110% of the fair market value of the Company's Common Stock on the date of grant. Options granted may be performance based and all options granted must be specifically identified as incentive stock options or nonqualified options, as defined in the Internal Revenue Code. No employee may be granted stock options in excess of 500,000 shares of the Company's Common

is granted incentive stock options that first became exercisable during any given calendar year shall be limited to \$100,000. To the extent such limitation is exceeded, the option shall be treated as nonqualified. Stock options may be granted for terms not to exceed 10 years and shall be exercisable in accordance with the terms and conditions specified in each option agreement. In the case of an employee who owns stock possessing more than 10% of the total combined voting power of all classes of stock, the options must become exercisable within 5 years. Payment for shares purchased upon exercise of options shall be in cash or stock of the Company.

Changes in options outstanding, granted and the weighted average exercise prices are as follows:

1996 STOCK OPTION PLAN

	1996		1997		1998	
	SHARES	WEIGHTED AVERAGE EXERCISE PRICE	SHARES	WEIGHTED AVERAGE EXERCISE PRICE	SHARES	WEIGHTED AVERAGE EXERCISE PRICE
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Options outstanding, beginning of period	--	--	3,445,000	\$0.98	4,451,249	\$0.98
Granted	3,445,000	\$0.98	1,765,000	\$1.29	1,550,000	\$3.07
Exercised	--	--	--	--	(363,949)	\$1.01
Forfeited	--	--	(758,751)	\$1.01	(335,900)	\$1.52
Expired	--	--	--	--	--	--
Options outstanding, end of period	3,445,000	\$0.98	4,451,249	\$1.10	5,301,400	\$1.66
Options exercisable, end of period	--	\$ --	855,443	\$0.98	1,749,232	\$1.07
Weighted average fair value of options granted	\$ 0.67		\$ 0.66		\$ 1.50	

The fair value of each option granted is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions for grants in 1996, 1997 and 1998: risk free interest rate of 6.80%, 6.21% and 5.64% respectively, expected lives of 7, 4 and 4 years, respectively, and expected volatility of 45.35%, 59.40% and 55.82%, respectively, and no expected dividends. The following table summarizes information about stock options outstanding at December 26, 1998:

RANGE OF EXERCISE PRICES	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
	NUMBER OUTSTANDING AT 12/26/98	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER EXERCISABLE AT 12/26/98	WEIGHTED AVERAGE EXERCISE PRICE
<S>	<C>	<C>	<C>	<C>	<C>
\$ .69 to \$1.00	2,688,570	4.9	\$0.96	1,405,958	\$0.97
\$1.43 to \$1.75	1,122,830	5.6	\$1.46	343,274	\$1.46
\$2.44 to \$2.88	415,000	6.8	\$2.60	--	--
\$3.19 to \$3.50	1,075,000	6.1	\$3.24	--	--
Total	5,301,400	5.4	\$1.66	1,749,232	\$1.07

The Chief Executive Officer (The "CEO") Stock Option Plans -- the information below details each of the stock based plans granted in 1996 for the benefit of the CEO. In each of the plans: (1) the option price represents the average of the low and high fair market values of the Common Stock on August 23, 1996, the date of the closing of the 1996 Rights Offering, (2) the options outstanding at December 26, 1998 have an

YEARS ENDED DECEMBER 28, 1996, DECEMBER 27, 1997 AND DECEMBER 26, 1998

exercise price of \$1.16, and (3) payment for shares purchased upon the exercise of the option shall be in cash or stock of the Company.

The details of the plans are as follows:

The CEO Tandem Plan -- Pursuant to the Company's Tandem Plan (the "Tandem Plan"), the right to purchase an aggregate of 1,000,000 shares of Common Stock and an option to purchase 2,000,000 shares of Common Stock was approved for issuance to the CEO. The option is subject to antidilution provisions and due to the Company's 1996 Rights Offering was adjusted to 1,510,000 shares of Common Stock and 3,020,000 options. The options expire 10 years from the date of grant and vest over four years. The options outstanding at December 26, 1998 have a weighted average contractual life of 7.25 years.

The CEO Performance Year Plan -- Pursuant to the Company's Performance Year Plan (the "Performance Plan"), an option to purchase an aggregate of 1,000,000 shares of Common Stock was approved for issuance to the CEO in 1996. The options are based upon performance as defined by the Compensation Committee of the Board of Directors. Should a performance target not be attained, the option is carried over to the succeeding year in conjunction with that year's option until the expiration date. The options expire 10 years from the date of grant and vest over four years. Payment for shares purchased upon the exercise of the options shall be in cash or stock of the Company. The options outstanding at December 26, 1998 have a weighted average contractual life of 7 years.

The CEO Closing Price Option Plan -- Pursuant to the Company's Closing Price Option Plan (the "Closing Price Plan"), an option to purchase an aggregate of 2,000,000 shares of Common Stock was approved for issuance to the CEO in 1996. The options expire 10 years from the date of grant and will become vested upon the Company's stock price reaching a specific target over a consecutive 91 calendar day period as defined by the Compensation Committee of the Board of Directors. In May 1998, the Compensation Committee of the Board of Directors reduced the target per share market price at which the Company's Common Stock had to trade in consideration of the dilutive effect of the increase in outstanding shares from the date of the grant. The performance period has a range of 6 years beginning August 23, 1996, the date of the closing of the 1996 Rights Offering. The options outstanding at December 26, 1998 have a weighted average contractual life of 7.25 years.

The CEO Six Year Stock Option Plan -- Pursuant to NAR's Six Year Stock Option Plan (the "Six Year Plan"), an option to purchase an aggregate of 250,000 shares of Common Stock was granted to the CEO by NAR. The option is subject to antidilution provisions and due to the Company's 1996 Rights Offering was adjusted to 377,500 options. The options expire 6 years from the date of grant and vest after one year. The options outstanding at December 26, 1998 have a weighted average contractual life of 3.25 years.

The CEO Seven Year Stock Option Plan -- Pursuant to NAR's Seven Year Stock Option Plan (the "Seven Year Plan"), an option to purchase an aggregate of 250,000 shares of Common Stock was granted to the CEO by NAR. The option is subject to antidilution provisions and due to the Company's 1996 Rights Offering was adjusted to 377,500 options. The options expire 7 years from the date of grant and vest after two years. The options outstanding at December 26, 1998 have a weighted average contractual life of 4.25 years.

The CEO Eight Year Stock Option Plan -- Pursuant to NAR's Eight Year Stock Option Plan (the "Eight Year Plan"), an option to purchase an aggregate of 250,000 shares of Common Stock was granted to the CEO by NAR. The option is subject to antidilution provisions and due to the Company's 1996 Rights Offering was adjusted to 377,500 options. The options expire 8 years from the date of grant and vest after three years. The options outstanding at December 26, 1998 have a weighted average contractual life of 5.25 years.

YEARS ENDED DECEMBER 28, 1996, DECEMBER 27, 1997 AND DECEMBER 26, 1998

The CEO Nine Year Stock Option Plan -- Pursuant to NAR's Nine Year Stock Option Plan (the "Nine Year Plan"), an option to purchase an aggregate of 250,000 shares of common stock was granted to the CEO by NAR. The option was subject to antidilution provisions and due to the Company's 1996 Rights Offering was adjusted to 377,500 options. The options expire 9 years from the date of grant and vest after four years. The options outstanding at December 26, 1998 have a weighted average contractual life of 6.25 years.

For the combined CEO plans, options outstanding, granted and the weighted average exercise prices are as follows:

CEO STOCK OPTION PLANS

	1996		1997		1998	
	SHARES	WEIGHTED AVERAGE EXERCISE PRICE	SHARES	WEIGHTED AVERAGE EXERCISE PRICE	SHARES	WEIGHTED AVERAGE EXERCISE PRICE
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Options outstanding, beginning of period	--	--	7,530,000	\$1.16	7,530,000	\$1.16
Granted	7,530,000	\$1.16	--	--	--	--
Exercised	--	--	--	--	--	--
Forfeited	--	--	--	--	--	--
Expired	--	--	--	--	--	--
Options outstanding, end of period	7,530,000	\$1.16	7,530,000	\$1.16	7,530,000	\$1.16
Options exercisable, end of period	--	\$ --	1,382,500	\$1.16	2,765,000	\$1.16
Weighted average fair value of options granted	\$0.17- 0.77		--		--	

The fair value of the options granted in 1996 for each of the CEO Stock Option Plans was estimated on the date of grant using the Black-Scholes option-price model with the following weighted average assumptions:

	RISK-FREE	INTEREST RATE	EXPECTED VOLATILITY	EXPECTED DIVIDEND YIELD	LIFE (YEARS)
<S>	<C>	<C>	<C>	<C>	<C>
CEO Tandem Plan	6.79%	45.02%	0.00%	9.85	
CEO Performance Plan	6.79%	45.02%	0.00%	9.85	
CEO Closing Price Plan(1)	6.79%	45.02%	0.00%	9.85	
CEO Six Year Plan	6.42%	45.02%	0.00%	5.85	
CEO Seven Year Plan	6.53%	45.02%	0.00%	6.85	
CEO Eight Year Plan	6.62%	45.02%	0.00%	7.85	
CEO Nine Year Plan	6.73%	45.02%	0.00%	8.85	

(1) The CEO Closing Price Option Plan used the Black-Scholes option-pricing model in conjunction with a Monte Carlo simulation.

YEARS ENDED DECEMBER 28, 1996, DECEMBER 27, 1997 AND DECEMBER 26, 1998

The following table summarizes information about stock options outstanding at December 26, 1998:

<TABLE>  
<CAPTION>

RANGE OF EXERCISE PRICES	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
	NUMBER OUTSTANDING AT 12/27/98	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER AT 12/26/98	WEIGHTED AVERAGE EXERCISE PRICE
<S> \$1.16	<C> 7,530,000	<C> 6.7	<C> \$1.16	<C> 2,765,000	<C> \$1.16

OTHER STOCK AWARDS

During 1997, the Company granted, and the Compensation Committee approved, non-qualified options to certain employees for the purchase of an aggregate of 1,000,000 shares of the Company's Common Stock. The options become vested over three years and expire in 2003.

The options have an exercise price of \$1.00 and a remaining contractual life of 4.2 years. The fair value of the options at the date of grant was estimated to be \$.52 based on the following weighted average assumptions: risk free interest rate of 6.48%, expected life of 4 years, expected volatility of 59.40% and no expected dividends. During 1998, 191,000 options were exercised leaving 809,000 options outstanding (with 142,332 exercisable) at December 26, 1998.

11. EMPLOYEE BENEFIT PLANS

The Company maintains four defined contribution plans, one of which terminated in 1997. The current plans collectively benefit all employees of the Company and provide employees with the option of investing in the Company's stock. The employer's matching contributions range from 2% to 4 1/2% of annual compensation. Combined matching contributions for all plans were \$.8 million, \$.7 million and \$.6 million for 1996, 1997 and 1998, respectively.

12. INCOME TAXES

At December 26, 1998, the Company had net operating loss carryforwards ("NOLs") totalling \$283.2 million which expire as follows: In the year 2001 -- \$18.1 million, 2003 -- \$14.6 million, 2004 -- \$14.3 million, 2005 -- \$20.6 million, 2006 -- \$46.9 million, 2007 -- \$27.7 million, 2010 -- \$24.6 million, 2011 -- \$64.9 million, 2012 -- \$30.0 million and 2018 -- \$21.5 million. The Company also has \$1 million of general business tax credit carry-forwards that expire in 2000 through 2009. The Company's available NOLs for tax purposes consist of \$92.2 million of NOLs subject to a \$4 million annual limitation under Section 382 of the Internal Revenue Code of 1986 and \$191.0 million of NOLs not subject to a limitation. The unused portion of the \$4 million annual limitation for any year may be carried forward to succeeding years to increase the annual limitation for those succeeding years.

SFAS No. 109 requires that the future tax benefit of such NOLs be recorded as an asset to the extent that management assesses the utilization of such NOLs to be "more likely than not." Despite incurring additional NOLs of \$30.0 million in 1997 and \$21.5 million in 1998, management believes that the Company will be able to utilize up to \$43 million of NOLs based upon the Company's assessment of numerous factors, including its future operating plans.

For the years ended December 27, 1997 and December 26, 1998, the Company maintained its deferred tax asset of \$15 million (net of a valuation allowance of \$80.1 million in 1997 and \$94.7 million in 1998). Management believes that the \$15 million net deferred tax asset still represents a reasonable estimate of the future utilization of the NOLs and the reversal of timing items and will continue to routinely evaluate the likelihood of future profits and the necessity of future adjustments to the deferred tax asset valuation allowance.

Realization of the future tax benefits is dependent on the Company's ability to generate taxable income within the carryforward period and the periods in which net temporary differences reverse. Future levels of operating

income and taxable income are dependent upon general economic conditions, competitive pressures on sales and margins, postal and other delivery rates, and other factors beyond the Company's control. Accordingly, no assurance can be given that sufficient taxable income will be generated for utilization of NOLs and reversals of temporary differences.

The Company's Federal income tax provision was zero in 1996, 1997 and 1998. The Company's provision for state income taxes was \$1.0 million per year in 1996, 1997, and 1998.

A reconciliation of the Company's net loss for financial statement purposes to taxable loss for the years ended December 28, 1996, December 27, 1997 and December 26, 1998 is as follows (in thousands):

	1996	1997	1998
<S>	<C>	<C>	<C>
(Loss) before income taxes	\$ (102,895)	\$ (9,877)	\$ (24,585)
Extraordinary item	(1,134)	--	--
Differences between income before taxes for financial statement purposes and taxable income:			
State income taxes	(1,000)	(999)	(1,000)
Permanent differences	14,917	413	420
Net change in temporary differences	26,983	(19,543)	3,677
Taxable loss	\$ (63,129)	\$ (30,006)	\$ (21,488)

</TABLE>

The components of the net deferred tax asset at December 26, 1998 are as follows (in millions):

	CURRENT	NON-CURRENT	TOTAL
<S>	<C>	<C>	<C>
Federal tax NOL and business tax credit carry forwards	\$ --	\$99.1	\$99.1
Allowance for doubtful accounts	0.9	--	0.9
Inventories	1.7	--	1.7
Prepaid catalog costs	(1.5)	--	(1.5)
Property and equipment	--	1.8	1.8
Excess of net assets of acquired business	--	(1.0)	(1.0)
Mailing Lists	--	1.2	1.2
Accrued liabilities	4.4	--	4.4
Customer prepayments and credits	1.7	--	1.7
Deferred Credits	--	0.4	0.4
Tax basis in net assets of discontinued operations in excess of financial statement amount	0.7	--	0.7
Executive Incentive Plan	--	0.1	0.1
Other	--	0.2	0.2
Deferred Tax Asset	7.9	101.8	109.7
Valuation allowance	(4.6)	(90.1)	(94.7)
Deferred Tax Asset, net	\$3.3	\$11.7	\$15.0

</TABLE>

The Company has established a valuation allowance for a portion of the deferred tax asset, due to the limitation on the utilization of the NOLs and its estimate of the future utilization of the NOLs.

The Company's tax returns for years subsequent to 1984 have not been examined by the Internal Revenue Service ("IRS"). Availability of the NOLs might be challenged by the IRS upon examination of such returns which could affect the availability of NOLs. The Company believes, however, that IRS challenges that

would limit the utilization of NOLs will not have a material adverse effect on the Company's financial position.

Total tax expense for each of the three fiscal years presented differ from the amount computed by applying the Federal statutory tax rate due to the following:

	1996 PERCENT OF PRE-TAX INCOME	1997 PERCENT OF PRE-TAX LOSS	1998 PERCENT OF PRE-TAX LOSS
	-----	-----	-----
<S>	<C>	<C>	<C>
Tax (benefit) at Federal statutory rate	(35.0)%	(35.0)%	(35.0)%
State and local taxes	0.6	6.6	2.6
Net increase in (reversal of) temporary differences			
Depreciation and amortization	4.0	(10.3)	3.1
Deferred compensation	--	7.3	0.9
Restructuring reserves	5.3	(44.8)	(7.8)
Customer allowance & return reserves	0.9	(9.4)	(0.5)
Inventory	(0.4)	(11.5)	4.8
Prepaid catalog costs	(1.1)	7.6	2.0
Allowance for doubtful accounts	1.1	(9.4)	(1.2)
Other	(0.6)	1.2	3.9
Tax NOLs for which no benefit could be recognized	21.1	106.4	30.6
Permanent differences	5.1	1.5	0.6
	-----	-----	-----
	1.0%	10.2%	4.0%
	=====	=====	=====

</TABLE>

### 13. LEASES

Certain leases to which the Company is a party provide for payment of real estate taxes and other expenses. Most leases are operating leases and include various renewal options with specified minimum rentals. Rental expense for operating leases related to continuing operations were as follows (in thousands):

	1996	1997	1998
	-----	-----	-----
<S>	<C>	<C>	<C>
Minimum rentals	\$12,931	\$12,013	\$9,297
	-----	-----	-----

</TABLE>

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

YEARS ENDED DECEMBER 28, 1996, DECEMBER 27, 1997 AND DECEMBER 26, 1998

Future minimum lease payments under noncancelable operating and capital leases relating to continuing operations that have initial or remaining terms in excess of one year, together with the present value of the net minimum lease payments as of December 26, 1998, are as follows (in thousands):

	OPERATING LEASES	CAPITAL LEASES
	-----	-----
<S>	<C>	<C>
1999	\$ 7,957.9	73.7
2000	6,073.2	4.0
2001	5,104.5	--
2002	4,875.5	--
2003	4,454.9	--
Thereafter	25,442.7	--
	-----	-----
Total minimum lease payments	\$53,908.7	77.7
	=====	

Less amount representing interest (a)	.8
	-----
Present value of minimum lease payments (b)	\$76.9
	=====

</TABLE>

- 
- (a) Amount necessary to reduce net minimum lease payments to present value calculated at the Company's incremental borrowing rate at the inception of the leases.
- (b) Reflected in the balance sheet as current and noncurrent capital lease obligations of \$1,344,000 and \$482,000 at December 28, 1996 and \$518,000 and \$67,000 at December 27, 1997, and \$73,000 and \$4,000 at December 26, 1998.

The future minimum lease payments under noncancelable leases that remain from the discontinued restaurant operations as of December 26, 1998 are as follows: 1999 -- \$.7 million; 2000 -- \$.7 million; 2001 -- \$.7 million; 2002 -- \$.5 million; 2003 -- \$.4 million and thereafter \$.7 million. The above amounts exclude annual sublease income from subleases which have the same expiration as the underlying leases as follows: 1999 -- \$.6 million, 2000 -- \$.6 million, 2001 -- \$.6 million, 2002 -- \$.4 million, 2003 -- \$.3 million and thereafter \$.5 million.

In connection with the Company's investment in Blue Ridge Associates, a subsidiary of the Company is contingently liable with respect to the lease obligation related to the apparel distribution center in Roanoke, VA. The Company does not guarantee the indebtedness associated with the Roanoke apparel center held by Blue Ridge Associates.

#### 14. CHANGES IN MANAGEMENT AND EMPLOYMENT AGREEMENTS

On March 7, 1996, Rakesh K. Kaul was named President and Chief Executive Officer and elected to the Board of Directors of the Company. Effective that date, Mr. Kaul entered into an Executive Employment Agreement (the "Employment Agreement") which provides for an "at will" term commencing on March 7, 1996 at a base salary of \$525,000 per year. The Employment Agreement also provides for Mr. Kaul's participation in the Short-Term Incentive Plan for Rakesh K. Kaul. That plan, which was approved by the shareholders at the June 20, 1996 shareholders meeting, provides for an annual bonus of between 0% and 125% of Mr. Kaul's base salary, depending on the attainment of various performance objectives as determined in accordance with objective formulae or standards to be adopted by the Compensation Committee as part of the performance goals for each such year. The Employment Agreement also provides for Mr. Kaul's participation in the Long-Term Incentive Plan for Rakesh K. Kaul. That plan, which was approved by the shareholders at the June 20, 1996 shareholders meeting, provides for the purchase by Mr. Kaul of 1,000,000 shares of Common Stock at their fair market value; an option expiring March 7, 2006 for the purchase of 2,000,000 shares of (the "Tandem Plan") Common Stock; an option expiring March 7, 2006 to purchase

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#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

YEARS ENDED DECEMBER 28, 1996, DECEMBER 27, 1997 AND DECEMBER 26, 1998

2,000,000 shares of Common Stock (the "Closing Price Plan") exercisable only upon satisfaction of the condition that the closing price of the Common Stock has attained an average of \$7.00 per share, subsequently amended to \$4.50 per share (as discussed in Note 10, "Stock Based Compensation Plans"), during a 91-day period ending on or before March 7, 2002; an option expiring March 7, 2006 to purchase 1,000,000 shares of Common Stock at their fair market value, subject to the attainment of certain objective performance goals to be set by the Compensation Committee; and four options expiring March 7, 2002, and the first three anniversaries thereof, respectively, for the purchase of 250,000 shares of Common Stock each, granted by NAR, the Company's majority shareholder (the "NAR Options"). As a result of the 1996 Rights Offering, Mr. Kaul was granted an additional .51 shares for each share of Common Stock he was granted under the Tandem Stock Purchase Right, the Tandem Option, and the NAR Options (collectively, the "Award Shares") which resulted in his being granted 1,510,000 shares, 3,020,000 options and 1,510,000 options, respectively. The Employment Agreement also provides for the grant of registration rights under the Securities Act of 1993, as amended (the "Securities Act"), for shares of Common Stock owned by Mr. Kaul. Pursuant to the Employment Agreement, the Company will make Mr. Kaul whole, on an after-tax basis, for various relocation and temporary

living expenses related to his employment with the Company. In the event that Mr. Kaul's employment is actually or constructively terminated by the Company, other than for cause, he will be entitled for a 12-month period commencing on the date of his termination to (i) a continuation of his base salary, (ii) continued participation in the Company's medical, dental, life insurance and retirement plans offered to senior executives of the Company, and (iii) a bonus, payable in 12 equal installments, equal to 100% of his base salary (at the rate in effect immediately prior to such termination). In addition, Mr. Kaul will be entitled to receive (i) to the extent not previously paid, the short-term bonus payable to Mr. Kaul for the year preceding the year of termination and (ii) for the year in which Mr. Kaul's employment is terminated, an additional bonus equal to his annual base salary for such year, pro-rated to reflect the portion of such year during which Mr. Kaul is employed. Mr. Kaul's employment will be deemed to be constructively terminated by the Company in the event of a change in control (as defined in the Employment Agreement), the Company's bankruptcy, a material diminution of his responsibilities, or a relocation of the Company's headquarters outside the New York metropolitan area without his prior written consent. In the event that Mr. Kaul's employment terminates other than as a result of a termination by the Company, Mr. Kaul will not be entitled to any payment or bonus, other than any short-term bonus he is entitled to receive from the year prior to termination.

#### 15. RELATED PARTY TRANSACTIONS

At December 26, 1998, current and former officers and executives of the Company owed the Company approximately \$3.0 million of which approximately \$1.7 million relates to receivables, excluding accrued interest, under the Executive Equity Incentive Plan. These amounts due to the Company bear interest at rates ranging from 5.00% to 7.75% and are due from 1999 to 2002. An additional \$1.0 million relates to a receivable, excluding accrued interest, under the Long-Term Incentive Plan for Rakesh K. Kaul.

At December 26, 1998, Richemont Finance S.A., a Luxemburg company, owned approximately 49% of the Company's common stock through direct ownership. On June 1, 1998, Richemont entered into an agreement with a third party, whereby Richemont was granted an irrevocable proxy to vote approximately 9.3 million shares currently held by the third party. Accordingly, Richemont has voting control of 53% of the Company.

#### 16. COMMITMENTS AND CONTINGENCIES

The Company is involved in various routine lawsuits of a nature which are deemed customary and incidental to its business. In the opinion of management, the ultimate disposition of such actions will not have a material adverse effect on the Company's financial position or results of operations.

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#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

YEARS ENDED DECEMBER 28, 1996, DECEMBER 27, 1997 AND DECEMBER 26, 1998

In connection with certain discontinued restaurant transactions, the Company remains contingently liable with respect to lease obligations for 6 restaurant properties, should the buyers fail to perform under the agreements. The future minimum lease payments as of December 26, 1998 are as follows (in thousands): 1998 -- \$.4; 1999 -- \$.4; 2000 -- \$.4; 2001 -- \$.4; 2002 -- \$.3, and thereafter \$.9.

#### 17. SELECTED QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

<TABLE>  
<CAPTION>

	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER
	-----	-----	-----	-----
	(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)			
<S>	<C>	<C>	<C>	<C>
1997				
Revenues	\$129,725	\$133,750	\$122,597	\$171,566
Gross profit	43,663	47,210	42,228	66,318
Loss from operations	(4,339)	(3,142)	(1,677)	7,309
Net (loss)	(6,621)	(5,648)	(3,421)	4,814
Preferred stock dividends	(48)	(47)	(47)	(48)
Net (loss) applicable to Common Shareholders	\$ (6,669)	\$ (5,695)	\$ (3,468)	\$ 4,766
	-----	-----	-----	-----

Net (loss) per share basic and diluted	\$ (.05)	\$ (.04)	\$ (.02)	\$ .02
	=====	=====	=====	=====
1998				
Revenues	\$124,535	\$134,562	\$123,417	\$163,600
Gross profit	45,834	50,903	46,554	59,269
Income (loss) from operations	(2,964)	(2,367)	(763)	(10,713)
Net income (loss)	(4,649)	(4,859)	(2,836)	(13,241)
Preferred stock dividends	(122)	(158)	(158)	(140)
Net income (loss) applicable to Common Shareholders	\$ (4,771)	\$ (5,017)	\$ (2,994)	\$ (13,381)
	-----	-----	-----	-----
Net income (loss) per share-basic and diluted	\$ (.02)	\$ (.02)	\$ (.01)	\$ (.06)
	=====	=====	=====	=====

</TABLE>

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

None.

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PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

(a) Identification of Directors:

The information required by this item is incorporated by reference from the Company's definitive proxy statement to be filed by the Company pursuant to Regulation 14A.

(b) Identification of Executive Officers:

<TABLE>  
<CAPTION>

NAME	AGE	TITLE AND OTHER INFORMATION(A)	OFFICE HELD SINCE
----	---	-----	-----
<S>	<C>	<C>	<C>
Rakesh K. Kaul	47	President, Chief Executive Officer and Director since March 7, 1996. From 1995 until February 1996, Mr. Kaul served as the Vice Chairman and Chief Operating Officer of Fingerhut Companies, Inc. From January 1992 until March 1995, Mr. Kaul was the Executive Vice President and Chief Administrative Office of Fingerhut. Prior to January 1992, Mr. Kaul served as the Senior Vice President, Strategy and Finance and a director at Shaklee Corporation.	1996
Michael Lutz	56	Executive Vice President -- Chief Operating Officer since March 1998. From September 1994 to March 1998, Mr. Lutz was Executive Vice President -- Operations of the Company. Prior to September 1994, Mr. Lutz held various positions with New Hampton, Inc./Avon Direct Response.	1994
Larry J. Svoboda	50	Senior Vice President and Chief Financial Officer since September 25, 1996. From 1987 to September 1996, Mr. Svoboda was the Chief Financial Officer of the Florsheim Shoe Company. Prior to 1987, Mr. Svoboda was with the Sara Lee Corporation.	1996
Richard B. Hoffman	52	Senior Vice President and Chief Marketing Officer since March 1998. Prior to March 1998, Mr. Hoffman was engaged in private marketing consulting from March 1997. Mr. Hoffman was President and Chief Operating Officer of Jayhawk Acceptance Corporation from February 1996 to March 1997. Prior to February 1996, Mr. Hoffman was a Senior Vice President at Fingerhut Companies, Inc.	1998

Michael D. Contino	38	Senior Vice President and Chief Information Officer since December 1996. Mr. Contino joined the Company in 1995 as Director of Computer Operations and Telecommunications. Prior to 1995, Mr. Contino was the Senior Manager of I.S. Operations at New Hampton, Inc., a subsidiary of Spiegel, Inc.	1996
Ralph Bulle	49	Senior Vice President -- Human Resources since June 1996. Mr. Bulle joined the Company in 1993 as Vice President -- Human Resources. Prior to 1993, Mr. Bulle was Senior Vice President -- Operations & Human Resources for Seaman Furniture Company.	1996
Robert J. Vill	42	Vice President -- Finance and Treasurer since November 1998. From April 1995 to November 1998, Mr. Vill was Vice President and Treasurer for Saks Fifth Avenue; prior thereto, he served as its Assistant Treasurer.	1998

</TABLE>

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<TABLE>  
<CAPTION>

NAME	AGE	TITLE AND OTHER INFORMATION (A)	OFFICE HELD SINCE
----	---	-----	-----
<S>	<C>	<C>	<C>
William C. Kingsford	52	Vice President and Corporate Controller since May 1997. Prior to May 1997, Mr. Kingsford was Vice President and Chief Internal Auditor at Melville Corporation.	1997

</TABLE>

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(a) All references to dates and positions held by such executive officers prior to September 1993 refer to the Company's predecessor, The Horn & Hardart Company ("H&H"). H&H merged with and into the Company in September 1993, with the Company surviving.

Pursuant to the Company's By-Laws, its officers are chosen annually by the Board of Directors and hold office until their respective successors are chosen and qualified.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this item is incorporated by reference from the Company's definitive proxy statement to be filed by the Company pursuant to Regulation 14A.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required by this item is incorporated by reference from the Company's definitive proxy statement to be filed by the Company pursuant to Regulation 14A.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this item is incorporated by reference from the Company's definitive proxy statement to be filed by the Company pursuant to Regulation 14A.

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PART IV

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

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

<TABLE>  
<CAPTION>

PAGE

&lt;C&gt; &lt;S&gt;

1. Index to Financial Statements	
Report of Independent Public Accountants -- Hanover Direct, Inc. and Subsidiaries Financial Statements.....	21
Consolidated Balance Sheets as of December 27, 1997 and December 26, 1998.....	22
Consolidated Statements of Income (Loss) for the years ended December 28, 1996, December 27, 1997 and December 26, 1998.....	23
Consolidated Statements of Cash Flows for the years ended December 28, 1996, December 27, 1997 and December 26, 1998.....	24
Consolidated Statements of Shareholders' Equity for the years ended December 28, 1996, December 27, 1997 and December 26, 1998.....	25
Notes to Consolidated Financial Statements for the years ended December 28, 1996, December 27, 1997 and December 26, 1998.....	26
Supplementary Data:	
Selected quarterly financial information (unaudited) for the two fiscal years ended December 26, 1998.....	47
2. Index to Financial Statement Schedule	
Schedule II -- Valuation and Qualifying Accounts.....	52
Schedules other than that listed above are omitted because they are not applicable or the required information is shown in the financial statements or notes thereto.....	
3. Exhibits	
The exhibits required by Item 601 of Regulation S-K filed as part of, or incorporated by reference in, this report are listed in the accompanying Exhibit Index.....	54

&lt;/TABLE&gt;

Reports on Form 8-K: None.

(c) Exhibits required by Item 601 of Regulation S-K.

See Exhibit Index.

(d) Financial Statement Schedules

See (a) 2. above.

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## SCHEDULE II

## HANOVER DIRECT, INC.

## VALUATION AND QUALIFYING ACCOUNTS

YEARS ENDED DECEMBER 26, 1998, DECEMBER 27, 1997  
AND DECEMBER 28, 1996

&lt;TABLE&gt;

&lt;CAPTION&gt;

DESCRIPTION	COLUMN A	COLUMN B	COLUMN C		COLUMN D	COLUMN E
	-----	-----	----- ADDITIONS		-----	-----
	BALANCE AT	CHARGED TO	CHARGED TO	DEDUCTIONS	BALANCE AT	
	BEGINNING	COSTS AND	OTHER ACCOUNTS	DESCRIBE	END OF	
	OF PERIOD	EXPENSES	DESCRIBE		PERIOD	
	-----	-----	-----	-----	-----	
<S>	<C>	<C>	<C>	<C>	<C>	
1998:						
Allowance for Doubtful Accounts						
Receivable, Current.....	\$ 4,755,000	3,278,000		3,998,000 (1)	4,035,000	
Reserves for Discontinued						
Operations.....	1,354,000			372,000 (2)	982,000	
Restructuring Reserve.....	5,424,000			2,138,000 (2)	3,286,000	
Reserves for Sales Returns.....	6,043,000	14,755,000		16,020,000 (2)	4,778,000	
Deferred Tax Asset Valuation						
Allowance.....	80,100,000		14,600,000 (4)		94,700,000	
Allowance for Net Unrealized						

Losses on Convertible Debt Securities.....				
1997:				
Allowance for Doubtful Accounts Receivable, Current.....	\$ 6,419,000	3,973,000	5,637,000 (1)	4,755,000
Reserves for Discontinued Operations.....	1,722,000		368,000 (2)	1,354,000
Restructuring Reserve.....	9,504,000	(400,000)	3,680,000 (2)	5,424,000
Reserves for Sales Returns....	9,036,000	76,507,000	79,500,000 (2)	6,043,000
Deferred Tax Asset Valuation Allowance.....	82,600,000		(2,500,000) (4)	80,100,000
Allowance for Net Unrealized Losses on Convertible Debt Securities.....	1,888,000		1,888,000 (1)	
1996:				
Allowance for Doubtful Accounts Receivable, Current.....	\$ 3,988,000	6,805,000	4,374,000 (1)	6,419,000
Reserves for Discontinued Operations.....	1,639,000		83,000 (2)	1,722,000
Restructuring Reserve.....		9,504,000		9,504,000
Reserves for Sales Returns....	5,535,000	106,836,000	103,335,000 (2)	9,036,000
Deferred Tax Asset Valuation Allowance.....	48,500,000		34,100,000 (4)	82,600,000
Allowance for Net Unrealized Losses on Convertible Debt Securities.....	1,000,000	888,000		1,888,000

</TABLE>

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- (1) Accounts written-off.
- (2) Utilization of reserves.
- (3) Represents acquired allowance for doubtful accounts receivable.
- (4) Represents the change in the valuation allowance offset by the change in the gross tax asset.

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SIGNATURES

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

HANOVER DIRECT, INC.  
(registrant)

By: /s/ RAKESH K. KAUL

-----  
Rakesh K. Kaul  
President and Chief  
Executive Officer

Date: March 25, 1999

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

Principal Financial Officer:

/s/ LARRY J. SVOBODA

-----  
Larry J. Svoboda  
Senior Vice President and  
Chief Financial Officer

Board of Directors:

<TABLE>

<S>

<C>

/s/ RALPH DESTINO  
-----  
Ralph Destino, Director

/s/ J. DAVID HAKMAN  
-----  
J. David Hakman, Director

/s/ RAKESH K. KAUL  
-----  
Rakesh K. Kaul, Director

/s/ S. LEE KLING  
-----  
S. Lee Kling, Director

/s/ THEODORE H. KRUTTSCHNITT  
-----  
Theodore H. Kruttschnitt, Director

/s/ ELIZABETH VALK LONG  
-----  
Elizabeth Valk Long, Director

/s/ EDMUND R. MANWELL  
-----  
Edmund R. Manwell, Director

/s/ SHAILESH J. MEHTA  
-----  
Shailesh J. Mehta, Director

/s/ JAN P. DU PLESSIS  
-----  
Jan P. du Plessis, Director

/s/ ALAN G. QUASHA  
-----  
Alan G. Quasha, Director

/s/ HOWARD M.S. TANNER  
-----  
Howard M.S. Tanner, Director

/s/ ROBERT F. WRIGHT  
-----  
Robert F. Wright, Director

Date: March 25, 1999

EXHIBIT INDEX

<TABLE>		
<CAPTION>		
EXHIBIT NUMBER	DESCRIPTION OF DOCUMENT AND INCORPORATION BY REFERENCE WHERE APPLICABLE	PAGE
ITEM 601 OF		NO.
REGULATION S-K		
-----	-----	-----
<C>	<S>	<C>
2.1	Asset Purchase Agreement dated as of December 1, 1994 among the Company, LWI Holdings, Inc., Bankers Trust Company, Leichtung, Inc. and DRI Industries, Inc. Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 1994.	
2.2	Stock Purchase Agreement dated as of February 16, 1995 among the Company, Hanover Holdings, Inc., Aegis Safety Holdings, Inc., F.L. Holdings, Inc., Roland A.E. Franklin, Martin E. Franklin, Jonathan Franklin, Floyd Hall, Frederick Field, Homer G. Williams, Frank Martucci, Norm Thompson Outfitters, Inc. and Capital Consultants, Inc. (as agent) (collectively, the "Aegis Sellers"). Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 1994.	
2.3	Stock Purchase Agreement dated as of May 19, 1995 by and among the Company, Austad Holdings, Inc. ("AHI"), The Austad Company ("TAC"), David B. Austad ("DBA"), Denise Austad ("DA"), David Austad, as custodian ("DBAC"), Oscar Austad, Dorothy Austad, Randall Austad, Kristi Austad, Lori Miller, Robin Miller, Kerri Derenge, Sharon Stahl, Lori Miller, as custodian, Dorothy Austad, as attorney-in-fact, and Kara Miller (collectively, the "Austad Individuals"). Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 30, 1995.	
2.4	Agreement and Plan of Corporate Separation and Reorganization dated as of February 16, 1996 by and among the Company, AHI, TAC, DBA, DBAC, and DA. Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 30, 1995.	
3.1	Restated Certificate of Incorporation. Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 28, 1996.	
3.2	Certificate of Correction filed to correct a certain error in the Restated Certificate of Incorporation. Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 26, 1998.	
3.3	By-laws. Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarterly period ended September 27, 1997.	
4.1	Warrant Agreement dated as of October 25, 1991 ("NAR Warrant") between the Company* and NAR Group Limited ("NAR") for 279,110 shares of Common Stock. Incorporated by reference to the Company's* Current Report on	

Form 8-K dated October 25, 1991.

- 4.2 Registration Rights Agreement dated as of July 8, 1991 among the Company\*, NAR and Intercontinental Mining & Resources Limited ("IMR"). Incorporated by reference to the Company's\* Current Report on Form 8-K Dated July 10, 1991.
- 4.3 Warrant Agreement dated as of January 1, 1994 between the Company and Sears Shop At Home Services, Inc. ("Sears"). Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 1994.
- 4.4 Registration Rights Agreement dated as of February 16, 1995 among the Company and the Aegis Sellers. Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 1994.
- 4.5 Warrant Agreement dated as of July 8, 1991 between the Company and IMR for 1,750,000 shares of Common Stock. Incorporated by reference to the Company's Current Report on Form 8-K dated July 10, 1991.
- 4.6 Warrant Agreement dated as of October 25, 1991 between the Company and NAR for 931,791 shares of Common Stock. Incorporated by reference to the Company's Current Report on Form 8-K dated October 25, 1991.

</TABLE>

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<TABLE>

<CAPTION>

EXHIBIT NUMBER

ITEM 601 OF

REGULATION S-K

DESCRIPTION OF DOCUMENT AND INCORPORATION BY REFERENCE WHERE APPLICABLE

PAGE

NO.

<C>

<S>

<C>

- 4.7 Second Amendment to Warrant Agreement and Warrant Certificate for 931,791 shares of Common Stock, between the Company and NAR dated as of November 13, 1995. Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 30, 1995.
- 4.8 First Amendment to Warrant Agreement and Warrant Certificate for 1,750,000 shares of Common Stock, between the Company and IMR dated as of November 13, 1995. Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 30, 1995.
- 4.9 First Amendment to Warrant Agreement and Warrant Certificate for 279,110 shares of Common Stock, between the Company and NAR dated as of November 13, 1995. Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 30, 1995.
- 4.10 Second Amendment to Warrant Agreement between the Company and IMR dated as of August 23, 1996. Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 28, 1996.
- 4.11 Second Amendment to Warrant Agreement between the Company and NAR dated as of August 23, 1996. Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 28, 1996.
- 4.12 Third Amendment to Warrant Agreement between the Company and NAR dated as of August 23, 1996. Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 28, 1996.
- 10.1 Stock Option Plan, as amended. Incorporated by reference to the Company's\* Annual Report on Form 10-K for the fiscal year ended December 28, 1991.
- 10.2 Account Purchase Agreement dated as of December 21, 1992 among the Company\*, Hanover Direct Pennsylvania, Inc. ("HDPI"), Brawn of California, Inc. ("Brawn") and General Electric Capital Corporation ("GECC"). Incorporated by reference to the Company's\* Annual Report on Form 10-K for the fiscal year ended December 26, 1992.
- 10.3 Amendment No. 1 to the Account Purchase Agreement dated as of July 12, 1993 among the Company\*, HDPI, Brawn, Gump's By Mail, Gump's, Gump's Holdings and GECC. Incorporated by reference to the Company's\* Current Report on Form 8-K dated July 12, 1993.
- 10.4 Amendment No. 2 to the Account Purchase Agreement dated as of June 1, 1995 among the Company, HDPI, Brawn, Gump's, Gump's By Mail, Gump's Holdings and GECC. Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 30, 1995.
- 10.5 Waiver and Amendment No. 3 to the Account Purchase Agreement dated as of December 14, 1995 among the Company, HDPI, Brawn and GECC. Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 30, 1995.
- 10.6 Amendment No. 4 to the Amended and Restated Account Purchase Agreement dated as of June 28, 1996 among the Company, HDPI, Brawn, Gump's, Gump's by Mail, Gump's Holdings and GECC. Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December

	28, 1996.
10.7	Form of Stock Option Agreement between the Company* and certain Directors of the Company, as amended. Incorporated by reference to the Company's* Annual Report on Form 10-K for the fiscal year ended December 28, 1991.
10.8	Termination of Employment Agreement and Employment and Consulting Agreement dated as of December 31, 1995 between the Company and Jack E. Rosenfeld. Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 28, 1996.
10.9	Registration Rights Agreement between the Company and Rakesh K. Kaul, dated as of August 23, 1996. Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 28, 1996.

</TABLE>

<TABLE>		
<CAPTION>		
EXHIBIT NUMBER	DESCRIPTION OF DOCUMENT AND INCORPORATION BY REFERENCE WHERE APPLICABLE	PAGE
ITEM 601 OF		NO.
REGULATION S-K		
-----	-----	-----
<C>	<S>	<C>
10.10	Form of Indemnification Agreement among the Company* and each of the Company's directors and executive officers. Incorporated by reference to the Company's* Current Report on Form 8-K dated October 25, 1991.	
10.11	Letter Agreement dated May 5, 1989 among the Company*, Theodore H. Kruttschnitt, J. David Hakman and Edmund R. Manwell. Incorporated by reference to the Company's* Current Report on Form 8-K dated May 10, 1989.	
10.12	Hanover Direct, Inc. Savings Plan as amended. Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended January 1, 1994.	
10.13	Restricted Stock Award Plan. Incorporated by reference to the Company's* Registration Statement on Form S-8 filed on February 24, 1993, Registration No. 33-58760.	
10.14	All Employee Equity Investment Plan. Incorporated by reference to the Company's* Registration Statement on Form S-8 filed on February 24, 1993, Registration No. 33-58756.	
10.15	Executive Equity Incentive Plan, as amended. Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 28, 1996.	
10.16	Form of Supplemental Retirement Plan. Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended January 1, 1994.	
10.17	1996 Stock Option Plan, as amended. Incorporated by reference to the Company's 1997 Proxy Statement.	
10.18	Loan and Security Agreement dated as of November 14, 1995 by and among Congress Financial Corporation ("Congress"), Hanover Direct Pennsylvania, Inc. ("HDPA"), Brawn of California, Inc. ("Brawn"), Gump's by Mail, Inc. ("Gump's by Mail"), Gump's Corp. ("Gump's"), The Company Store, Inc. ("The Company Store"), Tweeds, Inc. ("Tweeds"), LWI Holdings, Inc. ("LWI"), Aegis Catalog Corporation ("Aegis"), Hanover Direct Virginia, Inc. ("HDVA") and Hanover Realty Inc. ("Hanover Realty"). Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 30, 1995.	
10.19	First Amendment to Loan and Security Agreement dated as of February 22, 1996 by and among Congress, HDPA, Brawn, Gump's by Mail, Gump's, The Company Store, Tweeds, LWI, Aegis, HDVA, Hanover Realty and TAC. Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 28, 1996.	
10.20	Second Amendment to Loan and Security Agreement dated as of April 16, 1996 by and among Congress, HDPA, Brawn, Gump's by Mail, Gump's, The Company Store, Tweeds, LWI, Aegis, HDVA, Hanover Realty and Austad. Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 28, 1996.	
10.21	Third Amendment to Loan and Security Agreement dated as of May 24, 1996 by and among Congress, HDPA, Brawn, Gump's by Mail, Gump's, The Company Store, Tweeds, LWI, Aegis, HDVA, Hanover Realty and Austad. Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 28, 1996.	
10.22	Fourth Amendment to Loan and Security Agreement dated as of May 31, 1996 by and among Congress, HDPA, Brawn, Gump's by Mail, Gump's, The Company Store, Tweeds, LWI, Aegis, HDVA, Hanover Realty and Austad. Incorporated by reference to the Company's Annual Report on Form 10-K	

for the year ended December 28, 1996.

10.23 Fifth Amendment to Loan and Security Agreement dated as of September 11, 1996 by and among Congress, HDPa, Brawn, Gump's by Mail, Gump's, The Company Store, Tweeds, LWI, Aegis, HDVA, Hanover Realty and Austad. Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 28, 1996.

</TABLE>

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<TABLE>

<CAPTION>

EXHIBIT NUMBER

ITEM 601 OF

REGULATION S-K

DESCRIPTION OF DOCUMENT AND INCORPORATION BY REFERENCE WHERE APPLICABLE

PAGE

NO.

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EXHIBIT NUMBER	DESCRIPTION OF DOCUMENT AND INCORPORATION BY REFERENCE WHERE APPLICABLE	PAGE NO.
10.24	Sixth Amendment to Loan and Security Agreement dated as of December 5, 1996 by and among Congress, HDPa, Brawn, Gump's by Mail, Gump's, The Company Store, Tweeds, LWI, Aegis, HDVA, Hanover Realty and Austad. Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 28, 1996.	
10.25	Seventh Amendment to Loan and Security Agreement dated as of December 18, 1996 by and among Congress, HDPa, Brawn, Gump's by Mail, Gump's, The Company Store, Tweeds, LWI, Aegis, HDVA, Hanover Realty and Austad. Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 28, 1996.	
10.26	Eighth Amendment to Loan and Security Agreement dated as of March 26, 1997 by and among Congress, HDPa, Brawn, Gump's by Mail, Gump's, The Company Store, Tweeds, LWI, Aegis, HDVA, Hanover Realty and Austad. Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 26, 1998.	
10.27	Ninth Amendment to Loan and Security Agreement dated as of April 18, 1997 by and among Congress, HDPa, Brawn, Gump's by Mail, Gump's, The Company Store, Tweeds, LWI, Aegis, HDVA, Hanover Realty and Austad. Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 26, 1998.	
10.28	Tenth Amendment to Loan and Security Agreement dated as of October 31, 1997 by and among Congress, HDPa, Brawn, Gump's by Mail, Gump's, The Company Store, Tweeds, LWI, Aegis, HDVA, Hanover Realty and Austad. Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 26, 1998.	
10.29	Eleventh Amendment to Loan and Security Agreement dated as of _____, 1998 by and among Congress, HDPa, Brawn, Gump's by Mail, Gump's, The Company Store, Tweeds, LWI, Aegis, HDVA, Hanover Realty and Austad. Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 26, 1998.	
10.30	Subordination Agreement, dated as of November 14, 1995, among Congress, IMR, and the Trustee. Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 30, 1995.	
10.31	Long-Term Incentive Plan for Rakesh K. Kaul. Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 28, 1996.	
10.32	Short-Term Incentive Plan for Rakesh K. Kaul. Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 28, 1996.	
10.33	Employment Agreement dated as of March 7, 1996 between the Company and Rakesh K. Kaul. Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 28, 1996.	
10.34	Tandem Option Plan dated as of August 23, 1996 between the Company and Rakesh K. Kaul. Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 28, 1996.	
10.35	Closing Price Option dated as of August 23, 1996 between the Company and Rakesh K. Kaul. Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 28, 1996.	
10.36	Performance Price Option dated as of August 23, 1996 between the Company and Rakesh K. Kaul. Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 28, 1996.	
10.37	Six-Year Stock Option dated as of August 23, 1996 between NAR and Rakesh K. Kaul. Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 28, 1996.	

</TABLE>

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EXHIBIT NUMBER ITEM 601 OF REGULATION S-K	DESCRIPTION OF DOCUMENT AND INCORPORATION BY REFERENCE WHERE APPLICABLE	PAGE NO.
<C>	<S>	<C>
10.38	Seven-Year Stock Option dated as of August 23, 1996 between NAR and Rakesh K. Kaul. Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 28, 1996.	
10.39	Eight-Year Stock Option dated as of August 23, 1996 between NAR and Rakesh K. Kaul. Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 28, 1996.	
10.40	Nine-Year Stock Option dated as of August 23, 1996 between NAR and Rakesh K. Kaul. Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 28, 1996.	
10.41	Letter of Credit, dated December 18, 1996, from Swiss Bank Corporation, New York Branch in favor of Fleet National Bank, as trustee. Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 28, 1996.	
10.42	Substitute Letter of Credit, dated February 18, 1998, from Swiss Bank Corporation, Stamford Branch ("Swiss Bank") in favor of State Street Bank and Trust Company, as trustee. Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 26, 1998.	
10.43	Reimbursement Agreement, dated as of December 18, 1996, by and between Swiss Bank and the Company. Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 28, 1996.	
10.44	First Amendment to Reimbursement Agreement, dated as of February 18, 1998, by and between Swiss Bank and the Company. Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 26, 1998.	
10.45	Hanover Indemnity Agreement, dated as of December 18, 1996, between Richemont Finance S.A. ("Richemont") and the Company, HDPI, Brawn, Gump's, Gump's by Mail, The Company Store, Tweeds, LWI, Aegis, HDVA and Hanover Realty. Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 28, 1996.	
10.46	Subordination Agreement, dated as of December 18, 1996, between Congress and Swiss Bank. Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 28, 1996.	
10.47	Subordination Agreement, dated as of December 18, 1996 between Congress and Richemont. Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 28, 1996.	
10.48	Series A Note Agreement, dated as of November 9, 1994, between the Company and Norwest Bank Minnesota, N.A. ("Norwest"), as trustee. Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 28, 1996.	
10.49	Placement Agreement, dated as of November 9, 1994, by and between the Company and NationsBank of North Carolina, N.A. Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 28, 1996.	
10.50	Remarketing and Interest Services Agreement, dated as of November 9, 1994, by and between the Company and NationsBank of North Carolina, N.A. Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 28, 1996.	
10.51	First Supplemental Series A Note Agreement, dated as of December 29, 1995, between the Company and Norwest. Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 28, 1996.	
10.52	First Amendment to Placement Agreement, dated as of December 29, 1995 by and between the Company and NationsBank of North Carolina, N.A. Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 28, 1996.	

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EXHIBIT NUMBER ITEM 601 OF REGULATION S-K	DESCRIPTION OF DOCUMENT AND INCORPORATION BY REFERENCE WHERE APPLICABLE	PAGE NO.
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<C>	<S>	<C>
10.53	First Amendment to Remarketing and Interest Services Agreement, dated as of December 29, 1995 by and between the Company and NationsBank of North Carolina, N.A. Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 28, 1996.	
10.54	Second Supplemental Series A Note Agreement, dated as of December 18, 1996, between the Company and Norwest. Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 28, 1996.	
10.55	Second Amendment to Series A Note, dated December 18, 1996 made by the Company. Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 28, 1996.	
10.56	Second Amendment to Placement Agreement, dated as of December 18, 1996 by and between the Company and NationsBank of North Carolina, N.A. Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 28, 1996.	
10.57	Second Amendment to Remarketing and Interest Services Agreement, dated as of December 18, 1996 by and between the Company and NationsBank of North Carolina, N.A. Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 28, 1996.	
10.58	Series B Note Agreement dated as of April 25, 1995, between the Company and Norwest. Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 28, 1996.	
10.59	First Amendment to Series B Note Agreement, dated as of December 29, 1995, between the Company and Norwest. Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 28, 1996.	
10.60	Second Amendment to Series B Note Agreement, dated as of December 18, 1996, between the Company and Norwest. Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 28, 1996.	
10.61	Second Amendment to Series B Note, dated December 18, 1996 made by the Company. Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 28, 1996.	
10.62	Series B Letter of Credit, dated as of December 18, 1996, issued by Swiss Bank. Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 28, 1996.	
10.63	Amendment to Series B Letter of Credit, dated as of February 18, 1998, between Swiss Bank and Norwest. Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 26, 1998.	
10.64	NAR Promissory Note dated as of September 11, 1996. Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 28, 1996.	
10.65	Series A Letter of Credit, dated as of December 18, 1996, issued by Swiss Bank. Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 28, 1996.	
10.66	Amendment to Series A Letter of Credit, dated as of February 18, 1998, between Swiss Bank and Norwest. Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 26, 1998.	
10.67	First Amendment to Series A Note, dated as of December 29, 1995 made by Hanover Direct, Inc. Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 28, 1996.	
10.68	\$10,000,000 Series B Note, dated as of April 27, 1995 and made by Hanover Direct, Inc. Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 28, 1996.	

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EXHIBIT NUMBER		
ITEM 601 OF		
REGULATION S-K	DESCRIPTION OF DOCUMENT AND INCORPORATION BY REFERENCE WHERE APPLICABLE	PAGE NO.
<C>	<S>	<C>
10.69	First Supplemental Series B Note Agreement, dated as of December 29, 1995. Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 28, 1996.	
10.70	\$10,000,000 Series A Note, dated as of November 9, 1994 and made by Hanover Direct, Inc. Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 28, 1996.	
10.71	Stock Purchase Agreement, dated as of November 4, 1997, by and between	

the Company and SMALLCAP World Fund, Inc. ("SMALLCAP") Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 27, 1997.

10.72 Registration Rights Agreement, dated as of November 4, 1997, by and between the Company and SMALLCAP. Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 27, 1997.

\*\*10.73 Twelfth Amendment to Loan and Security Agreement, dated as of September 30, 1998 by and among Congress, HDPI, Brawn, GBM, Gump's, Hanover Holding Corp. ("HH Corp."), LWI, Aegis, HDV, Hanover Realty, Austad, Tweeds, LLC ("Tweeds LLC"), Silhouettes, LLC ("Silhouettes LLC"), Hanover Company Store, LLC ("HCS LLC"), Domestications, LLC ("Domestications LLC") and Colonial Garden Kitchens, Inc. ("Colonial Garden"). \*\*FILED HEREWITH

\*\*10.74 Thirteenth Amendment to Loan and Security Agreement, dated as of September 30, 1998, by and among Congress, HDPI, Brawn, GBM, Gump's, HH Corp., LWI, Aegis, HDV, Hanover Realty, Austad, Tweeds LLC, Silhouettes LLC, HCS LLC, Domestications LLC and Colonial Garden. \*\*FILED HEREWITH

\*\*21.1 Subsidiaries of the Registrant. \*\*FILED HEREWITH

\*\*23.1 Consent of Independent Public Accountants. \*\*FILED HEREWITH

27.1 Financial Data Schedule. \*\*FILED HEREWITH

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\* Hanover Direct, Inc., a Delaware corporation, is the successor by merger to The Horn & Hardart Company and The Hanover Companies.

\*\* EDGAR filing only.

TWELFTH AMENDMENT TO  
LOAN AND SECURITY AGREEMENT

THIS TWELFTH AMENDMENT TO LOAN AND SECURITY AGREEMENT, dated as of September 30, 1998, is entered into by and among CONGRESS FINANCIAL CORPORATION, a Delaware corporation, successor by merger to Congress Financial Corporation, a California corporation ("Lender"), HANOVER DIRECT PENNSYLVANIA, INC., a Pennsylvania corporation ("HDPI"), BRAUN OF CALIFORNIA, INC., a California corporation ("Braun"), GUMP'S BY MAIL, INC., a Delaware corporation ("GBM"), GUMP'S CORP., a California corporation ("Gump's"), HANOVER HOLDING CORP., a Delaware corporation, successor by merger of The Company Store, Inc. with and into Tweeds, Inc., which has changed its name to Hanover Holding Corp. ("HH Corp."; as hereinafter further defined), LWI HOLDINGS, INC., a Delaware corporation ("LWI"), AEGIS CATALOG CORPORATION, a Delaware corporation ("Aegis"), HANOVER DIRECT VIRGINIA INC., a Delaware corporation ("HDV"), HANOVER REALTY, INC., a Virginia corporation ("Hanover Realty"), and THE AUSTAD COMPANY, a South Dakota corporation ("Austad"; and together with HDPI, Braun, GBM, Gump's, HH Corp., LWI, Aegis, HDV and Hanover Realty, each individually referred to herein as an "Existing Borrower" and collectively, "Existing Borrowers"), and HANOVER DIRECT, INC., a Delaware corporation ("Hanover"), AEGIS RETAIL CORPORATION, a Delaware corporation, AEGIS SAFETY HOLDINGS, INC., a Delaware corporation ("Aegis Holdings"), AEGIS VENTURES, INC., a Delaware corporation ("Aegis Ventures"), AMERICAN DOWN & TEXTILE COMPANY, a Wisconsin corporation, BRAUN WHOLESALE CORP., a California corporation ("Braun Wholesale"), THE COMPANY STORE FACTORY, INC., a Delaware corporation, successor by merger of The Company Store Factory, Inc., a Wisconsin corporation, with and into The Company Store Factory, Inc. ("TCS Factory"), THE COMPANY OFFICE, INC., a Delaware corporation, successor by merger to The Company Office, Inc., a Wisconsin corporation ("TCS Office"), COMPANY STORE HOLDINGS, INC., a Delaware corporation ("CSHI"), D.M. ADVERTISING, INC., a New Jersey corporation, GUMP'S CATALOG, INC., a Delaware corporation, GUMP'S HOLDINGS, INC., a Delaware corporation, HANOVER CASUALS, INC., a Delaware corporation ("Hanover Casuals"), HANOVER CATALOG HOLDINGS, INC., a Delaware corporation ("Hanover Catalog"), HANOVER FINANCE CORPORATION, a Delaware corporation ("HFC"), HANOVER LIST MANAGEMENT INC., a New Jersey corporation ("Hanover List"), HANOVER VENTURES, INC., a Delaware corporation ("Hanover Ventures"), LWI RETAIL, INC., an Ohio corporation, SCANDIA DOWN CORPORATION, a Delaware corporation ("Scandia"), AUSTAD HOLDINGS, INC., a Delaware corporation ("Austad Holdings"), YORK FULFILLMENT COMPANY, INC., a Pennsylvania corporation ("York Fulfillment"), and TWEEDS OF VERMONT, INC., a Delaware corporation (each individually an "Existing Guarantor" and collectively, "Existing Guarantors"), TWEEDS, LLC, a Delaware limited liability company ("Tweeds LLC"; as hereinafter further defined), SILHOUETTES, LLC, a Delaware limited liability company ("Silhouettes LLC"; as hereinafter further defined), HANOVER COMPANY STORE, LLC, a Delaware limited

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liability company ("HCS LLC"; as hereinafter further defined), DOMESTICATIONS, LLC, a Delaware limited liability company ("Domestications LLC"; as hereinafter further defined), COLONIAL GARDEN KITCHENS, INC., a Delaware corporation ("Colonial Garden"; as hereinafter further defined), HANOVER HOME FASHIONS GROUP, LLC, a Delaware limited liability company ("HHFG LLC"; as hereinafter further defined), HANOVER WOMEN'S APPAREL, LLC, a Delaware limited liability company ("HWA LLC"; as hereinafter further defined), and KEYSTONE FULFILLMENT, INC., a Delaware corporation ("Keystone"; as hereinafter further defined). Each Existing Borrower, together with Tweeds LLC, Silhouettes LLC, HCS LLC, Domestications LLC and Colonial Garden, shall hereinafter be referred to individually as a "Borrower" and collectively as "Borrowers", and each Existing Guarantor, together with HWA LLC, HHFG LLC and Keystone, shall hereinafter be referred to individually as a "Guarantor" and collectively as "Guarantors".

W I T N E S S E T H:

WHEREAS, Existing Borrowers, Existing Guarantors and Lender are parties to the Loan and Security Agreement, dated November 14, 1995, as amended by the First Amendment to Loan and Security Agreement, dated February 22, 1996, the Second Amendment to Loan and Security Agreement, dated April 16, 1996 (the "Second Amendment to Loan Agreement"), the Third Amendment to Loan and Security Agreement, dated May 24, 1996, the Fourth Amendment to Loan and Security Agreement, dated May 31, 1996, the Fifth Amendment to Loan and Security Agreement, dated September 11, 1996, the Sixth Amendment to Loan and Security Agreement, dated as of December 5, 1996, the Seventh Amendment to Loan and Security Agreement, dated as of December 18, 1996, the Eighth Amendment to Loan and Security Agreement, dated as of March 26, 1997, the Ninth Amendment to Loan and Security Agreement, dated as of April 18, 1997, the Tenth Amendment to Loan and Security Agreement, dated as of October 31, 1997, and the Eleventh Amendment

to Loan and Security Agreement, dated as of March 25, 1998 (as so amended, the "Loan Agreement"), pursuant to which Lender has made loans and advances to Existing Borrowers; and

WHEREAS, Existing Borrowers and Existing Guarantors have requested that Lender consent to, and enter into certain amendments to the Loan Agreement and agreements with respect to certain transactions as described herein in connection with, the corporate reorganization of certain Existing Borrowers and certain Existing Guarantors; and

WHEREAS, Existing Borrowers and Existing Guarantors have requested that each of Tweeds LLC, Silhouettes LLC, HCS LLC, Domestications LLC and Colonial Garden become a Revolving Loan Borrower pursuant to the terms and conditions of the Loan Agreement, as amended hereby, and that each of HWA LLC, HHFG LLC

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and Keystone become a Guarantor pursuant to the terms and conditions of the Loan Agreement, as amended hereby; and

WHEREAS, Existing Borrowers and Existing Guarantors have also requested that Lender acknowledge that it has released certain availability reserves previously established by Lender against the Revolving Loan availability of LWI and HDPI; and

WHEREAS, Existing Borrowers and Existing Guarantors have also requested that Lender consent to the assignment by Hanover Catalog and Brawn of, and that Lender release its security interest in and lien on, certain Trademarks described herein; and

WHEREAS, the parties to the Loan Agreement desire to enter into this Twelfth Amendment to Loan and Security Agreement (this "Amendment") to evidence and effectuate such consents, amendments and agreements, and certain other amendments to the Financing Agreements relating thereto, in each case subject to the terms and conditions and to the extent set forth herein;

NOW, THEREFORE, in consideration of the premises and covenants set forth herein and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto agree as follows:

1. Definitions.

(a) Additional Definitions. As used herein or in any of the other Financing Agreements, the following terms shall have the meanings given to them below, and the Loan Agreement shall be deemed and is hereby amended to include, in addition and not in limitation, the following definitions:

(i) "Additional Hanover Subsidiary Merger Agreements" shall mean, collectively, the certificates or agreements executed, delivered or filed in connection with, or otherwise evidencing, the Hanover List/DM Advertising Merger, the Austad/Austad Holdings Merger, the LWI Retail/LWI Holdings Merger, the TCS Factory/Company Factory Merger, the TCS Office/Company Office Merger, the TCSI/Tweeds Merger, and the Aegis Safety/HDI Merger and all related agreements, documents and instruments, as the same now exist or may hereafter be entered into, amended, modified, supplemented, extended, renewed, restated or replaced.

(ii) "Aegis Safety/HDI Merger" shall mean the merger of Aegis Safety Holdings, Inc. with and into Hanover Direct, Inc., with Hanover Direct, Inc. as the surviving corporation.

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(iii) "Austad/Austad Holdings Merger" shall mean the merger of The Austad Company with and into Austad Holdings, Inc., with Austad Holdings, Inc. as the surviving corporation, which shall, contemporaneously with that merger and pursuant thereto, change its name to The Austad Company.

(iv) "Colonial Garden" shall mean Colonial Garden Kitchens, Inc., a Delaware corporation, and its successors and assigns.

(v) "Colonial Garden Catalog Assets" shall mean all of the assets and properties that (A) are or were owned by HDPI immediately before

the consummation of Phase I of the Hanover 1998 Reorganization as to Colonial Garden and (B) are or have been owned or acquired by Colonial Garden at any time on or after the effective date of Phase I of the Hanover 1998 Reorganization as to Colonial Garden, which assets and properties were and are primarily related to or primarily used in connection with or arise from the sale of merchandise or services sold through the "Colonial Garden Kitchens" mail order catalog, including, without limitation, all Accounts, Inventory, Customer Lists and other General Intangibles so related, used or sold.

(vi) "Colonial Garden Eligible Inventory" shall mean all Colonial Garden Catalog Assets consisting of finished goods Inventory of Colonial Garden in the merchandise categories of work saving and lifestyle enhancing items for the kitchen and home offered for sale by Colonial Garden in its "Colonial Garden Kitchen" catalog, or such other catalogs created or acquired by Colonial Garden covering substantially similar merchandise which Colonial Garden has requested Lender to include in this Inventory category.

(vii) "Company Store Catalog Assets" shall mean all of the assets and properties that (A) are or were owned by HH Corp. immediately before the consummation of Phase I of the Hanover 1998 Reorganization as to HH Corp. and (B) are or have been owned or acquired by HCS LLC at any time after the effective date of Phase I of the Hanover 1998 Reorganization as to HH Corp., which assets and properties were and are primarily related to or primarily used in connection with or arise from the sale of merchandise or services sold through the "The Company Store" mail order catalog, including, without limitation, all Accounts, Inventory, Customer Lists and other General Intangibles so related, used or sold.

(viii) "Domestications Catalog Assets" shall mean all of the assets and properties that (A) are or were owned by HDV immediately before the consummation of Phase I of the Hanover 1998 Reorganization as to HDV, and (B) are or have been owned or acquired by Domestications LLC at any time on or after the effective date of Phase I of the Hanover 1998 Reorganization

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as to HDV, which assets and properties were and are primarily related to or primarily used in connection with or arise from the sale of merchandise or services sold through the "Domestications" mail order catalog, including, without limitation, all Accounts, Inventory, Customer Lists and other General Intangibles so related, used or sold.

(ix) "Domestications LLC" shall mean Domestications, LLC, a Delaware limited liability company, and its successors and assigns.

(x) "Domestications LLC Eligible Inventory" shall mean all Domestications Catalog Assets consisting of Inventory of Domestications LLC in the merchandise categories of home fashions offered for sale by Domestications LLC in its "Domestications" catalog or such other catalogs created or acquired by Domestications LLC covering substantially similar merchandise which Domestications LLC has requested Lender to include in this Inventory category.

(xi) "HCS LLC" shall mean Hanover Company Store, LLC, a Delaware limited liability company, and its successors and assigns.

(xii) "HCS LLC Eligible Inventory" shall mean all the Company Store Catalog Assets consisting of Inventory of HCS LLC in the merchandise categories of comforters, blankets, sheets, towels, curtains, pillows, featherbeds, decorative home products, loungewear and outer garments offered for sale by HCS LLC in its "The Company Store" catalog, or such other catalog created by HCS LLC covering substantially similar merchandise which HCS LLC has requested Lender to include in this Inventory category.

(xiii) "HH Corp." shall mean Hanover Holding Corp., a Delaware corporation, and its successors and assigns, the surviving corporation of the TCSI/Tweeds Merger.

(xiv) "HHFG LLC" shall mean Hanover Home Fashions Group, LLC, a Delaware limited liability company, and its successors and assigns.

(xv) "HWA LLC" shall mean Hanover Women's Apparel, LLC, a Delaware limited liability company, and its successors and assigns.

(xvi) "Hanover List/DM Advertising Merger" shall mean the merger of Hanover List Management, Inc. with and into D.M. Advertising, Inc., with D.M. Advertising, Inc. as the surviving corporation.

(xvii) "Hanover 1998 Reorganization" shall mean, individually and collectively, the reorganization steps and transactions effected under the Hanover 1998 Reorganization Agreements.

(xviii) "Hanover 1998 Reorganization Agreements" shall mean, collectively, the agreements, documents and instruments listed in Schedule 1 hereto, the Hanover Subsidiary Dissolution Agreements, the Additional Hanover Subsidiary Merger Agreements, and all related agreements, documents and instruments executed, delivered or filed in connection with, or otherwise evidencing, each of the transactions consented to in Section 2 hereof, as the same now exist or may hereafter be amended, modified, supplemented, extended, renewed, restated or replaced.

(xix) "Hanover Subsidiary Dissolution Agreements" shall mean, collectively, the certificates or agreements executed, delivered or filed in connection with, or otherwise evidencing, the dissolution of Aegis Ventures, Hanover Casuals, Gump's Catalog, HFC, York Fulfillment, Brawn Wholesale, Hanover Ventures, and all related agreements, documents and instruments, as the same now exist or may hereafter entered into, be amended, modified, supplemented, extended, renewed, restated or replaced.

(xx) "Keystone Fulfillment" shall mean Keystone Fulfillment, Inc., a Delaware corporation, and its successors and assigns.

(xxi) "La Crosse, Wisconsin Telemarketing Center Assets" shall mean all of the fixed assets that (A) are or were owned by HH Corp. immediately before the consummation of Phase I of the Hanover 1998 Reorganization as to HH Corp. and (B) are or have been owned or acquired by HHFG LLC at any time on or after the effective date of Phase I of the Hanover 1998 Reorganization as to HH Corp, which fixed assets were and are primarily related to or primarily used in connection with the business and operations of the telemarketing and call center located at 455 Park Plaza, La Crosse, Wisconsin.

(xxii) "LWI Retail/LWI Holdings Merger" shall mean the merger of LWI Retail, Inc. with and into LWI Holdings, Inc., with LWI Holdings, Inc. as the surviving corporation.

(xxiii) "Phase I of the Hanover 1998 Reorganization" shall mean the transactions comprising part of the Hanover 1998 Reorganization consented to in Section 2(a) hereof.

(xxiv) "Roanoke, Virginia Fulfillment Center Assets" shall mean all of the fixed assets that (A) are or were owned by HDV immediately before the consummation of Phase I of the Hanover 1998 Reorganization as to HDV, and (B) are or have been owned or acquired by HHFG LLC at any time on or after the effective date of Phase I of the Hanover 1998 Reorganization as to HDV, which fixed assets were and are primarily related to or primarily used in connection with the business and operations of the mail order fulfillment center located at 5022 Hollins Road, Roanoke, Virginia, also known as The Home Fashion Center, including, without limitation, any leasehold interest of HDV with respect to such premises.

(xxv) "Silhouettes Catalog Assets" shall mean all of the assets and properties that (A) are or were owned by HDPI immediately before the consummation of Phase I of the Hanover 1998 Reorganization as to HDPI, and (B) are or have been owned or acquired by Silhouettes LLC at any time on or after the effective date of Phase I of the Hanover 1998 Reorganization as to HDPI, which assets and properties were and are primarily related to or primarily used in connection with or arise from the sale of merchandise or services sold through the "Silhouettes" mail order catalog, including, without limitation, all Accounts, Inventory, Customer Lists and other General Intangibles so related, used or sold.

(xxvi) "Silhouettes LLC" shall mean Silhouettes, LLC, a Delaware limited liability company, and its successors and assigns.

(xxvii) "Silhouettes LLC Eligible Inventory" shall mean all Silhouettes Catalog Assets consisting of finished goods Inventory of Silhouettes LLC in the merchandise category of women's apparel and accessories offered for sale by Silhouettes LLC in its "Silhouettes" catalog, or such other catalogs created or acquired by Silhouettes LLC covering substantially similar

merchandise which Silhouettes LLC has requested Lender to include in this Inventory category.

(xxviii) "TCS Factory/Company Factory Merger" shall mean the merger of The Company Factory, Inc., a Wisconsin corporation, with and into The Company Store Factory, Inc., a Delaware corporation, with The Company Store Factory, Inc. as the surviving corporation.

(xxix) "TCS Office/Company Office Merger" shall mean the merger of The Company Office, Inc., a Wisconsin corporation, with and into The Company Office, Inc., a Delaware corporation, with The Company Office, Inc., a Delaware corporation, as the surviving corporation.

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(xxx) "TCSI/Tweeds Merger" shall mean the merger of The Company Store, Inc. with and into Tweeds, Inc., with Tweeds, Inc. as the surviving corporation, which thereafter has changed its name to Hanover Holding Corp.

(xxxii) "Tweeds Catalog Assets" shall mean all of the assets and properties (A) that are or were owned by Tweeds immediately before the consummation of Phase I of the Hanover 1998 Reorganization as to Tweeds, and (B) are or have been owned or acquired by Tweeds LLC at any time on or after the effective date of Phase I of the Hanover 1998 Reorganization as to Tweeds, which assets and properties were and are primarily related to or used in connection with or arise from the sale of merchandise or services through the "Tweeds" mail order catalog, including, without limitation, all Accounts, Inventory, Customer Lists and other General Intangibles so related, used or sold.

(xxxiii) "Tweeds LLC" shall mean Tweeds, LLC, a Delaware limited liability company, and its successors and assigns.

(xxxiiii) "Tweeds LLC Eligible Inventory" shall mean all Tweeds Catalog Assets consisting of Inventory of Tweeds LLC in the merchandise categories of men's and women's apparel, shoes, hosiery, costume jewelry, accessories and outerwear offered for sale by Tweeds LLC in its "Tweeds" catalog or such other catalogs created or acquired by Tweeds LLC covering substantially similar merchandise which Tweeds LLC has requested Lender to include in this Inventory category.

(xxxv) "Tweeds of Vermont" shall mean Tweeds of Vermont, Inc., a Delaware corporation, and its successors and assigns.

(xxxvi) "Wisconsin Retail Outlet Assets" shall mean all of the assets and properties that (A) are or were owned by HH Corp. immediately before the consummation of Phase I of the Hanover 1998 Reorganization as to HH Corp., and (B) are or have been owned or acquired by HH Corp. on and after the effective date of Phase I of the Hanover 1998 Reorganization as to HH Corp., which assets and properties are primarily related to or primarily used in connection with or arise from the business and operations of the four (4) retail outlet stores previously operated by HH Corp. and located in La Crosse, Wisconsin, including, without limitation, all Accounts, Inventory, and other General Intangibles so related, used or sold.

(b) Amendments to Definitions.

(i) Revolving Loan Borrowers. Effective as of the consummation of Phase I of the Hanover 1998

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Reorganization, Section 1.117 of the Loan Agreement shall be deemed deleted in its entirety and replaced with the following:

"1.117 "Revolving Loan Borrowers" shall mean, individually and collectively, HDPI, Brawn, GBM, Gump's, HH Corp., Tweeds LLC, Silhouettes LLC, HCS LLC, Domestications LLC, Colonial Garden, LWI, HDV, Aegis and Austad."

(ii) General Merchandise Inventory. Effective as of the consummation of Phase I of the Hanover 1998 Reorganization as to Colonial Garden, Section 1.47 of the Loan Agreement shall be deemed amended by deleting the reference to "Colonial Garden Kitchens" referred to in that Section.

(iii) Home Furnishings Inventory. Effective as of the consummation of Phase I of the Hanover 1998 Reorganization as to HDV, Section 1.66 of the Loan Agreement shall be deemed amended by deleting the reference to the catalog "Domestications" referred to in that Section.

(iv) Eligible Inventory. Effective as of the consummation of Phase I of the Hanover 1998 Reorganization, the first sentence of Section 1.34 of the Loan Agreement is hereby shall be deemed amended by deleting the references to "TCS Eligible Inventory", "Tweeds Eligible Inventory" and "Women's Fashion Inventory", which shall be replaced with the following references: "Tweeds LLC Eligible Inventory", "HCS LLC Eligible Inventory", "Silhouettes LLC Eligible Inventory", "Domestications LLC Eligible Inventory" and "Colonial Gardens Eligible Inventory."

(v) TCS Eligible Inventory. Effective as of the consummation of Phase I of the Hanover 1998 Reorganization as to HH Corp., (A) Section 1.130 of the Loan Agreement shall be deemed deleted in its entirety and replaced with the following: "[Intentionally Deleted]" and (B) all references to the term "TCS Eligible Inventory" contained in the Loan Agreement and any of the other Financing Agreements shall be deemed deleted.

(vi) Tweeds Eligible Inventory. Effective as of the consummation of Phase I of the Hanover 1998 Reorganization as to Tweeds, (A) Section 1.140 of the Loan Agreement shall be deemed deleted in its entirety and replaced with the following: "Section 1.140 [Intentionally Deleted]" and (B) all references to the term "Tweeds Eligible Inventory" contained in the Loan Agreement or in any of the other Financing Agreements shall be deemed deleted.

(vii) Women's Fashion Inventory. Effective as of the consummation of Phase I of the Hanover 1998 Reorganization as to HDPI, (A) Section 1.145 of the Loan

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Agreement shall be deemed deleted in its entirety and replaced with the following: "1.145 [Intentionally Deleted]" and (B) all references to the term "Women's Fashion Inventory" contained in the Loan Agreement or in any of the other Financing Agreements shall be deemed deleted.

(c) Interpretation. For purposes of this Amendment, unless otherwise defined herein, all capitalized terms used herein that are defined in the Loan Agreement, shall have the respective meanings given to such terms in the Loan Agreement.

## 2. Consents.

(a) Phase I of Hanover 1998 Reorganization. Subject to the terms and conditions contained herein and in the Loan Agreement and in the other Financing Agreements, and notwithstanding anything contained in Sections 6.2, 6.5, 6.6(a), 6.6(c) or 6.9 of the Loan Agreement to the contrary, Lender consents to the following transactions:

(i) the merger of TCSI with and into Tweeds, Inc., pursuant to the TCSI/Tweeds Merger, with Tweeds, Inc. as the surviving corporation, pursuant to which merger Tweeds, Inc. changed its name to Hanover Holding Corp. in accordance with the applicable Hanover 1998 Reorganization Agreements;

(ii) the formation of Silhouettes LLC and the contribution, assignment and transfer by HDPI to Silhouettes LLC of all of the Silhouettes Catalog Assets, subject to the security interests and liens of Lender therein, in consideration of a one hundred percent (100%) membership interest in Silhouettes LLC, and the assumption by Silhouettes LLC of all obligations, liabilities and indebtedness of HDPI allocated to the Silhouettes Catalog Assets (including the Obligations of HDPI allocated thereto, but without thereby releasing HDPI from liability therefor), all in accordance with the applicable Hanover 1998 Reorganization Agreements;

(iii) the formation of Tweeds LLC and the contribution, assignment and transfer by HH Corp. to Tweeds LLC of all of the right, title and interest of HH Corp., in and to the Tweeds Catalog Assets, but in any event excluding (A) the fifty percent (50%) ownership interest of HH Corp. in the Blue Ridge Associates general partnership, and (B) the leasehold interest of HH Corp. in the premises located at One Avery Row, Roanoke, Virginia, in each case, subject to the security interests and liens of Lender therein, in consideration of a one hundred percent (100%) membership interest in Tweeds LLC, and the assumption by Tweeds LLC of all obligations, liabilities and indebtedness of HH Corp. allocated to the Tweeds Catalog Assets (including the Obligations of HH

without thereby releasing HH Corp. from liability therefor, but excluding in any event any obligations, liabilities and indebtedness of HH Corp. as a general partner of Blue Ridge Associates general partnership and also excluding loans made by Hanover to Tweeds, Inc. before the TCSI/Tweeds Merger for the purpose of funding the capital contribution of Tweeds, Inc. to the Blue Ridge Associates general partnership and those relating to the leasehold interest in One Avery Row) all in accordance with the applicable Hanover 1998 Reorganization Agreements;

(iv) the formation of HWA LLC by HDPI and HH Corp. and (A) the contribution, assignment and transfer by HH Corp. to HWA LLC of ninety-nine and nine tenths percent (99.9%) of HH Corp.'s membership interest in Tweeds LLC in consideration of a membership interest in HWA LLC, expressed as a percentage equal to the fraction, (1) the numerator of which is the book value of the net assets contributed by HH Corp. to HWA LLC as of the effective date of Phase I of the Hanover 1998 Reorganization as to HH Corp. and (2) the denominator of which is equal to the sum of the book value of net assets contributed by each of HH Corp. and HDPI to HWA LLC as of the effective date of Phase I of the Hanover 1998 Reorganization as to HH Corp. and HDPI, and (B) the contribution, assignment and transfer by HDPI to HWA LLC of ninety-nine and nine tenths percent (99.9%) of HDPI's membership interest in Silhouettes LLC in consideration of a membership interest in HWA LLC, expressed as a percentage, equal to the fraction, (1) the numerator of which is the book value of the net assets contributed by HDPI to HWA LLC as of the effective date of Phase I of the Hanover 1998 Reorganization as to HDPI and (2) the denominator of which is the sum of the book value of the net assets contributed by each of HH Corp. and HDPI to HWA LLC as of the effective date of Phase I of the Hanover 1998 Reorganization as to HH Corp. and HDPI, in each case subject to the security interests and liens of Lender in the assets of HH Corp. and HDPI; provided, that, HWA LLC shall deliver to Lender, as soon as available, but in any event no later than January 15, 1999, a Secretary's or Assistant Secretary's Certificate stating the percentage membership interests of HDPI and HH Corp. in HWA LLC as of the effective date of that portion of Phase I of the Hanover 1998 Reorganization described in this Section 2(a) (iv) as reflected on the books and records of HWA LLC;

(v) the formation of HCS LLC and the contribution, assignment and transfer by HH Corp. to HCS LLC of all of the Company Store Catalog Assets (excluding in any event the Wisconsin Retail Outlet Assets and the La Crosse, Wisconsin Telemarketing Center Assets), subject to the security interests and liens of Lender therein, in consideration of a one hundred percent (100%) membership interest in HCS LLC, and the assumption by HCS LLC of all obligations, liabilities and indebtedness of HH Corp., as the surviving corporation to the TCSI/Tweeds Merger, allocated to the Company Store Catalog Assets (including the

Obligations of HH Corp., as the surviving corporation of the TCSI/Tweeds Merger, allocated thereto, but excluding in any event any obligations, liabilities and indebtedness of HH Corp. allocated to the Wisconsin Retail Outlet Assets and the La Crosse, Wisconsin Telemarketing Center Assets, but without thereby releasing HH Corp. from liability therefor), all in accordance with the applicable Hanover 1998 Reorganization Agreements;

(vi) the formation of Domestications LLC and the contribution, assignment and transfer by HDV to Domestications LLC of all of the Domestications Catalog Assets (excluding in any event, the Roanoke, Virginia Fulfillment Center Assets), subject to the security interests and liens of Lender therein, in consideration of a one hundred percent (100%) membership interest in Domestications LLC, and the assumption by Domestications LLC of all obligations, liabilities and indebtedness of HDV allocated to the Domestications Catalog Assets (including the Obligations of HDV allocated thereto, but excluding in any event any obligations, liabilities and indebtedness of HDV allocated to the Roanoke, Virginia Fulfillment Center Assets, but without thereby releasing HDV from liability therefor), all in accordance with the applicable Hanover 1998 Reorganization Agreements;

(vii) the formation of HHFG LLC by HDV and HH Corp., and (A) the contribution, assignment and transfer by HH Corp. to HHFG LLC of the La Crosse, Wisconsin Telemarketing Center Assets and ninety-nine and nine tenths

percent (99.9%) of HH Corp.'s membership interest in HCS LLC in consideration of a membership interest in HHFG LLC expressed as a percentage equal to the fraction, (1) the numerator of which is the book value of the net assets contributed by HH Corp. to HHFG LLC as of the effective date of Phase I of the Hanover 1998 Reorganization as to HDV and (2) the denominator of which is the sum of the book value of the net assets contributed by each of HDV and HH Corp. to HHFG LLC, as of the effective date of Phase I of the Hanover 1998 Reorganization as to HDV and HH Corp. and (B) the contribution, assignment and transfer by HDV to HHFG LLC of the Roanoke, Virginia Fulfillment Center Assets and the ninety-nine and nine tenths percent (99.9%) of HDV's membership interest in Domestications LLC in consideration of a membership interest in HHFG LLC, expressed as a percentage, equal to the fraction, (1) the numerator of which is the book value of the net assets contributed by HDV as of the effective date of Phase I of the Hanover 1998 Reorganization and (2) the denominator of which is the sum of the book value of net assets contributed by each of HDV and HH Corp. to HHFG LLC as of the effective date of Phase I of the Hanover 1998 Reorganization, in each case, subject to the security interests and liens of Lender in the assets of HDV and HH Corp.; provided, that, HHFG LLC shall deliver to Lender, as soon as available, but in any event no later than January 15,

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1999, a Secretary's or Assistant Secretary's Certificate stating the percentage membership interests of HDV and HH Corp. in HHFG LLC as of the effective date of that portion of Phase I of the Hanover 1998 Reorganization described in this Section 2(a) (vii) as reflected on the books and records of HHFG LLC;

(viii) the formation of Colonial Garden and the contribution, assignment and transfer by HDPI to Colonial Garden of all of the Colonial Garden Catalog Assets, subject to the security interests and liens of Lender therein, in consideration of all of the issued and outstanding shares of capital stock of Colonial Garden, and the assumption by Colonial Garden of all obligations, liabilities and indebtedness of HDPI allocated to the Colonial Garden Catalog Assets (including the Obligations of HDPI allocated thereto, but without thereby releasing HDPI from liability therefor), all in accordance with the applicable Hanover 1998 Reorganization Agreements;

(ix) the formation of Keystone Fulfillment and the capital contribution by Hanover of Ten Dollars (\$10) in consideration of all of the issued and outstanding shares of capital stock of Keystone Fulfillment, in accordance with the applicable Hanover 1998 Reorganization Agreements;

(x) the merger of The Company Factory, Inc. with and into The Company Store Factory, Inc., pursuant to the TCS Factory/Company Factory Merger, with The Company Store Factory, Inc. as the surviving corporation, in accordance with the applicable Hanover 1998 Reorganization Agreements; and

(xi) the merger of The Company Office, Inc., a Wisconsin Corporation, with and into The Company Office, Inc., a Delaware corporation, pursuant to the TCS Office/Company Office Merger, with The Company Office, Inc., a Delaware corporation, as the surviving corporation, in accordance with the applicable Hanover 1998 Reorganization Agreements.

(b) Additional Hanover Subsidiary Mergers. Subject to the terms and conditions contained herein and in the Loan Agreement and in the other Financing Agreements, and notwithstanding anything contained in Section 6.7 of the Loan Agreement to the contrary, Lender consents to the Hanover List/DM Advertising Merger, the Austad/Austad Holdings Merger, the LWI Retail/LWI Holdings Merger and the Aegis Safety/HDI Merger, conditioned on the following:

(i) as soon as available, but in any event no later than ten (10) days after the date of the effectiveness of each of the Hanover List/DM Advertising Merger, the Austad/Austad Holdings Merger, the LWI Retail/LWI Holdings Merger and the Aegis Safety/HDI Merger, Lender shall have received, in form and substance satisfactory to Lender, (A) true and complete

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copies of all of the Additional Hanover Subsidiary Merger Agreements with respect to each such merger and (B) evidence that the Additional Hanover Subsidiary Merger Agreements with respect to each such merger have been duly executed and delivered by and to the appropriate parties thereto and the transactions contemplated under the terms of such Additional Hanover Subsidiary Merger Agreements have been duly and validly effected;

(ii) as soon as available, but in any event no later than ten (10) days after the date of the effectiveness of each of the Hanover List/DM Advertising Merger, the Austad/Austad Holdings Merger, the LWI Retail/LWI Holdings Merger and the Aegis Safety/HDI Merger, Lender shall have received, in form and substance satisfactory to Lender, evidence that the certificates of merger with respect to each such merger have been filed with the Secretary of State of the appropriate States of incorporation of each constituent corporation;

(iii) after giving effect to the consummation of the respective mergers consented to in this Section 2(b), no Event of Default or Incipient Default shall exist or have occurred and be continuing; and

(iv) the mergers consented to under this Section 2(b) and contemplated by the Additional Hanover Subsidiary Merger Agreements shall have occurred and be effective by no later than December 26, 1998 or such later date or dates as Lender shall approve in writing.

(c) Guarantor dissolutions. Subject to the terms and conditions contained herein and in the Loan Agreement and in the other Financing Agreements, and notwithstanding anything contained in Section 6.7 of the Loan Agreement to the contrary, Lender consents to the dissolution of Aegis Ventures, Hanover Casuals, Gump's Catalog, HFC and York Fulfillment, conditioned on the following:

(i) as soon as available, but in any event, no later than ten (10) days after the effectiveness of each of the dissolutions described in this Section 2(c), Borrowers and Guarantors shall deliver to Lender, in form and substance satisfactory to Lender, (A) true and complete copies of all of the Hanover Subsidiary Dissolution Agreements with respect to the dissolution of each such Guarantor and (B) evidence that the Hanover Subsidiary Dissolution Agreements with respect to the dissolution of each such Guarantor have been duly executed and delivered by and to the appropriate parties thereto, and the transactions contemplated under the terms of such Hanover Subsidiary Dissolution Agreements have been effected;

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(ii) as soon as available, but in any event, no later than ten (10) days after the effectiveness of each of the dissolutions consented to in this Section 2(c), Lender shall have received, in form and substance satisfactory to Lender, evidence that the certificate of dissolution with respect to such Guarantor has been issued by the appropriate State governmental authority;

(iii) after giving effect to the respective dissolutions consented to in this Section 2(c), no Event of Default or Incipient Default shall exist or have occurred and be continuing; and

(iv) the dissolutions consented to under this Section 2(c) and contemplated by the Hanover Subsidiary Dissolution Agreements shall have occurred, and be effective, by no later than December 26, 1998 or such later date as Lender shall approve in writing.

(d) Withdrawal of Foreign Qualification by Tweeds of Vermont.

(i) Borrowers and Guarantors hereby notify Lender that Tweeds of Vermont intends to withdraw its qualification to do business as a foreign corporation in the State of Vermont on or before December 26, 1998. Borrowers and Guarantors jointly and severally represent and warrant to Lender that the nature of the business of Tweeds of Vermont as presently conducted does not require Tweeds of Vermont to qualify to do business as a foreign corporation in the State of Vermont, and the failure to be qualified does not and shall not have a material adverse effect on Borrowers or on the rights and interests of Lender in the Collateral or Guarantor Collateral.

(ii) As soon as available, but in any event no later than ten (10) days after the date of the effectiveness of the withdrawal by Tweeds of Vermont from qualification to do business as a foreign corporation in the State of Vermont, Borrowers shall deliver, or cause to be delivered, to Lender a certificate of withdrawal to do business as a foreign corporation that has been issued by the Vermont Secretary of State with respect to Tweeds of Vermont.

3. Assumption of Obligations; Amendments to Guarantees and Financing Agreements; Acknowledgments with respect to Hanover 1998 Reorganization.

(a) Each of Domestications LLC, HCS LLC, Tweeds LLC, Silhouettes LLC and Colonial Garden hereby expressly (i) assumes and agrees to be directly liable to Lender, jointly and severally with the other Borrowers, for all Obligations under, contained in, or arising out of the Loan Agreement and the other Financing Agreements applicable to all Borrowers and as applied to each of Domestications LLC, HCS LLC, Tweeds LLC, Silhouettes LLC and Colonial Garden as a Borrower and Guarantor, (ii) agrees to perform, comply with and be bound by all terms, conditions and covenants of the Loan Agreement and the other Financing Agreements applicable to all Borrowers and as applied to each of Domestications LLC, HCS LLC, Tweeds LLC, Silhouettes LLC and Colonial Garden as a Borrower and Guarantor, with the same force and effect as if each of Domestications LLC, HCS LLC, Tweeds LLC, Silhouettes LLC and Colonial Garden had originally executed and been an original Borrower and Guarantor party signatory to the Loan Agreement and the other Financing Agreements, and (iii) agrees that Lender shall have all rights, remedies and interests, including security interests in and to the Collateral granted pursuant to Section 4(a) hereof, the Loan Agreement and the other Financing Agreements, with respect to each of Domestications LLC, HCS LLC, Tweeds LLC, Silhouettes LLC and Colonial Garden and their respective properties and assets with the same force and effect as Lender has with respect to the other Borrowers and their respective assets and properties as if each of Domestications LLC, HCS LLC, Tweeds LLC, Silhouettes LLC and Colonial Garden had originally executed and had been an original Borrower and Guarantor party signatory to the Loan Agreement and the other Financing Agreements.

(b) Each of the respective Guarantee and Waivers, dated November 14, 1995, made by the Existing Borrowers as of that date in their capacities as Guarantors, as heretofore amended (collectively, the "Borrower Guarantees") shall be deemed further amended to include each of Domestications LLC, HCS LLC, Tweeds LLC, Silhouettes LLC and Colonial Garden as an additional Guarantor party signatory thereto. Each of Domestications LLC, HCS LLC, Tweeds LLC, Silhouettes LLC and Colonial Garden hereby expressly (i) assumes and agrees to be directly liable to Lender, jointly and severally with the other Borrowers signatories thereto and the Guarantors, for all Obligations as defined in the Borrower Guarantees, (ii) agrees to perform, comply with and be bound by all terms, conditions and covenants of the Borrower Guarantees with the same force and effect as if each of Domestications LLC, HCS LLC, Tweeds LLC, Silhouettes LLC and Colonial Garden had originally executed and been an original party signatory to each of the Borrower Guarantees, and (iii) agrees that Lender shall have all rights, remedies and interests with respect to each of Domestications LLC, HCS LLC, Tweeds LLC, Silhouettes LLC and Colonial Garden and their respective properties under the Borrower Guarantees with the same force and effect as if each of Domestications LLC, HCS LLC, Tweeds LLC,

Silhouettes LLC and Colonial Garden had originally executed and been an original party signatory to each of the Borrower Guarantees.

(c) The Guarantee and Waiver, dated November 14, 1995, executed by the Existing Guarantors as of such date, other than Hanover and the Existing Borrowers as of such date, in favor of Lender, as heretofore amended (the "Subsidiary Guarantee"), shall be deemed further amended to include HHFG LLC, HWA LLC and Keystone as an additional Guarantor party signatory thereto. Each of HHFG LLC, HWA LLC and Keystone hereby expressly (i) assumes and agrees to be directly liable to Lender, jointly and severally with the other Guarantors signatories thereto and the Borrowers, for all Obligations (as defined in the Subsidiary Guarantee), (ii) agrees to perform, comply with and be bound by all terms, conditions and covenants of the Subsidiary Guarantee with the same force and effect as if each of HHFG LLC, HWA LLC and Keystone had originally executed and been an original party signatory to the Subsidiary Guarantee, and (iii) agrees that Lender shall have all rights, remedies and interests with respect to each of HHFG LLC, HWA LLC and Keystone and their respective properties with the same force and effect as if each of HHFG LLC, HWA LLC and Keystone had originally executed and been an original party signatory to the Subsidiary Guarantee.

(d) Each of HHFG LLC, HWA LLC and Keystone hereby expressly (i) assumes and agrees to be directly liable for all Obligations under,

contained in, or arising out of the Loan Agreement, the General Security Agreement, dated November 14, 1995, by the Existing Guarantors as of such date, other than Hanover and Borrowers as of such date, in favor of Lender, as heretofore amended (the "Subsidiary General Security Agreement") and the other Financing Agreements applicable to all Guarantors and as applied to each of HHFG LLC, HWA LLC and Keystone as a Guarantor, (ii) agrees to perform, comply with and be bound by all terms, conditions and covenants of the Loan Agreement, the Subsidiary General Security Agreement and the other Financing Agreements applicable to all Guarantors and as applied to each of HHFG LLC and HWA LLC and Keystone as a Guarantor with the same force and effect as if each of HHFG LLC, HWA LLC and Keystone had originally executed and been an original Guarantor or Debtor, as the case may be, party signatory to the Loan Agreement, the Subsidiary General Security Agreement and the other Financing Agreements, and (iii) agrees that Lender shall have all rights, remedies and interests, including security interests in the Collateral granted pursuant to Section 4(b) hereof, the Loan Agreement, the Subsidiary General Security Agreement, and the other Financing Agreements, with respect to each of HHFG LLC, HWA LLC and Keystone and their respective properties and assets with the same force and effect as if each of HHFG LLC, HWA LLC and Keystone had originally executed and had been an original Guarantor or Debtor, as the case may be, party signatory to the

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Loan Agreement, the Subsidiary General Security Agreement and the other Financing Agreements, and such agreements shall be deemed so amended.

(e) Each Guarantor, including without limitation, Domestications LLC, HCS LLC, Tweeds LLC, Silhouettes LLC and Colonial Garden, in its capacity as Guarantor pursuant hereto, and each of HHFG LLC, HWA LLC and Keystone as a Guarantor pursuant hereto, hereby expressly and specifically ratifies, restates and confirms the terms and conditions of its respective Guarantee(s) in favor of Lender and its liability for all of the Obligations (as defined in its Guarantee(s)), and all other obligations, liabilities, agreements and covenants thereunder.

(f) Each Borrower, including, without limitation, Domestications LLC, HCS LLC, Tweeds LLC, Silhouettes LLC and Colonial Garden, and each Guarantor, including, without limitation, HHFG LLC, HWA LLC and Keystone, hereby agrees that all references to Borrower or Borrowers or other terms intended to refer to a Borrower or Borrowers, such as Debtor or Debtors, contained in any of the Financing Agreements are hereby amended to include each of Domestications LLC, HCS LLC, Tweeds LLC, Silhouettes LLC and Colonial Garden, and each other person or entity at any time hereafter made a "Borrower" under the Loan Agreement, as an additional Borrower or Debtor, or other appropriate term of similar import, as the case may be. Each Borrower, including, without limitation, Domestications LLC, HCS LLC, Tweeds LLC, Silhouettes LLC and Colonial Garden, and each Guarantor, including, without limitation, HHFG LLC, HWA LLC and Keystone, hereby agrees that all references to Guarantor or Guarantors or other terms intended to refer to a Guarantor or Guarantors, such as Debtor or Debtors, contained in any of the Financing Agreements are hereby amended to include each of Domestications LLC, HCS LLC, Tweeds LLC, Silhouettes LLC and Colonial Garden, in its capacity as Guarantor and each of HHFG LLC, HWA LLC and Keystone and each other person or entity at any time hereafter made a "Guarantor" under the Loan Agreement, as an additional Guarantor or Debtor, or other appropriate term of similar import, as the case may be.

(g) Each Borrower and Guarantor hereby acknowledges, confirms and agrees that, by operation of law and as provided in the Hanover 1998 Reorganization Agreements, as the case may be, and this Amendment:

(i) HH Corp., as the surviving corporation pursuant to the TCSI/Tweeds Merger, has continued and shall continue to be directly and primarily liable in all respects for the Obligations of TCSI arising prior to the effective time of the TCSI/Tweeds Merger;

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(ii) Lender shall continue to have valid and perfected security interests, liens and rights in and to all of the Silhouettes Catalog Assets and the Company Store Catalog Assets and any other assets and properties owned and acquired (A) by HH Corp., as the surviving corporation of the TCSI/Tweeds Merger, and (B) by each Borrower or Guarantor that is the purchaser, assignee or transferee of any such assets and properties, pursuant to the Hanover 1998 Reorganization Agreements or otherwise, and all such assets and

properties shall be deemed included in the Collateral or the Guarantor Collateral, as the case may be, and such security interests, liens and rights and their perfection and priorities have continued and shall continue in all respects in full force and effect;

(iii) The Company Store Factory, Inc., as the surviving corporation pursuant to the TCS Factory/Company Factory Merger, has continued and shall continue to be directly and primarily liable in all respects for the Obligations of The Company Factory, Inc. arising prior to the effective time of the TCS Factory/Company Factory Merger;

(iv) The Company Office, Inc., a Delaware corporation, as the surviving corporation pursuant to the TCS Office/Company Office Merger, has continued and shall continue to be directly and primarily liable in all respects for the Obligations of The Company Office, Inc., a Wisconsin corporation, arising prior to the effective time of the TCS Office/Company Office Merger;

(v) Lender has and shall continue to have valid and perfected security interests, liens and rights in and to all of the assets and properties owned and acquired (A) by The Company Store Factory, Inc., as the surviving corporation of the TCS Factory/Company Factory Merger, and (B) by The Company Office, Inc., a Delaware corporation, as the surviving corporation of the TCS Office/Company Factory Merger, pursuant to the Hanover 1998 Reorganization Agreements or otherwise, and all such assets and properties shall be deemed included in the Collateral and such security interests, liens and rights and their perfection and priorities have continued and shall continue in all respects in full force and effect;

(vi) Without limiting the generality of the foregoing, (A) none of the transactions contemplated by the Hanover 1998 Reorganization Agreements shall in any way limit, impair or adversely affect the Obligations now or hereafter owed to Lender by any existing or former Borrowers or Guarantors or any security interests or liens in any assets or properties securing the same, (B) the security interests, liens and rights of Lender in and to the assets and properties of (1) The Company Store Factory, Inc., as the surviving corporation of the TCS Factory/Company Factory Merger, (2) The Company Office, Inc., a

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Delaware corporation, as the surviving corporation of the TCS Office/Company Office Merger, (3) HH Corp., as the surviving corporation of the TCSI/Tweeds Merger, or (4) any Borrower or Guarantor that is the recipient, assignee or transferee of any such assets and properties contributed, assigned or transferred pursuant to the Hanover 1998 Reorganization Agreements have continued and, upon and after the consummation of the TCSI/Tweeds Merger, TCS Factory/Company Factory Merger, the TCS Office/Company Office Merger, or such contribution, assignment or transfer, as the case may be, shall continue to secure all Obligations to Lender of HH Corp., TCS Factory, TCS Office, or the predecessor owner of such assets and properties, as the case may be, in addition to all other existing and future Obligations of HH Corp, TCS Factory, TCS Office or such Borrower or Guarantor, as the case may be, to Lender.

#### 4. Collateral.

(a) New Borrower Collateral. Without limiting the provisions of Section 3(a) hereof, the Loan agreement and the other Financing Agreements, as collateral security for the prompt performance, payment and performance when due of all of the Obligations of Domestications LLC, HCS LLC, Tweeds LLC, Silhouettes LLC and Colonial Garden to Lender, each of Domestications LLC, HCS LLC, Tweeds LLC, Silhouettes LLC and each of Colonial Garden hereby grant to Lender, a continuing security interest in, and liens upon, and rights of setoff against, and Domestications LLC, HCS LLC, Tweeds LLC, Silhouettes LLC and Colonial Garden hereby pledges and assigns to Lender, all of its now owned and hereafter acquired and arising assets and properties, all of which shall be included in the definition of Collateral as set forth in the Loan Agreement (which definition is hereby amended accordingly), including, without limitation, the following:

(i) all of the following, whether now owned or hereafter acquired or arising: (A) all Accounts, including, without limitation, all MasterCard/VISA Receivables and all other Third Party Credit Card Receivables, and all monies, credit balances and other amounts due from or through or held by Third Party Credit Card Issuers, or other parties to the Third Party Credit Card Agreements, all monies paid by or through the Private Credit Card Purchaser, all rentals or license fees receivable in respect of sale, lease, or license of Customer Lists, all monies, securities and other property and the proceeds

thereof, now or hereafter held or received by, or in transit to, Lender from or for it, whether for safekeeping, pledge, custody, transmission, collection or otherwise, and all of its respective deposits (general or special), balances, sums and credits with Lender at any time existing; (B) all its right, title and interest, and all rights, remedies, security and liens, in, to and in respect of the Accounts and other Collateral, including, without limitation,

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rights of stoppage in transit, replevin, repossession and reclamation and other rights and remedies of an unpaid vendor, lienor or secured party, guarantees or other contracts of suretyship with respect to the Accounts, deposits or other security for the obligations of any Account Debtor, all credit and other insurance; (C) all its right, title and interest in, to and in respect of all goods relating to, or which by sale have resulted in, Accounts, including, without limitation, all goods described in invoices, documents, contracts or instruments with respect to, or otherwise representing or evidencing, any Account or other Collateral, including, without limitation, all returned, reclaimed or repossessed goods; (D) all deposit accounts; and (E) all other general intangibles of every kind and description, including, without limitation, (1) tradenames and trademarks, and the goodwill of the business symbolized thereby, (2) patents, (3) copyrights, (4) licenses, (5) Federal, State and local tax and duty refund claims of all kinds, (6) catalogs and promotional materials, (7) all Customer Lists, and (8) all of its right, title and interest in and to Mail Order Joint Ventures, and other joint ventures, partnerships and other Persons;

(ii) Inventory;

(iii) Equipment;

(iv) Real Property;

(v) all present and future books, records, ledger cards, computer software (including all manuals, upgrades, modifications, enhancements and additions thereto), computer tapes, disks, other electronic data storage media, documentation of file and record formats and source code, documents, other property and general intangibles evidencing or relating to any of the above, any other Collateral or any Account Debtor, together with the file cabinets or containers in which the foregoing are stored; and

(vi) all present and future products and proceeds of the foregoing, in any form whatsoever, including, without limitation, any insurance proceeds and any claims against third persons for loss or damage to or destruction of any or all of the foregoing.

Notwithstanding the foregoing, the Collateral does not include (a) the GECC Collateral owned by Domestications LLC, HCS LLC, Tweeds LLC, Silhouettes LLC and Colonial Garden, other than the respective right, title and interest of Domestications LLC, HCS LLC, Tweeds LLC, Silhouettes LLC and Colonial Garden in and to the GECC Reserve Balance or (b) any leasehold interests of Domestications LLC, HCS LLC, Tweeds LLC, Silhouettes LLC and Colonial Garden in real property.

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(b) New Guarantor Collateral. Without limiting the provisions of Section 3(d) hereof, the Loan Agreement, the Subsidiary General Security Agreement and the other Financing Agreements, as collateral security for the prompt payment and performance when due of all of the Obligations of HHFG LLC, HWA LLC and Keystone to Lender, each of HHFG LLC, HWA LLC and Keystone hereby grants to Lender, a continuing security interest in, and lien upon, and right of setoff against, and each of HHFG LLC, HWA LLC and Keystone hereby pledges and assigns to Lender, all of its now owned and hereafter acquired and arising assets and properties, all of which shall be included in the definition of Collateral as set forth in the Subsidiary General Security Agreement (which definition is hereby amended accordingly), including, without limitation, the following:

(i) all present and future: (A) accounts, credit card receivables (including credit card charge records and other evidences of credit card transactions), contract rights, general intangibles, chattel paper, documents and instruments (collectively, "Accounts"), including, without limitation, all obligations for the payment of money arising out of the sale, lease or other disposition of goods or other property or rendition of services, all monies, all credit balances, reserve balances and other monies due from or

held by factors or credit card issuers or servicing agents or financial intermediaries; (B) all monies, securities and other property and the proceeds thereof, now or hereafter held or received by, or in transit to, Lender or any participant from or for it whether for safekeeping, pledge, custody, transmission, collection or otherwise, and all of its deposits (general or special), balances, sums and credits with Lender or any participant at any time existing; (C) all of its right, title and interest, and all of its rights, remedies, security and liens, in, to and in respect of the Accounts and other collateral, including, without limitation, rights of stoppage in transit, replevin, repossession and reclamation and other rights and remedies of an unpaid vendor, lienor or secured party, guaranties or other contracts of suretyship with respect to the Accounts, deposits or other security for the obligation of any account debtor, credit and other insurance; (D) all of its right, title and interest in, to and in respect of all goods relating to, or which by sale have resulted in Accounts, including, without limitation, all goods described in invoices, documents, contracts or instruments with respect to, or otherwise representing or evidencing, any Account or other collateral, including, without limitation, all returned, reclaimed or repossessed goods; (E) all deposit accounts; and (F) all other general intangibles of every kind and description, including, without limitation, (1) trade names and trademarks, and the goodwill of the business symbolized thereby, (2) patents, (3) copyrights, (4) licenses, (5) claims and other choses in action, (6) Federal, State, local and foreign tax refund claims of all kinds, (7) catalogs and promotional materials, customer and

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mailing lists, and (8) all of its right, title and interest in and to joint ventures and partnerships;

(ii) all Inventory;

(iii) all Equipment;

(iv) all Real Property;

(v) all present and future books, records, ledger cards, computer programs and other property and general intangibles evidencing or relating to any of the above, any other collateral or any account debtor, together with the file cabinets or containers in which the foregoing are stored; and

(vi) all present and future products and proceeds of the foregoing, in any form, including, without limitation, any insurance proceeds and any claims against third persons for loss or damage to or destruction of any or all of the foregoing.

Notwithstanding the foregoing, the Collateral does not include (a) the GECC Collateral owned by HHFG LLC, HWA LLC and Keystone, other than the respective right, title and interest of HHFG LLC, HWA LLC and Keystone in and to the GECC Reserve Balance or (b) any leasehold interests of HHFG LLC, HWA LLC and Keystone in real property.

5. Acknowledgments Regarding Additional Hanover Subsidiary Mergers and Hanover Guarantor Subsidiary Dissolutions.

(a) Mergers. Each of Borrowers and Guarantors hereby acknowledges, confirms and agrees that, upon the effectiveness of the mergers consented to under Section 2(b) hereof, by operation of law and this Amendment:

(i) Effective as of the effective time of the Austad/Austad Holdings Merger, (A) Austad Holdings, Inc. as the surviving corporation pursuant to the Austad/Austad Holdings Merger, which shall have contemporaneously therewith changed its name to The Austad Company, shall continue to be directly and primarily liable in all respects for the Obligations of Austad arising prior to the effective time of the Austad/Austad Holdings Merger and (B) Section 1.13 of the Loan Agreement shall be deleted in its entirety and replaced with the following:

"1.13 "Austad" shall mean The Austad Company, a Delaware corporation, and its successors and assigns."

(ii) Effective as of the effective time of the Hanover List/D.M. Advertising Merger, D.M. Advertising, Inc.,

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as the surviving corporation pursuant to the Hanover List/DM Advertising Merger, shall continue to be directly and primarily liable in all respects for the Obligations of Hanover List Management, Inc. arising prior to the effective time of the Hanover List/DM Advertising Merger;

(iii) Effective as of the effective time of the LWI Retail/LWI Holdings Merger, LWI Holdings, Inc., as the surviving corporation pursuant to the LWI Retail/LWI Holdings Merger, shall continue to be directly and primarily liable in all respects for the Obligations of LWI Retail, Inc. arising prior to the effective time of the LWI Retail/LWI Holdings Merger;

(iv) Effective as of the effective time of the Aegis Safety/HDI Merger, Hanover Direct, Inc., as the surviving corporation pursuant to the Aegis Safety/HDI Merger, shall continue to be directly and primarily liable in all respects for the Obligations of Aegis Safety Holdings, Inc. arising prior to the effective time of the Aegis Safety/HDI Merger;

(v) Lender shall continue to have valid and perfected security interests, liens and rights in and to all assets and properties owned and acquired by the respective surviving corporations, including, without limitation, all assets and properties acquired pursuant to the mergers consented to under Section 2(b) hereof, and all such assets and properties shall be deemed included in the Guarantor Collateral or the Collateral, as the case may be, and such security interests, liens and rights and their perfection and priorities shall continue in all respects in full force and effect; and

(vi) Without limiting the generality of the foregoing, (A) none of the mergers to be consummated as consented to under Section 2(b) hereof shall in any way limit, impair or adversely affect the Obligations then or thereafter owed to Lender by any existing or former Borrowers or Guarantors or any security interests or liens in any assets or properties securing the same, and (B) the security interests, liens and rights of Lender in and to the assets and properties of each Borrower and each Guarantor that is either the merged or the surviving corporation pursuant to the mergers consented to under Section 2(b) hereof, shall, upon and after the consummation of such mergers, continue to secure all Obligations to Lender of the merged corporation and of each surviving corporation, in addition to all other existing and future Obligations of such surviving corporation to Lender.

(b) Guarantor dissolutions. Each of Borrowers and Guarantors hereby acknowledges, confirms and agrees that, upon the effectiveness of the dissolutions of those Guarantors consented to under Section 2(c) hereof:

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(i) The dissolutions of those Guarantors consented to under Section 2(c) hereof shall not in any way limit, impair or adversely affect the Obligations now or hereafter owed to Lender by any continuing Borrower or Guarantor, including, without limitation, any such Obligations they have as shareholders of such dissolved Guarantors pursuant to applicable law; and

(ii) Lender shall continue to have valid and perfected security interests, liens and rights in and to all assets and properties of each existing or former Guarantor whose dissolution has been consented to under Section 2(c) hereof. Such assets and properties shall continue to be deemed included in the Guarantor Collateral, and such security interests, liens and rights and their perfection and priorities shall continue in all respects in full force and effect.

(iii) On or before the dissolution of HFC as consented to under Section 2(c) hereof, the Austad Subordinated Notes shall, pursuant to the Hanover Subsidiary Dissolution Agreements and by operation of law, be assigned, distributed or conveyed to HDPI as the sole shareholder of HFC. The security interests, liens, rights and their perfection and priority of Lender in the Austad Subordinated Notes shall continue in all respects in full force and effect. HDPI and HFC shall deliver to Lender, in form and substance satisfactory to Lender, documents, agreements or instruments to amend the existing Allonge Indorsements in favor of Lender to each of the Austad Subordinated Notes to reflect such assignment, distribution or conveyance.

6. Allocation of Revolving Loans and Letter of Credit Accommodations. Each of Borrowers and Guarantors confirms, acknowledges and agrees that:

(a) as of the effective date of Phase I of the Hanover 1998 Reorganization, the portion of the Revolving Loans and Letter of Credit

Accommodations to or for the account of HDPI determined by Lender to be allocable to the Silhouettes Catalog Assets before the consummation of Phase I of the Hanover 1998 Reorganization as to HDPI, shall be deemed to be Revolving Loans and Letter of Credit Accommodations of Silhouettes LLC;

(b) as of and after the effective date of Phase I of the Hanover 1998 Reorganization as to Colonial Garden, the portion of the Revolving Loans and Letter of Credit Accommodations to or for the account of HDPI determined by Lender to be allocable to the Colonial Garden Catalog Assets before the consummation of Phase I of the Hanover 1998 Reorganization as to Colonial Garden, shall be deemed to be Revolving Loans and Letter of Credit Accommodations of Colonial Garden;

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(c) as of and after the effective date of Phase I of the Hanover 1998 Reorganization as HDV, the portion of the Revolving Loans and Letter of Credit Accommodations to or for the account of HDV determined by Lender to be allocable to the Domestications Catalog Assets before the consummation of Phase I of the Hanover 1998 Reorganization shall be deemed to be Revolving Loans and Letter of Credit Accommodations of Domestications LLC;

(d) as of and after the effective date of Phase I of the Hanover 1998 Reorganization as to HH Corp., the portion of the Revolving Loans and Letter of Credit Accommodations to or for the account of HH Corp. determined by Lender to be allocable to the Tweeds Catalog Assets before the consummation of Phase I of the Hanover 1998 Reorganization as to HH Corp. shall be deemed to be Revolving Loans and Letter of Credit Accommodations of Tweeds LLC;

(e) as of and after the effective date of Phase I of the Hanover 1998 Reorganization, the portion of the Revolving Loans and Letter of Credit Accommodations to or for the account of HH Corp. determined by Lender to be allocable to the Company Store Catalog Assets before the consummation of Phase I of the Hanover 1998 Reorganization as to HH Corp., shall be deemed to be Revolving Loans and Letter of Credit Accommodations of HCS LLC; and

(f) contemporaneously with any determination by Lender of the outstanding amount of Revolving Loans and Letter of Credit Accommodations to be allocated to each of Silhouettes LLC, Colonial Garden, Domestications LLC, Tweeds LLC and HCS LLC, as provided in Sections 6(a) through (e) hereof, respectively, the outstanding amount of Revolving Loans and Letter of Credit Accommodations of the transferor Borrower shall be reduced by those amounts so allocated, but without thereby relieving the transferor Borrower of liability therefor.

#### 7. Amendments to Lending Sublimits.

(a) Brawn. Section 2.2(a) of the Loan Agreement is hereby deleted in its entirety and replaced with the following:

"(a) Subject to, and upon the terms and conditions contained herein, the aggregate principal amount of Revolving Inventory Loans and Letter of Credit Accommodations made available to Brawn shall not exceed Five Million Five Hundred Thousand Dollars (\$5,500,000) at any one time outstanding."

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(b) HDPI. Section 2.2(b) of the Loan Agreement is hereby deleted in its entirety and replaced with the following:

"(b) Subject to, and upon the terms and conditions contained herein, the aggregate principal amount of Revolving Inventory Loans and Letter of Credit Accommodations made available to HDPI shall not exceed One Million Five Hundred Thousand Dollars (\$1,500,000) at any one time outstanding."

(c) GBM. Section 2.2(c) of the Loan Agreement is hereby deleted in its entirety and replaced with the following:

"(c) Subject to, and upon the terms and conditions contained herein, the aggregate principal amount of Revolving Inventory Loans and Letter of Credit Accommodations made available to GBM shall not exceed Five Million Dollars (\$5,000,000) at any one time outstanding."

(d) Gump's. Section 2.2(d) of the Loan Agreement is hereby deleted in its entirety and replaced with the following:

"(d) Subject to, and upon the terms and conditions contained herein, the aggregate principal amount of Revolving Inventory Loans and Letter of Credit Accommodations made available to Gump's shall not exceed Three Million Five Hundred Thousand Dollars (\$3,500,000) at any one time outstanding."

(e) HCS LLC. Section 2.2(e) of the Loan Agreement is hereby deleted in its entirety and replaced with the following:

"(e) Subject to, and upon the terms and conditions contained herein, the aggregate principal amount of Revolving Inventory Loans and Letter of Credit Accommodations made available to HCS LLC shall not exceed Ten Million Three Hundred Fifty Thousand Dollars (\$10,350,000) at any one time outstanding."

(f) Tweeds LLC. Section 2.2(f) of the Loan Agreement is hereby deleted in its entirety and replaced with the following:

"(f) Subject to, and upon the terms and conditions contained herein, the aggregate

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principal amount of Revolving Inventory Loans and Letter of Credit Accommodations made available to Tweeds LLC shall not exceed Three Million Five Hundred Thousand Dollars (\$3,500,000) at any one time outstanding."

(g) Domestications LLC. Section 2.2(g) of the Loan Agreement is hereby deleted in its entirety and replaced with the following:

"(g) Subject to, and upon the terms and conditions contained herein, the aggregate principal amount of Revolving Inventory Loans and Letter of Credit Accommodations made available to Domestications LLC shall not exceed Twenty-One Million Five Hundred Thousand Dollars (\$21,500,000) at any one time outstanding."

(h) Silhouettes LLC. Section 2.2(h) of the Loan Agreement is hereby deleted in its entirety and replaced with the following:

"(h) Subject to, and upon the terms and conditions contained herein, the aggregate principal amount of Revolving Inventory Loans and Letter of Credit Accommodations made available to Silhouettes LLC shall not exceed Four Million Dollars (\$4,000,000) at any one time outstanding."

(i) LWI. Section 2.2(i) of the Loan Agreement is hereby deleted in its entirety and replaced with the following:

"(i) Subject to, and upon the terms and conditions contained herein, the aggregate principal amount of Revolving Inventory Loans and Letter of Credit Accommodations made available to LWI shall not exceed Two Million Five Hundred thousand Dollars (\$2,500,000) at any one time outstanding."

(j) Colonial Garden. Section 2.2(j) of the Loan Agreement (as previously amended by the Eleventh Amendment to Loan Agreement) is hereby redesignated Section 2.2(o) and a new Section 2.2(j) of the Loan Agreement is hereby added as follows:

"(j) Subject to, and upon the terms and conditions contained herein, the aggregate principal amount of Revolving Inventory Loans and Letter of Credit Accommodations made available to Colonial Garden shall not exceed Seven Hundred Fifty Thousand Dollars (\$750,000) at any one time outstanding."

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(k) Austad. Section 2.2(k) of the Loan Agreement is hereby deleted in its entirety and replaced with the following:

"(k) Subject to, and upon the terms and conditions contained herein, the aggregate principal amount of Revolving Inventory Loans and Letter of Credit Accommodations made available to Austad shall not exceed Two Million Three Hundred Thousand Dollars (\$2,300,000) at any one time outstanding."

(l) Aegis. A new Section 2.2(l) of the Loan Agreement is hereby added as follows:

"(l) Subject to, and upon the terms and conditions contained herein, the aggregate principal amount of Revolving Inventory Loans and Letter of Credit Accommodations made available to Aegis shall not exceed Two Hundred Thousand Dollars (\$200,000) at any one time outstanding."

(m) HDV. A new Section 2.2(m) of the Loan Agreement is hereby added as follows:

"(m) Subject to, and upon the terms and conditions contained herein, the aggregate principal amount of Revolving Inventory Loans and Letter of Credit Accommodations made available to HDV shall not exceed zero (\$0) at any one time outstanding."

(n) HH Corp. A new Section 2.2(n) of the Loan Agreement is hereby added as follows:

"(n) Subject to, and upon the terms and conditions contained herein, the aggregate principal amount of Revolving Inventory Loans and Letter of Credit Accommodations made available to HH Corp. shall not exceed zero (\$0) at any one time outstanding."

#### 8. Exhibits.

(a) Exhibits A and B-1 to the Loan Agreement are hereby amended to include, in addition and not in limitation, the information set forth on Exhibits A and B attached hereto. Exhibit C to the Loan Agreement is hereby deleted in its entirety and replaced with the information set forth on Exhibit C hereto.

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(b) Exhibit A to the Subsidiary General Security Agreement is hereby amended to include, in addition and not in limitation, the information set forth on Exhibit D attached hereto.

9. Release of Certain Existing Availability Reserves. The parties hereto acknowledge and agree that Lender has previously released the following availability reserves under the Loan Agreement in the following amounts:

(a) the availability reserve in the amount of \$641,740 against the amount of Revolving Loans and Letter of Credit Accommodations otherwise determined by Lender to be available to LWI, previously established and being maintained by Lender pursuant to Section 3 of the letter agreement, dated May 15, 1997, among Lender, Borrowers and Guarantors re: Sale of Certain Improved Property and Fixtures of LWI Holdings, Inc.;

(b) the availability reserve in the amount of \$1,000,000 against the amount of Revolving Loans and Letter of Credit Accommodations otherwise determined by Lender to be available to HDPI, previously established and being maintained by Lender pursuant to Section 3 of the Second Amendment to Loan Agreement; and

(c) the availability reserve in the amount of \$317,540.59 against the amount of Revolving Loans and Letter of Credit Accommodations otherwise determined by Lender to be available to HDPI, previously established and being maintained by Lender pursuant to Section 3(b) of the letter agreement, dated July 16, 1996, among Lender, Borrowers and Guarantors re: Sale of Certain Real Property, Fixtures and Equipment of The Austad Company.

10. Consent and Release by Lender of Certain Trademarks.

(a) In accordance with the request by Borrowers, Hanover Catalog and the other Guarantors, subject to the terms hereof, Lender consents to the assignment by Hanover Catalog to the American Cancer Society Foundation of all of the right, title and interest of Hanover Catalog in and to the trademark entitled "TLC" and Design, Registration No. 2,002,663, together with the goodwill of the business symbolized thereby (the "TLC Trademark"). Lender hereby releases all interests in the TLC Trademark previously assigned to Lender under the Trademark Security Agreement between certain Guarantors and Lender, and all interests in the TLC Trademark previously assigned to Lender under that Trademark Security Agreement are hereby reassigned to Hanover Catalog, without representation or warranty of any kind, nature or description.

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(b) In accordance with the request by Brawn and the other Borrowers and Guarantors, subject to the terms hereof, Lender consents to the assignment by Brawn to Eugene R. Burkard ("Burkard") of all of the right, title and interest in and to the trademark entitled "FREIGHTER", Registration No. 1,365,700, together with the goodwill of the business symbolized thereby (the "Freighter Trademark"), and Lender hereby releases all interests in the Freighter Trademark previously assigned to Lender under the Trademark Security Agreement between certain Borrowers and Lender, and all interests in the Freighter Trademark previously assigned to Lender under that Trademark Security Agreement are hereby reassigned to Brawn, without representation or warranty of any kind, nature or description; provided, that, Brawn shall have delivered to Lender, in form and substance satisfactory to Lender, (i) a royalty free license agreement between Burkard and Brawn with respect to the license by Burkard to Brawn of the trademark entitled "BUNS", Registration No. 1,023,313, together with the goodwill of the business symbolized thereby (the "Buns Trademark"), and (ii) an agreement between Lender and Burkard, as consented to by Brawn, providing for, among other things, the use by Lender of the Buns Trademark upon an Event of Default.

(c) Conditioned as provided in Sections 10(a) and (b) hereof, Lender agrees, at the request of Borrowers and Guarantors, to deliver to Borrowers and Guarantors or their counsel, at the sole cost and expense of Borrowers and Guarantors, an instrument, in form and substance satisfactory to Lender, evidencing the release and reassignment of the Freighter Trademark that is part of the Collateral held by Lender.

11. Representations, Warranties and Covenants. Borrowers and Guarantors represent, warrant and covenant with and to Lender as follows, which representations, warranties and covenants are continuing and shall survive the execution and delivery hereof, the truth and accuracy of, or compliance with each, together with the representations, warranties and covenants in the other Financing Agreements, being a condition of the effectiveness of this Amendment and a continuing condition of the making or providing of any Revolving Loans or Letter of Credit Accommodations by Lender to Borrowers:

(a) This Amendment and each other agreement or instrument to be executed and delivered by each of Domestications LLC, HCS LLC, Tweeds LLC, Silhouettes LLC, Colonial Garden, HHFG LLC, HWA LLC and Keystone, the other Borrowers and/or the other Guarantors hereunder have been duly authorized, executed and delivered by all necessary action on the part of each of Domestications LLC, HCS LLC, Tweeds LLC, Silhouettes LLC, Colonial Garden, HHFG LLC, HWA LLC and Keystone, the other Borrowers and each of the other Guarantors which is a party

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hereto and thereto and, if necessary, their respective stockholders (with respect to any corporation) or members (with respect to any limited liability company), and is in full force and effect as of the date hereof, as the case may be, and the agreements and obligations of each of Domestications LLC, HCS LLC, Tweeds LLC, Silhouettes LLC, Colonial Garden, HHFG LLC, HWA LLC and Keystone, the other Borrowers and/or the other Guarantors, as the case may be, contained herein and therein constitute legal, valid and binding obligations of each of Domestications LLC, HCS LLC, Tweeds LLC, Silhouettes LLC, Colonial Garden, HHFG LLC, HWA LLC and Keystone, the other Borrowers and/or the other Guarantors, as the case may be, enforceable against them in accordance with their terms.

(b) Neither the execution and delivery of the Hanover 1998

Reorganization Agreements, nor the consummation of the transactions contemplated by the Hanover 1998 Reorganization Agreements, nor compliance with the provisions of the Hanover 1998 Reorganization Agreements, shall result in the creation or imposition of any lien, claim, charge or encumbrance upon any of the Silhouettes Catalog Assets, the Company Store Catalog Assets, the Tweeds Catalog Assets, the Domestications Catalog Assets and the Colonial Garden Catalog Assets, the La Crosse, Wisconsin Telemarketing Center Assets, the Wisconsin Retail Outlet Assets, the Roanoke, Virginia Fulfillment Center Assets, or any other Collateral, except in favor of Lender pursuant to this Amendment and the Financing Agreements as amended hereby.

(c) Neither the execution and delivery of the Hanover 1998 Reorganization Agreements, nor the consummation of the transactions therein contemplated, nor compliance with the provisions thereof, (i) has violated or shall violate any Bulk Sales Act, Bulk Transfer Act or Article 6 of the UCC, if applicable, the Hart-Scott-Rodino Anti-Trust Improvements Act of 1976, as amended, if applicable, or any Federal or State securities laws or any other law or regulation or any order or decree of any court or governmental instrumentality in any respect or (ii) does, or shall conflict with or result in the breach of, or constitute a default in any respect under any mortgage, deed of trust, security agreement, agreement or instrument to which any of Domestications LLC, HCS LLC, Tweeds LLC, Silhouettes LLC, Colonial Garden, HHFG LLC, HWA LLC or Keystone, or any other Borrower or other Guarantor is a party or may be bound, or (iii) shall violate any provision of the Certificates of Incorporation or By-Laws of Keystone or Colonial Garden, or any other Borrower or other Guarantor, or (iv) shall violate any provision of the Certificates of Formation or Operating Agreements of any of Domestications LLC, HCS LLC, Tweeds LLC, Silhouettes LLC, HHFG LLC or HWA LLC.

(d) All of the outstanding shares of capital stock of each of Keystone and Colonial Garden have been duly

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authorized, validly issued and are fully paid and non-assessable, free and clear of all claims, liens, pledges and encumbrances of any kind. Hanover is the beneficial and direct owner of record of one hundred (100%) percent of the issued and outstanding shares of capital stock of each of Keystone and Colonial Garden.

(e) None of the membership interests in any of Domestications LLC, HCS LLC, Tweeds LLC, Silhouettes LLC, HHFG LLC and HWA LLC have been evidenced by a membership certificate or other certificate, document, instrument or security. All of the membership interests in each of Domestications LLC, HCS LLC, Tweeds LLC, Silhouettes LLC, HHFG LLC and HWA LLC (i) are noted in the respective books and records of each such company, (ii) have been duly authorized, validly issued and (iii) are fully paid and non-assessable, free and clear of all claims, liens, pledges and encumbrances of any kind .

(f) No court of competent jurisdiction has issued any injunction, restraining order or other order which has prohibited or prohibits consummation of the Hanover 1998 Reorganization or any part thereof, and no governmental action or proceeding has been threatened or commenced seeking any injunction, restraining order or other order which seeks to void or otherwise modify the transactions described in the Hanover 1998 Reorganization Agreements.

(g) Each of Keystone and Colonial Garden is a Delaware corporation, duly organized and validly existing in good standing under the laws of the State of Delaware. Each of Domestications LLC, HCS LLC, Tweeds LLC, Silhouettes LLC, HHFG LLC and HWA LLC is a limited liability company, duly formed and validly existing in good standing under the laws of the State of Delaware. Each of Domestications LLC, HCS LLC, Tweeds LLC, Silhouettes LLC, Colonial Garden, HHFG LLC, HWA LLC and Keystone (i) is duly licensed or qualified to do business as a foreign limited liability company or foreign corporation, as the case may be, and is in good standing in each of the jurisdictions set forth in Exhibit A annexed hereto, which are the only jurisdictions wherein the character of the properties owned or licensed or the nature of the business of any of Domestications LLC, HCS LLC, Tweeds LLC, Silhouettes LLC, Colonial Garden, HHFG LLC, HWA LLC or Keystone, makes such licensing or qualification to do business necessary; and (ii) has all requisite power and authority to own, lease and operate its properties and to carry on its business as it is now being conducted and will be conducted in the future.

(h) The assets and properties of Domestications LLC, HCS LLC, Tweeds LLC, Silhouettes LLC, Colonial Garden, HHFG LLC, HWA LLC and Keystone are owned by them, free and clear of all security interests, liens and encumbrances of any kind, nature or description, as of the date hereof, except those

security interests existing in favor of Lender and those granted pursuant hereto in favor of Lender, and except for Liens (if any) permitted under Section 6.4 of the Loan Agreement or the other Financing Agreements.

(i) Upon the effectiveness of each of the mergers consented to under Sections 2(a) or 2(b) hereof, each such merger has or shall become effective in accordance with the terms of each of the Additional Hanover Subsidiary Merger Agreements applicable to it and of the applicable corporate statutes of the States of incorporation of each Borrower and each Guarantor that is a constituent corporation pursuant to the mergers so consented to. As of the respective date of the effectiveness of the respective mergers consented to under Sections 2(a) or 2(b) hereof, (i) Austad Holdings, Inc. shall be the surviving corporation of the Austad/Austad Holdings Merger and the name of Austad Holdings, Inc. shall have been changed to The Austad Company in accordance with the applicable State laws of Delaware and South Dakota, (ii) D.M. Advertising, Inc. shall be the surviving corporation of the Hanover List/DM Advertising Merger, (iii) LWI Holdings, Inc. shall be the surviving corporation of the LWI Retail/LWI Holdings Merger, (iv) The Company Store Factory, Inc. was and is the surviving corporation of the TCS Factory/Company Factory Merger, (v) The Company Office, Inc. was and is the surviving corporation of the TCS Office/Company Office Merger, and (vi) Hanover Direct, Inc. shall be the surviving corporation of the Aegis Safety/HDI Merger.

(j) Neither the consummation of the mergers, as consented to under Section 2(a) or 2(b) hereof, nor the dissolution of certain Guarantors as consented to under Section 2(c) hereof, nor the execution, delivery and/or filing of the Additional Hanover Subsidiary Merger Agreements, the Hanover Subsidiary Dissolution Agreements or any other agreements, documents or instruments in connection therewith, nor the consummation of the transactions therein contemplated, nor compliance with the provisions thereof if consummated or effected on or before the date hereof has resulted in or if consummated or effected after the date hereof shall result in the creation or imposition of any lien, claim, charge or incumbrance upon any of the Collateral, except in favor of Lender.

(k) All actions and proceedings required by the Additional Hanover Subsidiary Merger Agreements applicable to the mergers consented to under Sections 2(a) and 2(b) hereof and the Hanover Subsidiary Dissolution Agreements, applicable law and regulation, have been or shall be taken prior to the effectiveness of such mergers and dissolutions and all transactions required thereunder have been and shall be, or will be duly and validly consummated.

(l) No court of competent jurisdiction has, or prior to the effectiveness thereof shall have, issued any injunction, restraining order or other order which prohibits consummation of the mergers as consented to under Sections 2(a) or 2(b) hereof or the dissolution of certain Guarantors as consented to under Section 2(c) hereof, and no governmental action or proceeding has been, or, prior to the effectiveness thereof, shall have been, threatened or commenced, seeking any injunction, restraining order or other order which seeks to void or otherwise modify the transactions described in the Additional Hanover Subsidiary Merger Agreements or the Hanover Subsidiary Dissolution Agreements.

(m) Neither the consummation of the mergers consented to under Section 2(a) or 2(b) hereof, nor the dissolution of certain Guarantors consented to under Section 2(c) hereof, nor the execution, delivery or filing of the Additional Hanover Subsidiary Merger Agreements, the Hanover Subsidiary Dissolution Agreements or any other agreements, documents or instruments in connection therewith, nor the consummation of the transactions therein contemplated, nor compliance with the provisions thereof before the date hereof or upon the effectiveness of such mergers and dissolutions (i) has violated or will violate any Federal or State securities laws, any State corporation law, or any other law or regulation or any order or decree of any court or governmental instrumentality in any respect, or (ii) does or will conflict with or result in the breach of, or constitute a default in any respect under any mortgage, deed of trust, security agreement, agreement or instrument to which any existing or former Guarantor or Borrower is a party or may be bound, or (iii) does or will violate any provision of the Certificate of Incorporation or By-Laws of any Guarantor or any Borrower.

(n) The aggregate amount of the actual and contingent indebtedness, liabilities and obligations, other than those owed to Lender,

incurred by the Guarantors dissolved or which will be dissolved as consented to under Section 2(c) hereof, including any such indebtedness, liabilities and obligations arising in connection with or relating to such dissolutions, shall not exceed \$10,000 for any one such dissolved Guarantor.

(o) No action of, or filing with, or consent of any governmental or public body or authority, other than the filing of UCC financing statements, and no approval or consent of any other party, is required to authorize, or is otherwise required in connection with, the execution, delivery and performance of this Amendment.

(p) All of the representations and warranties set forth in the Loan Agreement as amended hereby, and the other

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Financing Agreements, are true and correct in all material respects after giving effect to the provisions of this Amendment, except to the extent any such representation or warranty is made as of a specified date, in which case such representation or warranty shall have been true and correct as of such date.

(q) After giving effect to the provisions of this Amendment, no Event of Default or Incipient Default exists or has occurred and is continuing.

(r) Within fifteen (15) days after the date of the consummation of the mergers consented to in Section 2(b) hereof, Borrowers and Guarantors shall deliver and/or cause to be delivered to Lender, each in form and substance satisfactory to Lender, appropriate UCC amendments to the existing UCC financing statements filed by the Lender against the merged Borrower or Guarantor changing the debtor's name and/or mailing address to that of the respective surviving corporation of the merger with such merged corporation as consented to under Section 2(b) hereof.

12. Conditions Precedent. Concurrently with the execution and delivery hereof (except to the extent otherwise indicated below), and as a further condition to the effectiveness of this Amendment and the agreement of Lender to the modifications and amendments set forth in this Amendment:

(a) Lender shall have received, in form and substance satisfactory to Lender, evidence that (i) the Hanover 1998 Reorganization Agreements in connection with Phase I of the Hanover 1998 Reorganization have been duly executed and delivered by and to the appropriate parties thereto and (ii) the transactions contemplated by Phase I of the Hanover 1998 Reorganization have been consummated prior to, or contemporaneously with, the execution of this Amendment;

(b) Each of Domestications LLC, HCS LLC, Tweeds LLC, Silhouettes LLC, Colonial Garden, HHFG LLC, HWA LLC and Keystone, Existing Borrowers and Existing Guarantors shall have delivered to Lender, in form and substance satisfactory to Lender, each of the following agreements to which it is a party, duly authorized, executed and delivered:

(i) Second Amendment to Trademark Collateral Assignment and Security Agreement, dated November 14, 1995, by and among Hanover, Hanover Catalog, Scandia, Aegis Holdings, CSHI, Austad Holdings and Lender, providing for certain amendments to the existing exhibit(s) to such Trademark Collateral Assignment and Security Agreement, and any such documents, instruments or filings with respect thereto with the U.S. Patent and Trademark Office to protect such Collateral;

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(ii) First Amendment to Trademark Collateral Assignment and Security Agreement, dated November 14, 1995, by and among Gump's, Tweeds, Brawn and Lender, providing for certain amendments to the existing exhibit(s) to such Trademark Collateral Assignment and Security Agreement,, and any such documents, instruments or filings with respect thereto with the U.S. Patent and Trademark Office to protect such Collateral;]

(iii) amendments to the Third Party Credit Card Acknowledgments setting forth such acknowledging parties' agreement to transfer to the Blocked Accounts all monies due and other funds payable to or for the account of Domestications LLC, HCS LLC, Tweeds LLC, Silhouettes LLC and Colonial Garden under the applicable Third Party Credit Card Agreements;

(iv) evidence that notice has been received by the Customer List Escrow Agent setting forth any changes in ownership to all existing Customer Lists that are being held by the Customer List Escrow Agent pursuant to the Customer List Escrow Agreement;

(v) Amended and Restated Agency Agreement by and among Hanover, Domestications LLC, HCS LLC, Tweeds LLC, Silhouettes LLC and Colonial Garden and certain Borrowers;

(vi) Guarantee and Waiver by Borrowers, other than Domestications LLC, HDPI and Hanover Realty, in favor of Lender with respect to the Obligations of Domestications LLC to Lender (HDPI and Hanover Realty hereby acknowledge and confirm that each of the Guarantee and Waivers, dated June 26, 1998, by each of them in favor of Lender with respect to the existing and future Obligations of Domestications LLC, HCS LLC, Tweeds LLC, Silhouettes LLC and Colonial Garden to Lender, are in full force and effect);

(vii) Guarantee and Waiver by Borrowers, other than HCS LLC, HDPI and Hanover Realty, in favor of Lender with respect to the Obligations of HCS LLC to Lender;

(viii) Guarantee and Waiver by Borrowers, other than Tweeds LLC, HDPI and Hanover Realty, in favor of Lender with respect to the Obligations of Tweeds LLC to Lender;

(ix) Guarantee and Waiver by Borrowers, other than Silhouettes LLC, HDPI and Hanover Realty, in favor of Lender with respect to the Obligations of Silhouettes LLC to Lender;

(x) Guarantee and Waiver by Borrowers, other than Colonial Garden, HDPI and Hanover Realty, in favor of Lender with respect to the Obligations of Colonial Garden to Lender;

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(xi) Guarantee and Waiver by Guarantors, other than Borrowers and Hanover, in favor of Lender with respect to the Obligations of Domestications LLC, HCS LLC, Tweeds LLC, Silhouettes LLC and Colonial Garden to Lender;

(xii) Guarantee and Waiver by Hanover in favor of Lender with respect to the Obligations of Domestications LLC, HCS LLC, Tweeds LLC, Silhouettes LLC and Colonial Garden to Lender; and

(xiii) Blocked Account Agreement(s) by and among The First National Bank of Maryland, Borrowers, certain Guarantors and Lender providing for the establishment of a Blocked Account for each of Domestications LLC, HCS LLC, Tweeds LLC, Silhouettes LLC and Colonial Garden;

(c) Domestications LLC, HCS LLC, Tweeds LLC, Silhouettes LLC, Colonial Garden, HHFG LLC, HWA LLC and Keystone and all other Borrowers and Guarantors shall have duly executed and delivered to Lender such UCC financing statements and other documents and instruments which Lender in its sole discretion has determined are necessary to perfect the security interests of Lender in all Collateral now or hereafter owned by Domestications LLC, HCS LLC, Tweeds LLC, Silhouettes LLC, Colonial Garden, HHFG LLC, HWA LLC and Keystone;

(d) Each of Colonial Garden and Keystone shall have delivered to Lender (i) a copy of its Certificate of Incorporation, and all amendments thereto, certified by the Secretary of State of its jurisdiction of incorporation as of the most recent practicable date certifying that each of the foregoing documents remains in full force and effect and has not been modified or amended, except as described therein, (ii) a copy of its By-Laws, certified by its Secretary or Assistant Secretary, (iii) a certificate from its Secretary or Assistant Secretary dated the date hereof certifying that each of the foregoing documents remains in full force and effect and has not been modified or amended, except as described therein;

(e) Each of Domestications LLC, HCS LLC, Tweeds LLC, Silhouettes LLC, HHFG LLC and HWA LLC shall have delivered to Lender (i) a copy of its Certificate of Formation or Articles of Organization, and all amendments thereto, certified by the Secretary of State of its jurisdiction of formation as of the most recent practicable date certifying that each of the foregoing documents remains in full force and effect and has not been modified or amended, except as described therein, (ii) a copy of its Operating Agreement, certified by the Secretary or Assistant Secretary of the company, and (iii) a certificate from its Secretary or Assistant Secretary dated the date hereof certifying that

force and effect and has not been modified or amended, except as described therein;

(f) Each of HWA LLC, HCS LLC, Domestications LLC, HHFG LLC and Keystone shall have delivered to Lender evidence, as of the most recent practicable date, that it is duly qualified and in good standing in each jurisdiction set forth in Exhibit A annexed hereto;

(g) Lender shall have received, in form and substance satisfactory to Lender, Secretary's or Assistant Secretary's Certificates of Directors' Resolutions with Shareholders' Consent evidencing the adoption and subsistence of corporate resolutions approving the execution, delivery and performance by Borrowers, Colonial Garden, Keystone and the other Guarantors of this Amendment and the agreements, documents and instruments to be delivered pursuant to this Amendment;

(h) Lender shall have received, in form and substance satisfactory to Lender, for each of Domestications LLC, HCS LLC, Tweeds LLC, Silhouettes LLC, HHFG LLC and HWA LLC (i) a Management and Incumbency Certificate of each such company identifying all managers, officers or other persons authorized to act on behalf of such company and if applicable, the specific management responsibilities of each such manager, officer or other authorized person, including a description of any restriction on any such manager's, officer's or other person's authority to act for such company or, if no restrictions are so imposed, a statement to that effect, (ii) Company Resolutions of each such company, evidencing the adoption and subsistence of company resolutions approving the execution, delivery and performance by each of Domestications LLC, HCS LLC, Tweeds LLC, Silhouettes LLC, HHFG LLC and HWA LLC, respectively, of this Amendment and the agreements, documents and instruments to be delivered pursuant to this Amendment, in each case signed by all members of each such company, and (iii) Certificates of the Secretary or Assistant Secretary of each such company identifying all members of such company and the relative voting and/or management rights of the members, if applicable, of such company;

(i) Lender shall have received, in form and substance satisfactory to Lender, updates or amendments to the existing Evidence of Property Insurance and Certificate of Liability Insurance issued by the existing insurance broker or agent of Borrowers and Guarantors in favor of Lender;

(j) Lender shall have received an opinion of counsel to Domestications LLC, HCS LLC, Tweeds LLC, Silhouettes LLC, Colonial Garden, HHFG LLC, HWA LLC and Keystone, the other Borrowers and other Guarantors with respect to the transactions contemplated by this Amendment and the Hanover 1998 Reorganization Agreements, and such other matters as Lender shall

reasonably addressed to Lender, in form and substance and satisfactory to Lender; and

(k) each of Borrowers and Guarantors shall deliver, or cause to be delivered, to Lender a true and correct copy of any consent, waiver or approval to or of this Amendment, which any Borrower or Guarantor is required to obtain from any other Person, and such consent, approval or waiver shall be in a form reasonably acceptable to Lender.

13. Effect of this Amendment. This Amendment constitutes the entire agreement of the parties with respect to the subject matter hereof, and supersedes all prior oral or written communications, memoranda, proposals, negotiations, discussions, term sheets and commitments with respect to the subject matter hereof. Except as expressly provided herein, no other changes or modifications to the Loan Agreement or any of the other Financing Agreements, or waivers of or consents under any provisions of any of the foregoing, are intended or implied by this Amendment, and in all other respects the Financing Agreements are hereby specifically ratified, restated and confirmed by all parties hereto as of the effective date hereof. To the extent that any provision of the Loan Agreement or any of the other Financing Agreements conflicts with any provision of this Amendment, the provision of this Amendment shall control.

14. Further Assurances. Borrowers and Guarantors shall execute and

deliver such additional documents and take such additional action as may be reasonably requested by Lender to effectuate the provisions and purposes of this Amendment.

15. Governing Law. The rights and obligations hereunder of each of the parties hereto shall be governed by and interpreted and determined in accordance with the internal laws of the State of New York (without giving effect to principles of conflict of laws).

16. Binding Effect. This Amendment shall be binding upon and inure to the benefit of each of the parties hereto and their respective successors and assigns.

17. Counterparts. This Amendment may be executed in any number of counterparts, but all of such counterparts shall together constitute but one and the same agreement. In making proof of this Amendment, it shall not be necessary to produce or account for more than one counterpart thereof signed by each of the parties hereto.

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IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be executed on the day and year first written.

CONGRESS FINANCIAL CORPORATION

By: /s/ Janet S. Hart  
-----

Title: 1st VP  
-----

HANOVER DIRECT PENNSYLVANIA, INC.

By: /s/ [ILLEGIBLE]  
-----

Title: VP  
-----

BRAWN OF CALIFORNIA, INC.

By: /s/ [ILLEGIBLE]  
-----

Title: VP  
-----

GUMP'S BY MAIL, INC.

By: /s/ [ILLEGIBLE]  
-----

Title: President  
-----

GUMP'S CORP.

By: /s/ [ILLEGIBLE]  
-----

Title: VP  
-----

HANOVER HOLDING CORP., as successor  
to the merger of The Company Store,  
Inc. with and into Tweeds, Inc.

By: /s/ [ILLEGIBLE]  
-----

Title: VP

-----  
LWI HOLDINGS, INC.

By: /s/ [ILLEGIBLE]  
-----

Title: VP  
-----

[SIGNATURES CONTINUE ON NEXT PAGE]

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[SIGNATURES CONTINUED FROM PREVIOUS PAGE]

AEGIS CATALOG CORPORATION

By: /s/ [ILLEGIBLE]  
-----

Title: VP  
-----

HANOVER DIRECT VIRGINIA INC.

By: /s/ [ILLEGIBLE]  
-----

Title: President  
-----

HANOVER REALTY, INC.

By: /s/ [ILLEGIBLE]  
-----

Title: President  
-----

THE AUSTAD COMPANY

By: /s/ [ILLEGIBLE]  
-----

Title: VP  
-----

TWEEDS, LLC

By: /s/ [ILLEGIBLE]  
-----

Title: VP  
-----

SILHOUETTES, LLC

By: /s/ [ILLEGIBLE]  
-----

Title: VP  
-----

HANOVER COMPANY STORE, LLC

By: /s/ [ILLEGIBLE]  
-----

Title: VP

-----  
[SIGNATURES CONTINUE ON NEXT PAGE]

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[SIGNATURES CONTINUED FROM PREVIOUS PAGE]

DOMESTICATIONS, LLC

By: /s/ [ILLEGIBLE]  
-----

Title: President  
-----

COLONIAL GARDEN KITCHENS, INC.

By: /s/ [ILLEGIBLE]  
-----

Title: VP  
-----

By their signatures below, the undersigned Guarantors acknowledge and agree to be bound by the applicable provisions of this Amendment:

HANOVER DIRECT, INC.

By: /s/ [ILLEGIBLE]  
-----

Title: Senior Vice President  
-----

AEGIS RETAIL CORPORATION

By: /s/ [ILLEGIBLE]  
-----

Title: VP  
-----

AEGIS SAFETY HOLDINGS, INC.

By: /s/ [ILLEGIBLE]  
-----

Title: VP  
-----

[SIGNATURES CONTINUE ON NEXT PAGE]

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[SIGNATURES CONTINUED FROM PREVIOUS PAGE]

AEGIS VENTURES, INC.

By: /s/ [ILLEGIBLE]  
-----

Title: President  
-----

AMERICAN DOWN & TEXTILE COMPANY

By: /s/ [ILLEGIBLE]  
-----

Title: VP  
-----

BRAWN WHOLESALE CORP.

By: /s/ [ILLEGIBLE]  
-----

Title: VP  
-----

THE COMPANY STORE FACTORY, INC., a Delaware corporation, as successor by merger to The Company Factory, Inc., a Delaware corporation

By: /s/ [ILLEGIBLE]  
-----

Title: VP  
-----

THE COMPANY OFFICE, INC., a Delaware corporation, as successor by merger to The Company Office, Inc., a Wisconsin corporation

By: /s/ [ILLEGIBLE]  
-----

Title: VP  
-----

COMPANY STORE HOLDINGS, INC.

By: /s/ [ILLEGIBLE]  
-----

Title: VP  
-----

[SIGNATURES CONTINUE ON NEXT PAGE]

[SIGNATURES CONTINUED FROM PREVIOUS PAGE]

D.M. ADVERTISING, INC.

By: /s/ [ILLEGIBLE]  
-----

Title: President  
-----

GUMP'S CATALOG, INC.

By: /s/ [ILLEGIBLE]  
-----

Title: President  
-----

GUMP'S HOLDINGS, INC.

By: /s/ [ILLEGIBLE]  
-----

Title: President

-----  
HANOVER CASUALS, INC.

By: /s/ [ILLEGIBLE]  
-----

Title: President  
-----

HANOVER CATALOG HOLDINGS, INC.

By: /s/ [ILLEGIBLE]  
-----

Title: President  
-----

HANOVER FINANCE CORPORATION

By: /s/ [ILLEGIBLE]  
-----

Title: President  
-----

HANOVER LIST MANAGEMENT INC.

By: /s/ [ILLEGIBLE]  
-----

Title: President  
-----

[SIGNATURES CONTINUE ON NEXT PAGE]

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[SIGNATURES CONTINUED FROM PREVIOUS PAGE]

HANOVER VENTURES, INC.

By: /s/ [ILLEGIBLE]  
-----

Title: President  
-----

LWI RETAIL, INC.

By: /s/ [ILLEGIBLE]  
-----

Title: VP  
-----

SCANDIA DOWN CORPORATION

By: /s/ [ILLEGIBLE]  
-----

Title: VP  
-----

TWEEDS OF VERMONT, INC.

By: /s/ [ILLEGIBLE]  
-----

Title: VP  
-----

YORK FULFILLMENT COMPANY, INC.

By: /s/ [ILLEGIBLE]  
-----

Title: President  
-----

AUSTAD HOLDINGS, INC.

By: /s/ [ILLEGIBLE]  
-----

Title: VP  
-----

HANOVER HOME FASHIONS GROUP, LLC

By: /s/ [ILLEGIBLE]  
-----

Title: VP  
-----

[SIGNATURES CONTINUE ON NEXT PAGE]

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[SIGNATURES CONTINUED FROM PREVIOUS PAGE]

HANOVER WOMEN'S APPAREL, LLC

By: /s/ [ILLEGIBLE]  
-----

Title: VP  
-----

KEYSTONE FULFILLMENT, INC.

By: /s/ [ILLEGIBLE]  
-----

Title: VP  
-----

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SCHEDULE 1  
TO  
TWELFTH AMENDMENT  
TO  
LOAN AND SECURITY AGREEMENT

HANOVER 1998 REORGANIZATION DOCUMENTS

Formation/Contribution Agreements:

Silhouettes, LLC:

- Certificate of Formation of Silhouettes, LLC
- Registration of Foreign Limited Liability Company - NJ
- Certificate of Registration - VA
- Certificate of Correction
- Operating Agreement of Silhouettes, LLC
- Unanimous Consent of the Board of Managers of Silhouettes, LLC
- Unanimous Consent of Members of Silhouettes, LLC
- Unanimous Written Consent of the Board of Managers of Silhouettes, LLC
- Assignment and Assumption Agreement with HDPI
- Written Consent of Sole Stockholder of HDPI

Unanimous Written Consent of the Board of Directors of HDPI  
Membership Interest Subscription by HDPI

Tweeds, LLC:

Certificate of Formation of Tweeds, LLC  
Registration of Foreign Limited Liability Company - NJ  
Certificate of Registration - VA  
Certificate of Correction  
Operating Agreement of Tweeds, LLC  
Unanimous Consent of the Board of Managers of Tweeds, LLC  
Unanimous Consent of Members of Tweeds, LLC  
Unanimous Written Consent of the Board of Managers of Tweeds, LLC  
Assignment and Assumption Agreement with HHC  
Written Consent of Sole Stockholder of HHC  
Unanimous Written Consent of the Board of Directors of HHC  
Membership Interest Subscription by HHC

HWA LLC:

Certificate of Formation of HWA LLC  
Registration of Foreign Limited Liability Company - NJ  
Certificate of Registration - VA  
Certificate of Correction  
Unanimous Consent of the Board of Managers of HWA LLC  
Unanimous Consent of Members of HWA LLC  
Operating Agreement of HWA LLC

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Unanimous Written Consent of the Board of Managers of HWA LLC  
Assignment Agreement with HHC  
Assignment Agreement with HDPI  
Written Consent of Sole Stockholder of HHC  
Unanimous Written Consent of the Board of Directors of HHC  
Membership Interest Subscription by HHC  
Membership Interest Subscription by HDPI

TCSI/Tweeds Merger and related name change:

Certificate of Merger -- TCSI/Tweeds becomes Hanover Holding Corp.  
Articles of Merger of TCSI with Tweeds

HCS LLC:

Certificate of Formation of HCS LLC  
Registration of Foreign Limited Liability Company - NJ  
Certificate of Authority or Registration - WI  
Certificate of Correction  
Unanimous Consent of the Board of Managers of HCS LLC  
Unanimous Consent of Members of HCS LLC  
Operating Agreement of HCS LLC  
Unanimous Written Consent of the Board of Managers of HCS LLC  
Assignment and Assumption Agreement with HHC  
Written Consent of Sole Stockholder of HHC  
Unanimous Written Consent of the Board of Directors of HHC  
Membership Interest Subscription by HHC

Domestications, LLC:

Certificate of Formation of Domestications, LLC  
Registration of Foreign Limited Liability Company - NJ  
Certificate of Registration - VA  
Certificate of Correction  
Unanimous Consent of the Board of Managers of Domestications, LLC  
Unanimous Consent of Members of Domestications, LLC  
Operating Agreement of Domestications, LLC  
Unanimous Written Consent of the Board of Managers of Domestications, LLC  
Assignment and Assumption Agreement with HDV  
Written Consent of Sole Stockholder of HDV  
Unanimous Written Consent of the Board of Directors of HDV  
Membership Interest Subscription by HDV

HHFG LLC:

Certificate of Formation of HHFG LLC  
Registration of Foreign Limited Liability Company - NJ  
Certificate of Registration - VA Certificate of Authority or Registration - WI  
Certificate of Correction  
Unanimous Consent of the Board of Managers of HHFG LLC

Unanimous Consent of Members of HHFG LLC  
 Operating Agreement of HHFG LLC  
 Unanimous Written Consent of the Board of Managers of HHFG LLC  
 Assignment and Assumption Agreement with HHC  
 Assignment and Assumption Agreement with HDV  
 Written Consent of Sole Stockholder of HHC  
 Unanimous Written Consent of the Board of Directors of HHC  
 Membership Interest Subscription by HHC  
 Membership Interest Subscription by HDV

Colonial Garden:

Certificate of Incorporation of Colonial Garden  
 By-laws of Colonial Garden  
 Statement of Sole Incorporator  
 Unanimous Written Consent of the Board of Directors of Colonial Garden  
 Written Consent to Action of the Sole Shareholder of Colonial Garden  
 Unanimous Written Consent to Action of the Executive Committee of the Board of Directors of HDI  
 Subscription Agreement by HDI  
 Unanimous Written Consent of the Board of Directors of HDPI  
 Stock Certificate issued to HDI  
 Assignment and Assumption Agreement by HDI

Keystone:

Certificate of Incorporation of Keystone  
 By-laws of Keystone  
 Statement of Sole Incorporator of Keystone  
 Unanimous Written Consent of the Board of Directors of Keystone  
 Written Consent to Action of the Sole Shareholder of Keystone  
 Subscription Agreement by HDI  
 Stock Certificate issued to HDI

Hanover Subsidiary Dissolution and Withdrawal Agreements for filing in the following States:

Aegis Ventures:	DE
Hanover Casuals:	DE, CA, MA, VA
Gump's Catalog:	DE, CA, TX
Hanover Finance Corporation:	DE, CA

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York Fulfillment:	CA
Tweeds of Vermont:	MA

Additional Hanover Subsidiary Merger Agreements for filing in the following States::

Hanover List Management, Inc. into DM Advertising, Inc.:  
 Certificate of Merger to be filed in the state of New Jersey

The Austad Company into Austad Holdings, Inc.:  
 Certificate of Merger to be filed in the states of South Dakota and Delaware  
 (The name of the surviving corporation shall be amended to The Austad Company)

LWI Retail, Inc. into LWI Holdings, Inc.:  
 Certificate of Merger to be filed in the states of Ohio and Delaware

Additional Hanover Subsidiary Merger Agreements

TCS Factory/Company Factory Merger:  
 Articles of Merger of TCS Factory with Company Factory  
 Certificate of Authority or Registration - TCS Factory

TCS Office/Company Office Merger:  
 Articles of Merger of TCS Office with The Company Office  
 Certificate of Authority or Registration - The Company Office

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Exhibit A

The following additional information is hereby added  
to Exhibit A to the Loan and Security Agreement

Jurisdictions of Qualification

<TABLE> <CAPTION> Company -----	State of Incorporation or Formation -----	Qualifications -----
<S> Colonial Garden Kitchens, Inc.	<C> Delaware	<C> New Jersey Ohio Virginia
Domestications, LLC	Delaware	New Jersey Virginia
Hanover Company Store, LLC	Delaware	New Jersey Wisconsin
Hanover Home Fashions Group, LLC	Delaware	New Jersey Virginia Wisconsin
Hanover Women's Apparel, LLC	Delaware	New Jersey Virginia
Keystone Fulfillment, Inc.	Delaware	Pennsylvania
Silhouettes, LLC	Delaware	New Jersey Virginia
Tweeds, LLC	Delaware	New Jersey Virginia

</TABLE>

EXHIBIT B  
TO  
TWELFTH AMENDMENT TO LOAN AND SECURITY AGREEMENT

The following additional subsidiaries  
are hereby added to Exhibit B-1 to Loan and Security Agreement

Existing Subsidiaries

Name of New Borrower Subsidiary  
-----

Colonial Garden Kitchens, Inc.

Domestications, LLC

Hanover Company Store, LLC

Silhouettes, LLC

Tweeds, LLC

Name of Guarantor Subsidiary  
-----

Percentage Owned by Parent  
-----

Keystone Fulfillment, Inc.

100%

Hanover Home Fashions Group, LLC

Equal to the proportion the book value of the net assets contributed to the company bears to the total book value of the net assets of the company.

Hanover Women's Apparel, LLC

Equal to the proportion the book value of the net assets contributed to the company

bears to the total book value of the net assets of the company.

AMENDED AND RESTATED EXHIBIT C  
TO  
12th AMENDMENT TO LOAN AND SECURITY AGREEMENT

Borrowers and Guarantors  
Chief Executive Offices, Principal Places of Business,  
Locations and Types of Collateral

<TABLE>  
<CAPTION>

Company	Location of Chief Executive Office	Places of Business	Location of Collateral	Types of Collateral
<S> Aegis Ventures, Inc. (1)	<C>	<C>	<C>	<C>
Aegis Retail Corporation (2)	Roanoke, VA	Roanoke, VA	Roanoke, VA	Documents Instruments Inventory Lease Equipment Fixtures
Aegis Safety Holdings, Inc.	Weehawken, NJ	Weehawken, NJ	Weehawken, NJ	Stock
Aegis Catalog Corporation	Weehawken, NJ	Weehawken, NJ Hanover, PA	Weehawken, NJ Hanover, PA	Inventory Accounts Documents Instruments
American Down & Textile Company	La Crosse, WI	La Crosse, WI	La Crosse, WI	Accounts Equipment Fixtures General Intangibles Inventory Documents Instruments
The Austad Company, SD (3)	San Diego, CA	San Diego, CA	San Diego, CA	

</TABLE>

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<TABLE>  
<CAPTION>

Company	Location of Chief Executive Office	Places of Business	Location of Collateral	Types of Collateral
<S> The Austad Company, DE (4)	<C> San Diego, CA	<C> San Diego, CA	<C> San Diego, CA  Conewago Township, PA	<C> Trademarks Accounts Equipment General Intangibles Documents Instruments Inventory Lease
Brawn Wholesale Corp. (5)	San Diego, CA	San Diego, CA		
Brawn of California, Inc.	San Diego, CA	San Diego, CA Los Angeles, CA Roanoke, VA	San Diego, CA Los Angeles, CA Roanoke, VA	Accounts (CA) Documents (CA) Equipment (CA) Fixtures (CA) General Intangibles (CA) Inventory

Colonial Garden Kitchens, Inc. (6)	Beachwood, OH Weehawken, NJ	Beachwood, OH Weehawken, NJ	Beachwood, OH Conewago Township, PA	Accounts (NJ) Documents (NJ) General Intangibles (NJ) Inventory (PA)
Company Store Holdings, Inc. (7)	Weehawken, NJ	Weehawken, NJ	Weehawken, NJ	Stock General Intangibles Accounts
D.M. Advertising, Inc.	Weehawken, NJ	Weehawken, NJ Hanover, PA Roanoke, VA	Weehawken, NJ	Lease Fixtures Equipment

&lt;/TABLE&gt;

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<TABLE>  
<CAPTION>

Company	Location of Chief Executive Office	Places of Business	Location of Collateral	Types of Collateral
<S> Domestications, LLC (8)	<C> Weehawken, NJ	<C> Weehawken, NJ Roanoke, VA	<C> Weehawken, NJ Roanoke, VA	<C> Accounts (NJ) Documents (VA) General Intangibles (NJ) Instruments Inventory (VA)
Gump's By Mail, Inc.	Weehawken, NJ	Weehawken, NJ Hanover, PA San Francisco, CA	Hanover, PA	Accounts Documents Equipment Fixtures General Intangibles Instruments Inventory
Gump's Corp.	San Francisco, CA	San Francisco, CA	San Francisco, CA	Accounts Documents Equipment Fixtures General Intangibles Instruments Inventory
Gump's Holdings, Inc.	Weehawken, NJ	Weehawken, NJ	Weehawken, NJ	Stock General Intangibles
Gump's Catalog, Inc. (9)	Weehawken, NJ	LaCrosse, WI Weehawken, NJ	Weehawken, NJ LaCrosse, WI Roanoke, VA	Accounts (WI) Documents (WI) General Intangibles (WI) Instruments Inventory (WI)
Hanover Company Store, LLC (10)	Weehawken, NJ	LaCrosse, WI Weehawken, NJ	Weehawken, NJ LaCrosse, WI Roanoke, VA	Accounts (WI) Documents (WI) General Intangibles (WI) Instruments Inventory (WI)
Hanover Direct Virginia Inc.	Weehawken, NJ	Weehawken, NJ	Weehawken, NJ	Ownership Interests

&lt;/TABLE&gt;

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<TABLE>  
<CAPTION>

Location of Chief      Places of

Company	Executive Office	Business	Location of Collateral	Types of Collateral
<S> Hanover Finance Corporation (11)	<C>	<C>	<C>	<C>
Hanover Direct Pennsylvania, Inc.	Weehawken, NJ	Weehawken, NJ Hanover, PA	Weehawken, NJ Hanover, PA Roanoke, VA LaCrosse, WI San Diego, CA San Francisco, CA	Ownership Interests Equipment Fixtures General Intangibles Stock Documents Instruments
Hanover Home Fashions Group, LLC (12)	Weehawken, NJ	Roanoke, VA	Weehawken, NJ LaCrosse, WI Roanoke, VA	Equipment Ownership Interests Fixtures
Hanover Ventures, Inc. (13)	Weehawken, NJ	Weehawken, NJ		
Hanover Women's Apparel, LLC (14)	Weehawken, NJ	Weehawken, NJ	Weehawken, NJ	Ownership Interests
Hanover Realty, Inc.	Roanoke, VA	Roanoke, VA	Roanoke, VA	Property Fixtures
Hanover List Management Inc. (15)				
Hanover Casuals, Inc. (16)				
Hanover Catalog Holdings, Inc.	Weehawken, NJ	Weehawken, NJ	Weehawken, NJ	General Intangibles
Keystone Fulfillment, Inc.	Weehawken, NJ	Weehawken, NJ	Weehawken, NJ	
Hanover Direct, Inc.	Weehawken, NJ	Weehawken, NJ	Weehawken, NJ	Accounts Stock General Intangibles Documents Instruments

</TABLE>

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<TABLE>  
<CAPTION>

Company	Location of Chief Executive Office	Places of Business	Location of Collateral	Types of Collateral
<S> LWI Retail, Inc. (17)	<C> Mayfield Heights, OH	<C> Mayfield Heights, OH	<C> Mayfield Heights, OH	<C> Accounts Inventory Lease Fixtures Equipment Documents Instruments
LWI Holdings, Inc.	Beachwood, OH	Beachwood, OH	Beachwood, OH Conewago Township, PA	Accounts Equipment Fixtures Inventory (PA) Property Leases Documents Instruments General Intangibles
Scandia Down Corporation	Weehawken, NJ	Weehawken, NJ	Weehawken, NJ	Documents General Intangibles Instruments
Silhouettes, LLC (18)	Weehawken, NJ	Weehawken, NJ	Weehawken, NJ	Accounts

The Company Office, Inc.	La Crosse, WI	La Crosse, WI	La Crosse, WI	Accounts Fixtures General Intangibles Real Property Documents Instruments
--------------------------	---------------	---------------	---------------	--

</TABLE>

<TABLE>  
<CAPTION>

Company	Location of Chief Executive Office	Places of Business	Location of Collateral	Types of Collateral
<S> The Company Factory, Inc.	<C> La Crosse, WI	<C> La Crosse, WI	<C> La Crosse, WI	<C> Accounts Equipment Fixtures General Intangibles Real Property Documents Instruments Inventory
The Company Store, Inc. (19)				
Tweeds of Vermont, Inc. (20)				
Tweeds, Inc. (21)	Weehawken, NJ	Weehawken, NJ Roanoke, VA LaCrosse, WI Madison, WI Kenoshat, WI Oshkosh, WI	Weehawken, NJ Roanoke, VA LaCrosse, WI Madison, WI Kenoshat, WI Oshkosh, WI	Accounts Equipment Fixtures General Intangibles Inventory Documents Instruments Ownership Interests
Tweeds, LLC (22)	Weehawken, NJ	Weehawken, NJ Roanoke, VA	Weehawken, NJ Roanoke, VA	Accounts Documents General Intangibles Instruments Inventory
York Fulfillment Company, Inc. (23)				

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Company	Location of Chief Executive Office	Places of Business	Location of Collateral	Types of Collateral
<S>	<C>	<C>	<C>	<C>

</TABLE>

(1) Hanover Direct, Inc. intends to liquidate Aegis Ventures, Inc. The corporation is inactive and has no assets.

- (2) The McLean, Virginia store will be closed and vacated by September 30, 1998.
- (3) Hanover Direct, Inc., intends to merge The Austad Company with and into Austad Holdings, Inc.
- (4) Following the merger of The Austad Company with and into Austad Holdings, Inc., the name of Austad Holdings, Inc. is to be changed to The Austad Company.
- (5) Brawn Wholesale Corp. has been inactive since early 1998 and will be dissolved by December 26, 1998.
- (6) Colonial Garden Kitchens, Inc. is a newly formed entity which, following consummation of the transactions contemplated by the 12th Amendment to Loan and Security Agreement, will own the assets of the Hanover House and Colonial Garden Kitchens catalogs. All the assets located in Beachwood, Ohio will be moved to Weehawken, New Jersey by December 26, 1998.
- (7) Company Store Holdings, Inc. is to merge with Tweeds, Inc.; the name of the surviving company is to be changed to Hanover Holding Corp.
- (8) Domestications, LLC is a newly formed entity which, following consummation of the transactions contemplated by the 12th Amendment to Loan and Security Agreement, will own certain assets of the Domestications catalog.
- (9) Hanover Direct, Inc. intends to liquidate Gump's Catalog, Inc. The corporation is inactive and has no assets.
- (10) Hanover Company Store, LLC is a newly formed entity which, following consummation of the transactions contemplated by the 12th Amendment to Loan and Security Agreement, will own certain assets of The Company Store catalog.
- (11) Hanover Direct, Inc. intends to liquidate Hanover Finance Corporation.
- (12) Hanover Home Fashions, LLC is a newly formed entity which, following consummation of the transactions contemplated by the 12th Amendment to Loan and Security Agreement, will own the primary ownership interests in Domestications, LLC and Hanover Company Store, LLC.
- (13) Hanover Direct, Inc. intends to dissolve Hanover Ventures, Inc.
- (14) Hanover Women's Apparel, LLC is a newly formed entity which, following consummation of the transactions contemplated by the 12th Amendment to Loan

-7-

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<TABLE>  
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Company	Location of Chief Executive Office	Places of Business	Location of Collateral	Types of Collateral
<S>	<C>	<C>	<C>	<C>

</TABLE>

and Security Agreement, will own the primary ownership interests in Tweeds, LLC and Silhouettes, LLC.

- (15) Hanover Direct, Inc. intends to liquidate Hanover List Management, Inc. The corporation is inactive and has no assets.
- (16) Hanover Direct, Inc. intends to liquidate Hanover Casuals, Inc. The corporation is inactive and has no assets.
- (17) LWI Retail, Inc. is to merge with and into LWI Holdings, Inc.
- (18) Silhouettes, LLC is a newly formed entity which, following consummation of the transactions contemplated by the 12th Amendment to Loan and Security Agreement, will own certain assets of the Silhouettes catalog.
- (19) The Company Store, Inc. is to merge with and into Tweeds, Inc.

- (20) Hanover Direct, Inc. intends to liquidate Tweeds of Vermont, Inc. The corporation is inactive and has no assets.
- (21) Tweeds, Inc. still has a lease for property at 155 River Road in Edgewater, NJ but is subleasing a portion of the space and has no intention of recommencing operations at that facility prior to the lease expiration.
- (22) Tweeds, LLC is a newly formed entity which, following consummation of the transactions contemplated by the 12th Amendment to Loan and Security Agreement, will own certain assets of the Tweeds catalog.
- (23) Hanover Direct, Inc. intends to liquidate York Fulfillment Company, Inc. The corporation is inactive and has no assets.

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Mailing Addresses

<TABLE>  
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<S>	<C>
Location	Addresses and Zip Codes
Beachwood, OH	23297-99 Commerce Park Road, 44122
Conewago Township, PA	101 E. Kindig Lane, 17331
Hanover, PA	340 Poplar Street, 17331 Baltimore Street, 17331
Kenosha, WI	7700 120th Avenue, 53142
La Crosse, WI	(a) 455 Park Plaza Drive, 54601 (b) 2929 Airport Road, 54603 301 Sky Harbor Drive, 54603 2809 Losey Boulevard, 54601
Los Angeles, CA	9000-9006 Santa Monica Boulevard
Madison, WI	4050 University Avenue, 53705
Mayfield Heights, OH	5876 Mayfield Road, 44124
McLean, VA	7916 Tysons Corner Center, 22102
Oshkosh, WI	901 South Main Street, 54901
Roanoke, VA (1)	5022 Hollins Road, 24019
San Francisco, CA	135 Post Street, 94108
San Diego, CA	9369 Dowdy Drive, 92121 3964 Fifth Avenue, 92103 741 "F" Street, 92101
Weehawken, NJ	1500 Harbor Boulevard, 07087

</TABLE>

- (1) The One Avery Row facility in Roanoke is not currently in use by Tweeds, Inc. and an attempt is being made to sublease the facility and sell the interest in the Partnership that owns it.

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EXHIBIT D  
TO  
12th AMENDMENT TO LOAN AND SECURITY AGREEMENT

Guarantors  
Chief Executive Offices, Principal Places of Business,  
Locations and Types of Collateral

<TABLE>  
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Company	Location of Chief Executive Office	Places of Business	Location of Collateral	Types of Collateral
<S> Aegis Ventures, Inc. (1)	<C>	<C>	<C>	<C>
Aegis Retail Corporation (2)	Roanoke, VA	Roanoke, VA	Roanoke, VA	Documents Instruments Inventory Lease Equipment Fixtures
Aegis Safety Holdings, Inc.	Weehawken, NJ	Weehawken, NJ	Weehawken, NJ	Stock
American Down & Textile Company	La Crosse, WI	La Crosse, WI	La Crosse, WI	Accounts Equipment Fixtures General Intangibles Inventory Documents Instruments

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Company	Location of Chief Executive Office	Places of Business	Location of Collateral	Types of Collateral
<S> Brawn Wholesale Corp. (3)	<C> San Diego, CA	<C>	<C>	<C>
Company Store Holdings, Inc. (4)	Weehawken, NJ	Weehawken, NJ	Weehawken, NJ	Stock General Intangibles Accounts
D.M. Advertising, Inc.	Weehawken, NJ	Weehawken, NJ Hanover, PA Roanoke, VA	Weehawken, NJ	Lease Fixtures Equipment

</TABLE>

-2-

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<TABLE>  
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Company	Location of Chief Executive Office	Places of Business	Location of Collateral	Types of Collateral
<S> Gump's Holdings, Inc.	<C> Weehawken, NJ	<C> Weehawken, NJ	<C> Weehawken, NJ	<C> Stock General Intangibles
Gump's Catalog, Inc. (5)				
Hanover Finance Corporation (6)				
Hanover Home Fashions Group, LLC (7)	Weehawken, NJ	Roanoke, VA	Weehawken, NJ LaCrosse, WI Roanoke, VA	Equipment Ownership Interests Fixtures
Hanover Ventures, Inc. (8)	Weehawken, NJ			

Hanover Women's Apparel, LLC (9)	Weehawken, NJ	Weehawken, NJ	Weehawken, NJ	Ownership Interests
Hanover List Management Inc. (10)				
Hanover Casuals, Inc. (11)				
Hanover Catalog Holdings, Inc.	Weehawken, NJ	Weehawken, NJ	Weehawken, NJ	General Intangibles
Hanover Direct, Inc.	Weehawken, NJ	Weehawken, NJ	Weehawken, NJ	Accounts Stock General Intangibles Documents Instruments

</TABLE>

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<TABLE>  
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Company	Location of Chief Executive Office	Places of Business	Location of Collateral	Types of Collateral
<S>	<C>	<C>	<C>	<C>
Keystone Fulfillment, Inc.	Weehawken, NJ	Weehawken, NJ	Weehawken, NJ	
LWI Retail, Inc. (12)	Mayfield Heights, OH	Mayfield Heights, OH	Mayfield Heights, OH	Accounts Inventory Lease Fixtures Equipment Documents Instruments
Scandia Down Corporation	Weehawken, NJ	Weehawken, NJ	Weehawken, NJ	Documents General Intangibles Instruments
The Company Office, Inc.	La Crosse, WI	La Crosse, WI	La Crosse, WI	Accounts Fixtures General Intangibles Real Property Documents Instruments
The Company Factory, Inc.	La Crosse, WI	La Crosse, WI	La Crosse, WI	Accounts Equipment Fixtures General Intangibles Real Property Documents Instruments Inventory

Tweeds of Vermont, Inc. (13)

York Fulfillment Company, Inc.(14)

</TABLE>

-4-

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<TABLE>  
<CAPTION>

Company	Location of Chief Executive Office	Places of Business	Location of Collateral	Types of Collateral
<S>	<C>	<C>	<C>	<C>

</TABLE>

- 
- (1) Hanover Direct, Inc. intends to liquidate Aegis Ventures, Inc. The corporation is inactive and has no assets.
  - (2) The McLean, Virginia store will be closed and vacated by September 30, 1998.
  - (3) Brawn Wholesale Corp. has been inactive since early 1998 and will be dissolved by December 26, 1998.
  - (4) Company Store Holdings, Inc. is to merge with Tweeds, Inc., the name of the surviving company is to be changed to Hanover Holding Corp.
  - (5) Hanover Direct, Inc. intends to liquidate Gump's Catalog, Inc. The corporation is inactive and has no assets.
  - (6) Hanover Direct, Inc. intends to liquidate Hanover Finance Corporation.
  - (7) Hanover Home Fashions, LLC is a newly formed entity which, following consummation of the transactions contemplated by the 12th Amendment to Loan and Security Agreement, will own the primary ownership interests in Domestications, LLC and Hanover Company Store, LLC.
  - (8) Hanover Direct, Inc. intends to dissolve Hanover Ventures, Inc.
  - (9) Hanover Women's Apparel, LLC is a newly formed entity which, following consummation of the transactions contemplated by the 12th Amendment to Loan and Security Agreement, will own the primary ownership interests in Tweeds, LLC and Silhouettes, LLC.
  - (10) Hanover Direct, Inc. intends to liquidate Hanover List Management, Inc. The corporation is inactive and has no assets.
  - (11) Hanover Direct, Inc. intends to liquidate Hanover Casuals, Inc. The corporation is inactive and has no assets.
  - (12) LWI Retail, Inc. is to merge with and into LWI Holdings, Inc.
  - (13) Hanover Direct, Inc. intends to liquidate Tweeds of Vermont, Inc. The corporation is inactive and has no assets.
  - (14) Hanover Direct, Inc. intends to liquidate York Fulfillment Company, Inc. The corporation is inactive and has no assets.

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Mailing Addresses

<TABLE>

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<S> Location -----	<C> Addresses and Zip Codes -----
Beachwood, OH	23297-99 Commerce Park Road, 44122
Conewago Township, PA	101 E. Kindig Lane, 17331
Hanover, PA	340 Poplar Street, 17331 Baltimore Street, 17331
Kenosha, WI	7700 120th Avenue, 53142
La Crosse, WI	(a) 455 Park Plaza Drive, 54601 (b) 2929 Airport Road, 54603 301 Sky Harbor Drive, 54603 2809 Losey Boulevard, 54601
Los Angeles, CA	9000-9006 Santa Monica Boulevard
Madison, WI	4050 University Avenue, 53705
Mayfield Heights, OH	5876 Mayfield Road, 44124

McLean, VA	7916 Tysons Corner Center, 22102
Oshkosh, WI	901 South Main Street, 54901
Roanoke, VA (1)	5022 Hollins Road, 24019
San Francisco, CA	135 Post Street, 94108
San Diego, CA	9369 Dowdy Drive, 92121 3964 Fifth Avenue, 92103 741 "F" Street, 92101
Weehawken, NJ	1500 Harbor Boulevard, 07087

</TABLE>

- (1) The One Avery Row facility in Roanoke is not currently in use by Tweeds, Inc. and an attempt is being made to sublease the facility and sell the interest in the Partnership that owns it.

## THIRTEENTH AMENDMENT TO LOAN AND SECURITY AGREEMENT

THIRTEENTH AMENDMENT TO LOAN AND SECURITY AGREEMENT, dated as of September 30, 1998, by and among CONGRESS FINANCIAL CORPORATION, a Delaware corporation, successor by merger to Congress Financial Corporation, a California corporation ("Lender"), HANOVER DIRECT PENNSYLVANIA, INC., a Pennsylvania corporation ("HDPI"), BRAWN OF CALIFORNIA, INC., a California corporation ("Brawn"), GUMP'S BY MAIL, INC., a Delaware corporation ("GBM"), GUMP'S CORP., a California corporation ("Gump's"), HANOVER HOLDING CORP., a Delaware corporation, successor by merger of The Company Store, Inc. with and into Tweeds, Inc. ("HH Corp."), LWI HOLDINGS, INC., a Delaware corporation ("LWI"), AEGIS CATALOG CORPORATION, a Delaware corporation ("Aegis"), HANOVER DIRECT VIRGINIA INC., a Delaware corporation ("HDV"), HANOVER REALTY, INC., a Virginia corporation ("Hanover Realty"), THE AUSTAD COMPANY, a South Dakota corporation ("Austad"), TWEEDS, LLC, a Delaware limited liability company ("Tweeds LLC"), SILHOUETTES, LLC, a Delaware limited liability company ("Silhouettes LLC"), HANOVER COMPANY STORE, LLC, a Delaware limited liability company ("HCS LLC"), DOMESTICATIONS, LLC, a Delaware limited liability company ("Domestications LLC"), COLONIAL GARDEN KITCHENS, INC., a Delaware corporation ("Colonial Garden"; and together with HDPI, Brawn, GBM, Gump's, HH Corp., LWI, Aegis, HDV, Hanover Realty, Tweeds LLC, Silhouettes LLC, HCS LLC and Domestications LLC, each individually referred to herein as a "Borrower" and collectively, "Borrowers"), and HANOVER DIRECT, INC., a Delaware corporation ("Hanover"), AEGIS RETAIL CORPORATION, a Delaware corporation, AEGIS SAFETY HOLDINGS, INC., a Delaware corporation ("Aegis Holdings"), AEGIS VENTURES, INC., a Delaware corporation ("Aegis Ventures"), AMERICAN DOWN & TEXTILE COMPANY, a Wisconsin corporation, BRAWN WHOLESALE CORP., a California corporation ("Brawn Wholesale"), THE COMPANY STORE FACTORY, INC., a Delaware corporation, successor by merger of The Company Factory, Inc., a Wisconsin corporation, with and into The Company Store Factory, Inc. ("TCS Factory"), THE COMPANY OFFICE, INC., a Delaware corporation, successor by merger to The Company Office, Inc., a Wisconsin corporation ("TCS Office"), COMPANY STORE HOLDINGS, INC., a Delaware corporation ("CSHI"), D.M. ADVERTISING, INC., a New Jersey corporation, GUMP'S CATALOG, INC., a Delaware corporation, GUMP'S HOLDINGS, INC., a Delaware corporation, HANOVER CASUALS, INC., a Delaware corporation ("Hanover Casuals"), HANOVER CATALOG HOLDINGS, INC., a Delaware corporation ("Hanover Catalog"), HANOVER FINANCE CORPORATION, a Delaware corporation ("HFC"), HANOVER LIST MANAGEMENT INC., a New Jersey corporation, HANOVER VENTURES, INC., a Delaware corporation, LWI RETAIL, INC., an Ohio corporation, SCANDIA DOWN CORPORATION, a Delaware corporation ("Scandia"), AUSTAD HOLDINGS, INC., a Delaware corporation ("Austad Holdings"), YORK FULFILLMENT COMPANY, INC., a Pennsylvania corporation ("York Fulfillment"), and TWEEDS OF VERMONT, INC., a Delaware corporation, HANOVER HOME FASHIONS GROUP, LLC, a Delaware limited liability company ("HHFG

LLC"), HANOVER WOMEN'S APPAREL, LLC, a Delaware limited liability company ("HWA LLC"), and KEYSTONE FULFILLMENT, INC., a Delaware corporation ("Keystone") (each individually a "Guarantor" and collectively, "Guarantors").

W I T N E S S E T H:

WHEREAS, Borrowers, Guarantors and Lender are parties to the Loan and Security Agreement, dated November 14, 1995, as amended by the First Amendment to Loan and Security Agreement, dated February 22, 1996, the Second Amendment to Loan and Security Agreement, dated April 16, 1996 (the "Second Amendment to Loan Agreement"), the Third Amendment to Loan and Security Agreement, dated May 24, 1996, the Fourth Amendment to Loan and Security Agreement, dated May 31, 1996, the Fifth Amendment to Loan and Security Agreement, dated September 11, 1996, the Sixth Amendment to Loan and Security Agreement, dated as of December 5, 1996, the Seventh Amendment to Loan and Security Agreement, dated as of December 18, 1996, the Eighth Amendment to Loan and Security Agreement, dated as of March 26, 1997, the Ninth Amendment to Loan and Security Agreement, dated as of April 18, 1997, the Tenth Amendment to Loan and Security Agreement, dated as of October 31, 1997, the Eleventh Amendment to Loan and Security Agreement, dated as of March 25, 1998, and the Twelfth Amendment, dated as of September \_\_, 1998, (as so amended, the "Loan Agreement"), pursuant to which Lender has made loans and advances to Borrowers; and

WHEREAS, Borrowers and Guarantors have requested that Lender make a term loan to TCS Factory in the original principal amount of \$2,000,000 and a term loan to TCS Office in the original principal amount of \$700,000; and

WHEREAS, the parties to the Loan Agreement desire to enter into this Thirteenth Amendment to Loan and Security Agreement (this "Amendment") to evidence and effectuate such amendments and agreements, to the extent and subject to the terms and conditions set forth herein;

NOW, THEREFORE, in consideration of the premises and covenants set forth herein and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto agree as follows:

1. Definitions.

(a) Additional Definitions. As used herein or in any of the other Financing Agreements, the following terms shall have the meanings given to them below, and the Loan Agreement shall be deemed and is hereby amended to include, in addition and not in limitation, the following definitions:

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(i) "TCS Factory Lease" shall mean the Lease, dated as of August 26, 1993, between Company Store Holdings, Inc., f/k/a TCSA, Inc., and TCS Factory with respect to the Real Property covered by the Mortgage made by TCS

Factory to Lender, as the same now exists or may hereafter be amended, modified, supplemented, extended, renewed, restated or replaced.

(ii) "TCS Factory Term Loan" shall mean the Obligations at any time outstanding in respect of the Term Loan to be made by Lender to TCS Factory pursuant to Section 2(a) hereof.

(iii) "TCS Factory Term Note" shall mean the Term Promissory Note, dated of even date herewith, made by TCS Factory payable to the order of Lender in the original principal amount of \$2,000,000, as such note now exists or may hereafter be amended, modified, supplemented, extended, renewed, restated or replaced.

(iv) "TCS Office Lease" shall mean the Lease, dated as of August 26, 1993, between Company Store Holdings, Inc., f/k/a TCSA, Inc., and TCS Office with respect to the Real Property covered by the Mortgage made by TCS Office to Lender, as the same now exists or may hereafter be amended, modified, supplemented, extended, renewed, restated or replaced.

(v) "TCS Office Term Loan" shall mean the Obligations at any time outstanding in respect of the Term Loan to be made by Lender to TCS Office pursuant to Section 2(b) hereof.

(vi) "TCS Office Term Note" shall mean the Term Promissory Note, dated of even date herewith, made by TCS Office payable to the order of Lender in the original principal amount of \$700,000, as such note now exists or may hereafter be amended, modified, supplemented, extended, renewed, restated or replaced.

(b) Amendments to Definitions.

(i) Mortgages. Section 1.86 of the Loan Agreement is hereby deleted in its entirety and replaced with the following:

"1.86 "Mortgages" shall mean, individually and collectively, each of the following (as the same now exist or may hereafter be amended, modified, supplemented, extended, renewed, restated or replaced): (a) the Open-End Fee and Leasehold Mortgage and Security Agreement, dated as of November 14, 1995, by HDPI in favor of Lender with respect to the Real Property and related assets of HDPI located in Hanover, Pennsylvania, as amended by the Mortgage Modification

Agreement, dated as of June 26, 1998, between Lender and HDPI, (b) the Deed of Trust, Assignment and Security Agreement, dated as of November 14, 1995, by Hanover Realty in favor of Lender with respect to the Real Property and related assets of Hanover Realty in

Roanoke, Virginia, as amended by Amendment No. 1 to Deed of Trust, Assignment and Security Agreement, dated as of June 26, 1998, between Lender and Hanover Realty, (c) the Mortgage and Security Agreement, dated as of September \_\_, 1998, by TCS Factory in favor of Lender with respect to the Real Property and related assets of TCS Factory located at 2929 Airport Road, La Crosse, Wisconsin, and (d) the Mortgage and Security Agreement, dated as of September \_\_, 1998, by TCS Office in favor of Lender with respect to the Real Property and related assets of TCS Office located at 455 Park Plaza Drive, La Crosse, Wisconsin."

(ii) Real Property.

(A) Section 4.1(vi) of the Loan Agreement is hereby deleted and the following substituted therefor "(vi) [Intentionally Deleted]; and".

(B) Section 1.111 of the Loan Agreement shall be deemed deleted in its entirety and replaced with the following:

"1.111 "Real Property" shall mean all now owned and hereafter acquired real property of Borrowers, together with all buildings, structures, and other improvements located thereon and all licenses, easements and appurtenances relating thereto, wherever located, including without limitation, the real property, leasehold interests and related assets more particularly described in the Mortgages, located in Hanover, Pennsylvania, Roanoke, Virginia, and La Crosse, Wisconsin."

(iii) Reference Bank. All references to the term "Reference Bank" in the Loan Agreement and the other Financing Agreements shall be deemed and each such reference is hereby amended to mean First Union National Bank, or such other bank as Lender may from time to time designate.

(iv) Term Loan Borrowers. All references to the "Term Loan Borrowers" herein and in the Loan Agreement and the other Financing Agreements shall mean, individually and collectively, HDPI, Hanover Realty, TCS Factory and TCS Office.

(v) Term Loans. All references to the "Term Loans" herein and in the Loan Agreement and the other Financing Agreements shall mean, individually and collectively, the

Obligations evidenced by the Restated HDPI Term Note, the Restated Hanover Realty Term Note, the TCS Factory Term Note and the TCS Office Term Note.

## 2. TCS Factory Term Loan; TCS Office Term Loan.

(a) Subject to and upon the terms and conditions contained herein and in the other Financing Agreements, Lender shall, contemporaneously herewith, make a term loan to TCS Factory in the principal amount of Two Million Dollars (\$2,000,000) (the "TCS Factory Term Loan"). The TCS Factory Term Loan is (a) evidenced by the TCS Factory Term Note in such original principal amount duly executed and delivered by TCS Factory to Lender concurrently herewith; (b) to be repaid, together with interest and other amounts, in accordance with this Agreement, the TCS Factory Term Note, and the other Financing Agreements; and (c) secured by all of the Collateral.

(b) Subject to and upon the terms and conditions contained herein and in the other Financing Agreements, Lender shall, contemporaneously herewith, make a term loan to TCS Office in the principal amount of Seven Hundred Thousand Dollars (\$700,000) (the "TCS Office Term Loan"). The TCS Office Term Loan is (a) evidenced by the TCS Office Note in such original principal amount duly executed and delivered by TCS Office to Lender concurrently herewith; (b) to be repaid, together with interest and other amounts, in accordance with this Agreement, the TCS Office Term Note, and the other Financing Agreements; and (c) secured by all of the Collateral.

(c) Each of TCS Office and TCS Factory hereby irrevocably authorizes and directs Lender to disburse the proceeds of the TCS Office Term Loan and the TCS Factory Term Loan to the respective Revolving Loan Borrowers in the respective amounts set forth on Exhibit A attached hereto to repay or to partially repay the outstanding amounts of intercompany loans owed by each of TCS Office and TCS Factory, respectively, to such Revolving Loan Borrowers in the amounts set forth on Exhibit A (each such disbursement, an "Intercompany Loan Repayment Amount"). Each such Revolving Loan Borrower shall, in turn, treat such disbursements by Lender of such Intercompany Loan Repayment Amounts as a payment or partial payment of the outstanding amount of intercompany loans owed by TCS Office or TCS Factory, as the case may be, to each such Revolving Loan Borrower. Each such Revolving Loan Borrower hereby irrevocable authorizes and directs Lender to then apply each such Intercompany Loan Repayment Amount to the respective Revolving Loan account of each such Revolving Loan Borrower for application to the then outstanding Obligations of each such Revolving Loan Borrower to Lender in respect of Revolving Loans. Each such Revolving Loan Borrower hereby acknowledges the right of Lender to charge principal, interest, fees and other obligations of TCS

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Office and TCS Factory as Term Loan Borrowers in respect of the TCS Office Term Loan and the TCS Factory Term Loan to the Revolving Loan account of such Revolving Loan Borrower under Section 2.9(f) of the Loan Agreement.

3. Acknowledgment by Guarantors. Guarantors hereby acknowledge, confirm

and agree that their Guarantees guaranteeing the payment and performance of all Obligations of Borrowers are in full force and effect as of the date hereof, and the "Obligations" (as such term is defined in the Guarantees) shall, without limitation, extend to and cover the TCS Factory Term Loan and the TCS Office Term Loan.

4. Representations, Warranties and Covenants. Borrowers and Guarantors represent, warrant and covenant with and to Lender as follows, which representations, warranties and covenants are continuing and shall survive the execution and delivery hereof, the truth and accuracy of, or compliance with each, together with the representations, warranties and covenants in the other Financing Agreements, being a condition of the effectiveness of this Amendment and a continuing condition of the making or providing of any Revolving Loans or Letter of Credit Accommodations by Lender to Borrowers:

(a) This Amendment and each other agreement or instrument to be executed and delivered by each of the Borrowers and Guarantors, as the case may be, hereunder have been duly authorized, executed and delivered by all necessary action on the part of each of the Borrowers and Guarantors which is a party hereto and thereto, and is in full force and effect as of the date hereof, and the agreements and obligations of each of the Borrowers and Guarantors, as the case may be, contained herein and therein constitute legal, valid and binding obligations of each of Borrowers and Guarantors, as the case may be, enforceable against them in accordance with their terms.

(b) Neither the execution, delivery or performance of this Amendment or any of the agreements, documents or instruments to be delivered pursuant to this Agreement (i) has violated or shall violate any Federal or State securities laws or any other law or regulation or any order or decree of any court or governmental instrumentality in any respect applicable to Borrowers or Guarantors, or (ii) does or shall conflict with or result in the breach of, or constitute a default in any respect under any mortgage, deed of trust, security agreement, agreement or instrument to which any of Borrowers or Guarantors is a party or may be bound, or (iii) shall violate any provision of the Certificates of Incorporation or By-Laws of Borrowers or Guarantors that are corporations or any provisions of the Certificates of Formation or Operating Agreements of Borrowers or Guarantors.

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(c) No action of, or filing with, or consent of any governmental or public body or authority, other than the recording of the Mortgages and the UCC Fixture Filings executed and delivered to Lender pursuant to this Amendment, and no approval or consent of any other party, is required to authorize, or is otherwise required in connection with, the execution, delivery and performance of this Amendment and each other agreement or instrument to be executed and delivered pursuant to this Amendment.

(d) All of the representations and warranties set forth in the Loan Agreement, as amended hereby, and in the other Financing Agreements, are true and correct in all material respects after giving effect to the provisions of this Amendment, except to the extent any such representation or warranty is made as of a specified date, in which case such representation or warranty shall have been true and correct as of such date.

(e) Except as set forth on Exhibit B hereto, which sets forth certain of Borrowers obligations with respect to the Real Property of TCS Office and TCS Factory located in La Crosse, Wisconsin, and the time periods and other requirements for compliance therewith, Borrowers and Guarantors are in compliance with all obligations in respect of environmental matters as provided by the Financing Agreements.

(f) As soon as available, but in any event by no later than January 15, 1999, TCS Factory shall deliver, or cause to be delivered to Lender, a release by the City of La Crosse with respect to the Purchase Contract covering the parcel of Real Property subject to the Mortgage made by TCS Factory in favor of Lender.

(g) After giving effect to the provisions of this Amendment, no Event of Default or Incipient Default exists or has occurred and is continuing.

5. Conditions Precedent. Concurrently with the execution hereof (except to the extent otherwise indicated below), and as a further condition to the effectiveness of this Amendment and the agreement of Lender to the modifications and amendments set forth in this Amendment:

(a) Borrowers and Guarantors shall have delivered to Lender an original of this Amendment, duly authorized, executed and delivered by each of Borrowers and Guarantors;

(b) Each of Borrowers and Guarantors shall have delivered to Lender, in form and substance satisfactory to Lender, each of the following agreements, documents or instruments to which it is a party, duly authorized, executed and delivered:

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(i) an original of each of the TCS Factory Term Note and the TCS Office Term Note;

(ii) an original Guarantee and Waiver, dated of even date herewith, by the Borrowers, other than TCS Office in favor of Lender with respect to the Obligations of TCS Office to Lender;

(iii) an original Guarantee and Waiver, dated of even date herewith, by Borrowers, other than TCS Factory, in favor of Lender with respect

to the Obligations of TCS Factory to Lender;

(iv) an original Guarantee and Waiver, dated of even date herewith, by Guarantors, other than Borrowers and Hanover, in favor of Lender with respect to the Obligations of TCS Office and TCS Factory to Lender;

(v) an original Guarantee and Waiver, dated of even date herewith, by Hanover, in favor of Lender with respect to the Obligations of TCS Office and TCS Factory to Lender;

(vi) an original Mortgage and Security Agreement, dated of even date herewith, by TCS Factory in favor of Lender with respect to the Real Property of TCS Factory securing the Guarantor Obligations and the other Obligations of TCS Factory, including, without limitation, the TCS Factory Term Loan, up to the Maximum Credit;

(vii) an original Mortgage and Security Agreement, dated of even date herewith, by TCS Office in favor of Lender with respect to the Real Property of TCS Office securing the Guarantor Obligations and other Obligations of TCS Office, including, without limitation, the TCS Office Term Loan, up to the Maximum Credit;

(viii) an original UCC Fixture Filing between TCS Office, as debtor, and Lender, as secured party, for filing with the Clerk of La Crosse County, Wisconsin;

(ix) an original UCC Fixture Filing between TCS Factory, as debtor, and Lender, as secured party, for filing with the Clerk of La Crosse County, Wisconsin;

(x) an agreement or agreements, in form and substance acceptable to Lender (A) assigning the TCS Factory Lease to HH Corp., (B) amending certain provisions of the TCS Factory Lease, and (C) subordinating any interest of the lessee in the Real Property covered by the TCS Factory Lease to the interest of Lender in the Real Property covered by the Mortgage made by TCS Factory to Lender; together with memorandum(s) or amendment to any existing memorandums with respect to such

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agreement(s), in form acceptable for recording with the Clerk of La Crosse County, Wisconsin;

(xi) an agreement or agreements, in form and substance acceptable to Lender (A) assigning the TCS Office Lease to HH Corp., (B) amending certain provisions of the TCS Office Lease, and (C) subordinating any interest of the lessee in the Real Property covered by the TCS Factory Lease to the interest of Lender in the Real Property covered by the Mortgage made by TCS

Factory to Lender; together with memorandum(s) or amendments to any existing memorandums with respect to such agreement(s), in form acceptable for recording with the Clerk of La Crosse County, Wisconsin;

(c) Lender shall have received evidence that all prior encumbrances upon the Real Property subject to the Mortgages made by TCS Factory and TCS Office in favor of Lender have been satisfied and discharged and have been delivered to Lender, in form and substance satisfactory to Lender and a title insurance company acceptable to Lender (the "Title Company"), including, without limitation, the release of any liens of the State of Wisconsin Investment Board with respect to the Real Property and any other assets of TCS Factory and the release of any liens of Prudential Interfunding Corp with respect to the Real Property and any other assets of TCS Office;

(d) Lender shall have received a certificate of occupancy with respect to each improved parcel of Real Property subject to the Mortgages made by TCS Factory and TCS Office in favor of Lender, together with other evidence satisfactory to Lender of final municipal approval for completion of any improvements on such Real Property and the legal occupancy thereof by TCS Factory, TCS Office and the tenant under the amended lease agreements referred to in Sections 5(b)(x) and (xi) hereof;

(e) Lender shall have received a full ALTA (highest standard) as-built survey by a licensed surveyor with respect to each parcel of Real Property subject to the Mortgages made by TCS Factory and TCS Office in favor of Lender, certified to Lender and the Title Company, according to a certification satisfactory in form and substance to Lender and the Title Company, showing the current location of all improvements, setbacks, easements, rights of way and other matters affecting title to or use of such property;

(f) Lender shall have received updated evidence of casualty insurance and loss payee endorsements required pursuant to the Loan Agreement and under the other Financing Agreements, in form and substance satisfactory to Lender, together with certificates of insurance policies and/or endorsements naming Lender as mortgagee, loss payee and additional insured, as applicable;

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(g) Lender shall have received, in form and substance satisfactory to Lender, Secretary's Certificates of Directors' Resolutions with Shareholders' Consent evidencing the adoption and subsistence of corporate resolutions approving the execution, delivery and performance by those Borrowers and Guarantors that are corporations and Manager Certificates and Company Resolutions evidencing the adaption and subsistence of company resolutions approving the execution, delivery and performance by those Borrowers and Guarantors that are limited liability companies of this Amendment and the agreements, documents and instruments to be delivered pursuant to this Amendment;

(h) Lender shall have received an appraisal, in form and substance satisfactory to Lender, prepared by an appraiser and in form, scope and methodology, satisfactory to Lender, addressed to Lender or upon which Lender is expressly permitted to rely, with respect to the Real Property of TCS Office and TCS Factory;

(i) Lender shall have received updated environmental audits of the owned real property of TCS Factory and of TCS Office conducted by an independent environmental engineering firm acceptable to Lender, and in form, scope and methodology satisfactory to Lender, addressed to Lender or upon which Lender is expressly permitted to rely, confirming to the satisfaction of Lender and its environmental consultant, which consultant shall review such updated audits and any follow-up work requested by such consultant at Borrowers' expense, that (i) each of TCS Factory and TCS Office are in compliance with all material applicable Environmental Laws and (ii) the absence of any material environmental problems;

(j) Lender shall have received, in form and substance satisfactory to Lender, a valid and effective title insurance policy issued by the Title Company (i) insuring the priority, amount and sufficiency of the Mortgages made by TCS Factory and TCS Office, (ii) insuring against matters that would be disclosed by surveys and (iii) containing any legally available endorsements, assurances or affirmative coverage requested by Lender for protection of its interests;

(k) Lender shall have received an opinion(s) of counsel to Borrowers and Guarantors with respect to this Amendment, the Mortgages made by each of TCS Office and TCS Factory and the transactions and agreements and other instruments contemplated by this Amendment, and such other matters as Lender shall reasonably require, in form and substance and satisfactory to Lender;

(l) each of Borrowers and Guarantors shall deliver, or cause to be delivered, to Lender a true and correct copy of each consent, waiver or approval with respect to this Amendment or any of the instruments or agreements executed and delivered pursuant

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to this Amendment, that any Borrower or Guarantor obtains from any other Person, and which such consent, approval or waiver shall be in form and substance acceptable to Lender; and

(m) UCC, tax and judgment searches against TCS Office and TCS Factory with the Wisconsin Secretary of State and the Clerk of La Crosse County, Wisconsin showing no financing statements or other liens of record against either TCS Office or TCS Factory except in favor of Lender and except as otherwise permitted under the Loan Agreement.

6. Effect of this Amendment. This Amendment constitutes the entire agreement of the parties with respect to the subject matter hereof, and supersedes all prior oral or written communications, memoranda, proposals, negotiations, discussions, term sheets and commitments with respect to the subject matter hereof. Except as expressly provided herein, no other changes or modifications to the Loan Agreement or any of the other Financing Agreements, or waivers of or consents under any provisions of any of the foregoing, are intended or implied by this Amendment, and in all other respects the Financing Agreements are hereby specifically ratified, restated and confirmed by all parties hereto as of the effective date hereof. To the extent that any provision of the Loan Agreement or any of the other Financing Agreements conflicts with any provision of this Amendment, the provision of this Amendment shall control.

7. Further Assurances. Borrowers and Guarantors shall execute and deliver such additional documents and take such additional action as may be reasonably requested by Lender to effectuate the provisions and purposes of this Amendment.

8. Governing Law. The rights and obligations hereunder of each of the parties hereto shall be governed by and interpreted and determined in accordance with the internal laws of the State of New York (without giving effect to principles of conflict of laws).

9. Binding Effect. This Amendment shall be binding upon and inure to the benefit of each of the parties hereto and their respective successors and assigns.

10. Counterparts. This Amendment may be executed in any number of counterparts, but all of such counterparts shall together constitute but one and the same agreement. In making proof of this Amendment, it shall not be necessary to produce or account for more than one counterpart thereof signed by each of the parties hereto.

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IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be executed on the day and year first written.

CONGRESS FINANCIAL CORPORATION

By: /s/ Janet S. Hart

-----  
Title: 1st VP  
-----

HANOVER DIRECT PENNSYLVANIA, INC.

By: /s/ William C. Kingsford

Title: VP

BRAWN OF CALIFORNIA, INC.

By: /s/ William C. Kingsford

Title: VP

GUMP'S BY MAIL, INC.

By: /s/ William C. Kingsford

Title: VP

GUMP'S CORP.

By: /s/ William C. Kingsford

Title: VP

HANOVER HOLDING CORP.

By: /s/ William C. Kingsford

Title: VP

LWI HOLDINGS, INC.

By: /s/ William C. Kingsford

Title: VP

[SIGNATURES CONTINUED FROM PREVIOUS PAGE]

AEGIS CATALOG CORPORATION

By: /s/ William C. Kingsford  
-----

Title: VP  
-----

HANOVER DIRECT VIRGINIA INC.

By: /s/ William C. Kingsford  
-----

Title: VP  
-----

HANOVER REALTY, INC.

By: /s/ William C. Kingsford  
-----

Title: VP  
-----

THE AUSTAD COMPANY

By: /s/ William C. Kingsford  
-----

Title: VP  
-----

TWEEDS, LLC

By: /s/ William C. Kingsford  
-----

Title: VP  
-----

SILHOUETTES, LLC

By: /s/ William C. Kingsford  
-----

Title: VP  
-----

HANOVER COMPANY STORE, LLC

By: /s/ William C. Kingsford  
-----

Title: VP  
-----

[SIGNATURES CONTINUE ON NEXT PAGE]

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[SIGNATURES CONTINUED FROM PREVIOUS PAGE]

DOMESTICATIONS, LLC

By: /s/ William C. Kingsford  
-----

Title: VP  
-----

COLONIAL GARDEN KITCHENS, INC.

By: /s/ William C. Kingsford  
-----

Title: VP  
-----

THE COMPANY STORE FACTORY, INC.

By: /s/ William C. Kingsford

-----  
Title: VP  
-----

THE COMPANY OFFICE, INC.

By: /s/ William C. Kingsford  
-----

Title: VP  
-----

By their signatures below, the undersigned Guarantors acknowledge and agree to be bound by the applicable provisions of this Amendment:

HANOVER DIRECT, INC.

By: /s/ William C. Kingsford  
-----

Title: VP  
-----

AEGIS RETAIL CORPORATION

By: /s/ William C. Kingsford  
-----

Title: VP  
-----

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[SIGNATURES CONTINUED FROM PREVIOUS PAGE]

AEGIS SAFETY HOLDINGS, INC.

By: /s/ William C. Kingsford  
-----

Title: VP  
-----

AEGIS VENTURES, INC.

By: /s/ William C. Kingsford  
-----

Title: VP  
-----

AMERICAN DOWN & TEXTILE COMPANY

By: /s/ William C. Kingsford  
-----

Title: VP  
-----

BRAWN WHOLESALE CORP.

By: /s/ William C. Kingsford  
-----

Title: VP  
-----

COMPANY STORE HOLDINGS, INC.

By: /s/ William C. Kingsford  
-----

Title: VP  
-----

D.M. ADVERTISING, INC.

By: /s/ William C. Kingsford  
-----

Title: VP  
-----

GUMP'S CATALOG, INC.

By: /s/ William C. Kingsford  
-----

Title: VP  
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[SIGNATURES CONTINUED FROM PREVIOUS PAGE]

GUMP'S HOLDINGS, INC.

By: /s/ William C. Kingsford  
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Title: VP  
-----

HANOVER CASUALS, INC.

By: /s/ William C. Kingsford  
-----

Title: VP  
-----

HANOVER CATALOG HOLDINGS, INC.

By: /s/ William C. Kingsford  
-----

Title: VP  
-----

HANOVER FINANCE CORPORATION

By: /s/ William C. Kingsford  
-----

Title: VP  
-----

HANOVER LIST MANAGEMENT INC.

By: /s/ William C. Kingsford  
-----

Title: VP  
-----

HANOVER VENTURES, INC.

By: /s/ William C. Kingsford  
-----

Title: VP  
-----

LWI RETAIL, INC.

By: /s/ William C. Kingsford  
-----

Title: VP  
-----

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[SIGNATURES CONTINUED FROM PREVIOUS PAGE]

SCANDIA DOWN CORPORATION

By: /s/ William C. Kingsford  
-----

Title: VP  
-----

TWEEDS OF VERMONT, INC.

By: /s/ William C. Kingsford  
-----

Title: VP  
-----

YORK FULFILLMENT COMPANY, INC.

By: /s/ William C. Kingsford

-----

Title: VP

-----

AUSTAD HOLDINGS, INC.

By: /s/ William C. Kingsford

-----

Title: VP

-----

HANOVER HOME FASHIONS GROUP, LLC

By: /s/ William C. Kingsford

-----

Title: VP

-----

HANOVER WOMEN'S APPAREL, LLC

By: /s/ William C. Kingsford

-----

Title: VP

-----

KEYSTONE FULFILLMENT, INC.

By: /s/ William C. Kingsford

-----

Title: VP

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EXHIBIT A

To Thirteenth Amendment To Loan and Security Agreement

Intercompany Loans Owed By The Company Store Factory, Inc.

<TABLE>

<CAPTION>

Revolving Loan Borrower that is now payee under loan made to The Company Store Factory, Inc.	Outstanding Amount of Intercompany Loans	Intercompany Loan Repayment Amount
<S> Domestications, LLC*	<C> \$2,000,000	<C> Full Amount of The Company Store Factory, Inc. Term Advance

</TABLE>

Intercompany Loans Owed By The Company Office, Inc.

<TABLE>

<CAPTION>

Revolving Loan Borrower that is now payee under loan made to The Company Office, Inc.	Outstanding Amount of Intercompany Loans	Intercompany Loan Repayment Amount
<S> Domestications, LLC*	<C> \$700,000	<C> Full Amount of The Company Office, Inc. Term Advance

</TABLE>

\* Hanover Direct Virginia Inc. originally made the loans set forth above to The Company Store Factory, Inc. and The Company Store Office, Inc., respectively. In connection with Phase I of the Hanover 1998 Reorganization and the transfer of certain assets and liabilities from Hanover Direct Virginia Inc. to Domestications, LLC, the right to repayment of both such loans was transferred to Domestications, LLC.

EXHIBIT B  
TO  
THIRTEENTH AMENDMENT TO

LOAN AND SECURITY AGREEMENT

Environmental Matters with respect to Certain Real Property  
Located at 455 Park Plaza Drive, La Crosse, Wisconsin

As soon as available, but in any event, by no later than February 15, 1999, TCS Office shall furnish to Lender, in form and substance satisfactory to Lender, (a) evidence that the thirty-five (35) gallon drum of waste oil on or at the Real Property of TCS Office located at 455 Park Plaza Drive, La Crosse, Wisconsin (the "TCS Office Real Property"), has been stored in a manner to reduce the possibility of leakage, spillage or other contamination of soil, and (b) evidence that the Wisconsin Department of Natural Resources has issued a letter or stating that the 2,000 gallon underground storage tank located at the TCS Office Real Property and any contamination related thereto has been sufficiently remediated so that the site and TCS Office comply with all Wisconsin Environmental Laws and that no further remediation or other action with respect to the site is necessary (the "UST La Crosse, Wisconsin Remediation").

In addition to, and not in limitation of, the foregoing, pending the completion of the UST La Crosse, Wisconsin Remediation, upon the earlier of (i) February 15, 1999 (the "UST Remediation Date"), or (ii) the existence or occurrence and continuance of an Event of Default or Incipient Default, Lender may, without limiting Lender's other rights and remedies under the Loan Agreement and the other Financing Agreements, in its sole discretion, establish a reserve against the availability of Revolving Loans in an amount, as determined by Lender, not to exceed \$225,000; provided, that, if TCS Office has not completed the UST La Crosse, Wisconsin Remediation by February 15, 1999, Lender agrees to extend the UST Remediation Date to such later date beyond February 15, 1999, as Lender may determine in its good faith discretion and set forth in writing, so long as, during the period between September 30, 1998 and February 15, 1999 (and at all times thereafter through the extended UST Remediation Date, if the UST Remediation Date is so extended by Lender), TCS Office uses, and continues to use its best efforts to effect the UST La Crosse, Wisconsin Remediation, as determined by Lender in good faith.

## ACCOUNT PURCHASE &amp; CREDIT CARD MARKETING &amp; SERVICES AGREEMENT

This agreement ("Agreement") is entered into as of the 9th day of March, 1999 ("Effective Date"), by and among Capital One Services, Inc. ("COSI"), a Delaware corporation and Capital One Bank ("COB"), a Virginia banking corporation (jointly and severally, or as appropriate as to a particular party's obligations, "Capital One"), and Hanover Direct, Inc., a Delaware corporation located at 1500 Harbor Boulevard, Weehawken, New Jersey 07087, on behalf of its subsidiaries and affiliates other than Compagnie Financiere Richemont AG ("HDI").

## RECITALS

A. General Electric Credit Corporation ("GECC") owns and services, among other things, a portfolio of credit card receivables for a single-line house credit card program as set forth in Exhibit A ("Existing Portfolio") pursuant to an agreement between HDI and GECC (the "Existing Agreement") (which existing Agreement has not been disclosed to Capital One) the terms of which provide that a third party purchaser may purchase the Existing Portfolio under limited conditions set forth in that certain Existing Agreement.

B. Capital One has offered to purchase the Existing Portfolio and HDI desires to sell the Existing Portfolio and the proposed transaction has been consented to by GECC pursuant to Section 12.3 and 12.5 of the Existing Agreement.

C. Capital One has offered to provide a dual-line credit card program to credit card holders of the Existing Portfolio and to market and promote the dual-line credit card program to prospective credit card applicants (the "Program") and HDI desires to engage Capital One for the purpose of servicing such Program on its behalf. "Dual-line" shall mean a private-label credit card line for HDI merchant use and a standard Visa or MasterCard line of credit for third-party use.

D. HDI owns and offers various products and services through several mail-order catalog subsidiaries and limited liability companies ("Catalogs") and maintains site(s) on the Internet, and owns and/or manages related Web sites (collectively, the "HDI Sites") and markets the sale of Catalogs' goods and services in a variety of direct response media, now known and hereafter developed ("Media Channels").

E. HDI and Capital One desire to use all Media Channels available to them to offer the Program to customers and prospective customers of both the Catalogs and Capital One.

Therefore, the parties agree as follows:

I DEFINITIONS

A. "Accounts" = Credit account and related contractual agreements with holders of a MasterCard or Visa credit account, whether or not a plastic card has been issued against such account.

B. "Active Account" = Program Accounts which have an open outstanding balance.

C. "Affiliate" = As defined in Rule 12b-2 under the Securities Exchange Act of 1934, as amended, together with the rules and regulations promulgated thereunder other than Compagnie Financiere Richemont AG.

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D. "Agreement" = As defined in the Preamble.

E. "Applicable Law" = All applicable laws of any jurisdiction, including banking laws, consumer credit laws, securities laws, tax laws, tariff and trade laws, ordinances, judgments, decrees, injunctions, writs and orders or like actions of any Competent Authority and the rules, regulations, orders, interpretations, licenses and permits of any Competent Authority.

F. "Capital One" = As defined in the Preamble.

G. "Capital One's Closing Conditions" = As defined in Section IV.B.5.

H. "Catalogs" = As defined in the Recitals.

I. "Charged-off Accounts" = HDI Accounts issued under the Program that have been charged-off on the books and records of Capital One, net of recoveries, pursuant to Applicable Law and, in every event, after 180 days past due, under normal circumstances and immediately upon notice of unusual events, including due to non-payment, death or otherwise.

J. "Closing" = As defined in Section IV.B.2.

K. "Closing Date" = As defined in Section IV.B.2.

L. "Competent Authority" = Any federal, state, county, local or municipal governmental or quasi-governmental body, bureau, commission, board, board of arbitration, instrumentality, authority, agent, court, department, inspectorate, official or public or statutory person (whether autonomous or not) having jurisdiction over this Agreement or any of the parties to this Agreement.

M. "Credit Card Procedures" = Those policies and procedures adopted by

Capital One in the administration of credit card operations for itself or its Affiliates and other third parties, as amended, from time to time in the absolute discretion of Capital One.

N. "Delinquent Accounts" = Accounts which meet any one of the following criteria: (i) one (1) or more days Past Due and over-limit, (ii) greater than thirty (30) days Past Due, or (iii) is a Charged-off Account.

O. "Dual-line" = As defined in the Recitals.

P. "Encumbrance" = Any mortgage, lien, pledge, charge, assignment, hypothecation, securitization, security interest, title retention, preferential right, trust arrangement, lease, easement, servitude or encumbrance of any kind.

Q. "Existing Portfolio" = As defined in the Recitals.

R. "Existing Portfolio Account Contract" = An agreement between HDI and an account holder evidencing a Purchased Account.

S. "Existing Portfolio Account Holder List" shall mean the list of the names and addresses of all account holders of a Purchased Account as of the Closing Date.

T. "Existing Portfolio Account Information" = The following information with respect to each Purchased Account: (a) the information contained in the data fields listed

on Exhibit A hereto; (b) the RM (returned mail) status of such Purchased Account; (c) the original application for such Purchased Account (or a copy thereof) as GECC may have in its files and (d) full file layout and data dictionary with metadata.

U. "GECC" = As defined in the Recitals.

V. "HDI Account List" = A list of HDI Accounts for which an HDI Card has been issued whether or not such Accounts are Active Accounts or Charged-off Accounts.

W. "HDI Accounts" = Accounts issued under the Program pursuant to this Agreement.

X. "HDI Card" = A plastic card bearing the HDI Mark issued to a customer under an HDI Account.

Y. "HDI's Closing Conditions" = As defined in Section IV.B.6.

Z. "HDI Customer Data" = All names, addresses and other individual level data associated with customers (i) originating with the Existing Portfolio, (ii) originating with HDI offers for credit cards including but not limited to HDI Customer Lists; and (iii) for customer orders for the products sold by HDI.

aa. "HDI Customer List" = HDI Customer Data excluding individual level data for customer orders for the products sold by HDI.

bb. "HDI Line of Credit" = The amount of credit available to a given HDI Account for purchases solely of HDI products.

cc. "HDI Sites" = As defined in the Recitals.

dd. "Initial Term" = As defined in IV.A.1.

ee. "installment billing programs'" = Those programs which HDI offers to its customers pursuant to which cardmembers may accept the offer to divide a total transaction amount over 4 or 5 months.

ff. "Liaison" = As defined in Section IV.G.1.

gg. "Marks" = As to a party, means such party's trademarks, trade names, logos, service marks, trade styles, trade dress and other proprietary identifying marks whether or not registered or otherwise legally determined to be owned by such party.

hh. "Media Channels" = As defined in the Recitals.

ii. "Models" = Criteria developed by Capital One for targeting and identifying customers, credit products for such customers, or restructuring credit products provided to existing Accounts, whether mathematical or otherwise, including, without limitation, Confidential Information of Capital One used or prepared in connection with the development of such criteria, through analysis and modeling of risk parameters and customer information, including from existing databases or otherwise.

jj. "multi-pay accounts" = Those Accounts in which cardmembers have accepted the offer to divide a total transaction amount over 4 or 5 months.

kk. "open outstanding balance" = Accounts where an average daily balance for a given period is greater than zero dollars.

ll. "Past Due" = An Account is past-due where payment has not been received by the statement due date.

mm. "Person" = Any individual, corporation, partnership, limited liability company, joint venture, association, joint stock company, trust, unincorporated organization or government or any group or political subdivision thereof.

nn. "Program" = As defined in the Recitals.

oo. "Program Launch Date" = The date of closing of the purchase and conversion of the Purchased Accounts.

pp. "Purchased Account(s)" = Accounts from the purchased Existing Portfolio on the Closing Date excluding accounts which are (i) more than 180 days past due or (ii) bankrupt, deceased or otherwise subject to charge-off by GECC, at the Closing Date hereunder.

qq. "Purchase Date" = The date on which Purchased Accounts are purchased by Capital One from GECC.

rr. "Set-up Period" = The period of time commencing from the Effective Date and concluding on the Program Launch Date during which the parties expect to undertake systems and operations preparations necessary to establish the Program.

ss. "Solicitation" = An offering of the HDI Accounts to a group of Persons identified as potential account holders through existing HDI Customer Lists, the analysis and modeling of risk parameters and credit information obtained from Credit Bureaus or otherwise via one or more of the following marketing channels: (i) take-one or other similar applications; (ii) direct mail; (iii) telemarketing and (iv) Internet-based application forms.

tt. "Tape" = As defined in Section IV.B.3(b).

uu. "Tax" or "Taxes" = A United States or foreign federal, state or local income, payroll, ad valorem, excise, sales, use, occupancy, real estate, capital stock, or franchise tax or other governmental charge, including any interest, fines, penalties, and additions relating to any such tax.

vv. "Tax Return" = Any statement, form, return or other document required to be supplied to a taxing authority in connection with Taxes.

ww. "Term" = As defined in II.C.6(c).

xx. "Termination Date" = The date on which this Agreement shall terminate, including for any reason set forth in IV.C.

yy. "Unbanked" / "Unbanked Consumer" = An individual who meet(s) either of the following two (2) criteria:

- i) no record in the credit bureaus; or
- i) a record in the credit bureaus and
  - (a) an account that does not have at least 2 "trade lines" on it; or

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- (b) an account with 2 or more "trade lines" on it but the individual consumer has a scoring report issued on it by FAIR ISAAC (or a company with a similar scoring mechanism) with a score of less than 600.

"Trade line" shall mean, for the purposes of this definition, a line of credit issued by an entity which has extended credit to an individual and reported it to the credit bureau. A credit inquiry shall not be deemed a trade line.

zz. "Unbanked Market" = The consumer market wherein any entity may offer for sale merchandise or services on credit where 40% or more of approved applicants are Unbanked Consumers.

Section 1.1. Construction. With respect to all terms used in this Agreement, words used in the singular include the plural and words used in the plural include the singular. The word "including" means including without limitation, and the words "herein", "hereby", "hereto" and "hereunder" refer to this Agreement as a whole. Unless the context otherwise requires, references herein: (i) to Articles, Sections and Exhibits mean the Articles and Section of and the Exhibits attached to this Agreement; (ii) to an agreement, instrument or other document means such agreement, instrument or other document as amended, supplemented and modified from time to time, to the extent provided by the provisions thereof and by this Agreement; and (iii) to a statute mean such statute as amended from time to time. The Exhibits referred to herein shall be construed with and as an integral part of this Agreement to the same extent as if they were set forth verbatim herein.

## II KEY POINTS OF RELATIONSHIP

### A. REPLACEMENT OF GECC AS SERVICE PROVIDER OF HDI'S PRIVATE LABEL CREDIT PROGRAM AND CONVERSION TO DUAL-LINE CREDIT CARD.

1. Replacement. Capital One shall provide services generally of a type provided previously by GECC with respect to HDI's private label credit card program. Capital One shall do this by (a) purchasing from HDI the Existing Portfolio at a price equal to 100% of the par value of the outstanding receivables of accounts excluding

Charged-off Accounts on the Closing Date and (ii) continuing to fund the portfolio's growth pursuant to the provisions of this Agreement.

2. Selection of Card Association Capital One shall convert Purchased Account holders over to a dual-line Visa or MasterCard with the private label line that functions similar to the existing GECC program. The final selection of Visa or MasterCard for the dual-line card shall be made by HDI with the prior reasonable approval of Capital One.

3. Visa or MasterCard Co-branded Incentive Dollars. HDI and Capital One shall retain the right to jointly negotiate and share equally (50:50) any Visa or MasterCard association "co-branded" incentive dollars.

4. Risk offset Fee. Capital One will provide the dual-line private label program to HDI for a Risk offset fee recognizing in part the risk Capital One faces of potentially higher credit losses which will be:

- o \$1.50 per Active Account per month.

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- o \$10 per Account originated under the Program paid once per Account origination, settled on a quarterly basis for all Accounts generated in the quarter.

5. It is the intention of Capital One to accommodate, consistent with Applicable Law, funding to HDI of up to \$2,000,000 in receivables on HDI multi-pay accounts. Capital One shall use good faith best efforts to offer a reasonable funding rate for such accounts. HDI shall have the option to accept the offer, re-negotiate the offer, or decline the offer. The parties anticipate negotiating the terms of any such arrangement during the Set-up Period.

#### B. SHARING OF COSTS AND PROFITS OF DUAL LINE CREDIT CARD ISSUED TO HDI'S EXISTING CUSTOMER PORTFOLIO

1. Promotion. Subject to the provisions of Article III below, HDI will be responsible for promoting the HDI Card, both for continued use as well as to acquire new HDI Accounts in all Media Channels on a mutually agreeable basis.

- (a) Where these programs can be added to an HDI existing customer contact ( i.e. on-page in existing catalogs, as a package insert or inbound telemarketing ), costs will be borne

by HDI.

(b) For stand-alone credit promotions, if any, that do not use an existing customer contact of HDI, the catalog, mailing and telemarketing costs of the Program will be equally split between HDI and Capital One. HDI alone will bear the cost and risk of catalog inventory. Where such promotions are anticipated, Capital One and HDI agree to prepare detailed plans including a promotion budget which outlines expected costs. Once completed, both parties shall agree in writing to the budget and the sharing of promotion/ mailing costs, including any variances to the budget.

2. Credit Screening. As set forth in Article III below, Capital One shall be responsible for the credit screen which Capital One may deem necessary (pre-screening and at the point of application if required), credit underwriting and account set-up costs. Capital One shall be solely responsible for credit decisions, including credit line. HDI and Capital One shall agree in advance to the standard terms and conditions used for the Program. For Delinquent Accounts, Capital One may at its own discretion modify the Delinquent Account's terms and conditions; provided that Capital One will not change terms for any such Account the first time such Account becomes a Delinquent Account except Accounts that are bankrupt or deceased, or that Capital One in good faith believes to be fraudulent. Accounts which have become a Delinquent Account a second time shall be referred to herein as a "Longstanding Delinquent Account."

3. HDI Fees.

a) HDI will receive an annual fee to be paid quarterly by Capital One, being 0.625% of the quarterly average outstanding receivable balance (2.5% annualized) under the dual-line product, excluding Delinquent Accounts. (By way of illustration, on a \$1,000 quarterly average outstanding balance for an account holder, 0.625% or \$6.25 shall be paid by Capital One to HDI.)

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b) On a quarterly basis, a marketing offset fee of \$10 per HDI Account paid once per Account origination, settled on a quarterly basis for all Accounts generated in the quarter.

c) Such fees shall be the sole amount paid to HDI by Capital One which shall otherwise retain all profits

associated with the dual-line product.

4. Shared Credit Risk for 18 Months. For a period of 18 months from the Closing Date, HDI shall share the credit risk on the Purchased Accounts with an assumed 8% total shared risk measured as a percentage of average receivable balance, with monthly reconciliation therefor. (By way of illustration, monthly reconciliation will examine "charge-offs"; if total losses are 10%, HDI shall be responsible to pay Capital One 1% of the losses; if total losses are 6%, Capital One shall be responsible to pay HDI 1% of the losses. If such month is after 18 months from the Purchase Date, then HDI shall share no part of credit losses or gains above or below 8%.)

5. By-Pass. No interchange fee will be required to be paid by HDI for charges made to the private label line of the card with transactions billed directly to Capital One as set forth below and not sent through the Visa or MasterCard association payment system.

#### C. JOINT DEVELOPMENT OF PROGRAM TO BUILD 'UNBANKED' CREDIT PORTFOLIO

1. Program Development. HDI and Capital One agree to jointly develop a program to build a portfolio of Program credit card members who are Unbanked Consumers.

2. Marketing Responsibility. HDI will act as the marketing arm of the two parties to generate Unbanked credit applicants. These applicants will be submitted to Capital One for credit approval and dual-line account set up.

3. Marketing Costs. Capital One shall pay HDI a marketing offset fee of \$10 per HDI Account paid once per Account origination, settled on a quarterly basis for all Accounts generated in the quarter. HDI will be responsible for the costs of all marketing, merchandising, and promotions in generating the applications but all such media materials will be created by Capital One, consistent with the provisions of Article III below, subject to the reasonable right of review of promotional copy as provided in Section II.E. below.

4. Credit Analysis Responsibility and Costs. Capital One will be responsible for all credit evaluation, credit set up and all costs associated with credit account management.

5. Account Approval Standards. Prior to each promotion by HDI to generate accounts, HDI and Capital One will agree to the terms and conditions required by Capital One to approve accounts for the purpose of enabling HDI to make its promotions to a more selective market, to more effectively take customer applications, and to properly communicate with both Capital One and customers. This may include such items as credit history (required positive or prohibited negative credit bureau line items), required down

6. Profit Sharing for Unbanked Consumers. HDI credit sales using HDI Accounts by Unbanked Consumers shall result in profit sharing by the parties on the following schedule and in recognition of Capital One taking on potentially higher credit losses:

(a) During the 1st 12 months for each HDI Account, (i) HDI will pay Capital One \$2.00 per month for each Active Account.

(b) During the 2nd 12 months for each HDI Account:

(i) Capital One will pay HDI 4% of the average annual receivable balance for each HDI Account excluding Delinquent Accounts.

(ii) HDI will pay Capital One:

1. \$1.50 per month for each Active Account.

2. 4% of net HDI sales on the HDI Account (net of returns, cancellations, shipping, handling, tax and royalties or revenue splits paid to 3rd parties).

(c) During the 3rd 12 months for each HDI Account, and thereafter for all extensions of the Term:

(i) Capital One will pay HDI 4% of the average annual receivable balance for each HDI Account excluding Delinquent Accounts;

(ii) HDI will pay Capital One:

1. \$1.00 per month for each Active Account;

2. 4% of net HDI sales on the HDI Account (net of returns, cancellations, shipping, handling, tax and royalties or revenue splits paid to 3rd parties).

(d) During the Term, HDI will pay Capital One a Risk offset fee of \$10 per Account originated under the Program in recognition of the higher credit loss ratios experienced under the Program.

Payments will generally be made on a quarterly basis consistent with Section III.J.

D. INTELLECTUAL PROPERTY AND CONTENT OWNERSHIP AND LICENSE

1. Grant of License. Subject to the terms and conditions of this Agreement, during the term of this Agreement, each of the parties, to the extent that it has any such rights which may be sublicensed, shall grant to the other party and does hereby grant to the other party, a non-exclusive royalty-free sublicense to use, copy, reproduce, distribute, transmit and publicly display, in the United States of America and in all territories in which HDI's chosen Media Channels are exposed, to the extent to which such party has the right to grant such a license, the Marks which are customarily and usually required to be in Promotion Copy (defined below in Section II.E.) (as narrowly defined for the purposes of this Agreement,

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"Intellectual Property") with respect to such party, and to sub-license their Intellectual Property, to existing wholly-owned subsidiaries of such other party or to existing joint ventures in which such party holds an ownership interest for the sole purpose of using, reproducing, distributing, transmitting and publicly displaying the licensor party's Intellectual Property but only for the purposes described in and in accordance with this Agreement. A sublicense granted to a party in the manner described herein is personal to the sublicensee and shall not, without the written consent of the licensor, be assigned, mortgaged, sublicensed or otherwise encumbered by the sublicensee or by operation of law.

2. Card Design. Capital One in consultation with HDI, shall develop HDI plastic card designs prominently featuring the HDI Marks. Capital One and HDI shall have the right to approve any design in their sole discretion to be issued to HDI Accounts. The designs shall conform to MasterCard and Visa rules for affinity cards. Any subsequent changes thereto by Capital One or HDI shall be subject to the prior written approval of the other party. Subject to Section 7.1 and HDI rights to its own Marks, Capital One shall own all rights, title, and interest in such HDI Card designs, provided, however, that each party hereby disclaims any rights in any Mark of the other party. Neither Capital One nor HDI may use, license or transfer such card designs to any Person for any purpose without the prior written consent of the other party.

3. Retention of Rights. Except as licensed or sub-licensed herein, each of Capital One and HDI shall retain all right, title and interest in and to their Intellectual Property and such shall remain the exclusive property of such party or shall be properly licensed to such party or an affiliate of such party.

4. Indemnification. Each party agrees to defend, indemnify, and hold harmless the other against any claims or actions alleging that the indemnifying party's Intellectual Property infringes any U.S. patent or copyright or any third party trademark right and to pay costs and damages to the other finally awarded in any such suit, provided that the indemnifying party is notified promptly in writing of the suit and, at the indemnifying party's request and expense, is given control of the suit and all requested reasonable assistance for the defense of the suit. The foregoing obligation shall not apply with respect to any Intellectual Property (i) modified by any party other than the indemnifying party where the alleged infringement relates to such modification or (ii) combined with other products where the alleged infringement relates to such combination.

5. Worldwide Exposure. As between HDI and Capital One, (a) HDI will retain all right, title and interest in and to its Intellectual Property worldwide, subject to the limited license granted to Capital One hereunder, and (b) Capital One will retain all right, title and interest in and to its Intellectual Property worldwide, subject to the limited license granted to HDI hereunder.

6. Uses. All uses of the other party's Intellectual Property hereunder shall be in accordance with each party's reasonable policies regarding advertising and trademark usage as established from time to time. Except as provided herein, neither party will make any filing or other application for registration or recognition by any governmental authority in any jurisdiction worldwide as to any Mark of the other party.

7. Post-Term Use of Intellectual Property. Upon the expiration or termination of this Agreement, each party will cease using the Intellectual

Property of the other except: (i) as the parties may agree in writing; (ii) to the extent permitted by applicable law, or (iii) to the extent permitted by the terms of this Agreement for the purposes of wind-down operations.

E. RIGHT OF REVIEW AND APPROVAL OVER PROMOTION COPY

1. Review and Approval. Each of the parties and its legal counsel shall have the right of prior approval over any use of its Intellectual Property, including any use in connection with marketing, promotion and advertising, which approval will not be unreasonably withheld. Each party shall submit materials to the

other party via the Liaison for approval with enough lead time for such party and its counsel to have at least one week to review. It shall be the responsibility of each of Capital One and HDI to review and comment upon or approve advertising and promotion copy submitted to such party by the other party, in a timely manner, as follows:

(a) Each party's Liaison shall cause all drafts of all prepared materials promoting or advertising the Program containing promotion copy or use of Intellectual Property of the other party, as well as notification of all modifications (collectively "Promotion Copy"), to be delivered to the other party's Liaison for review, comment, and approval or disapproval by the appropriate person at least five (5) business days in advance of a comment deadline imposed by or upon such party's Liaison and also,

(1) in the case of HDI, with an additional copy to Attention: Lisa Green, Esq., Assistant General Counsel, Hanover Direct, Inc., 1500 Harbor Boulevard, Weehawken, NJ 07087, Telecopier 201-272-3468.

(2) in the case of Capital One, with an additional copy to Attention: Tony Santillo, Capital One Services, Inc., 11013 West Broad Street, Glen Allen, VA 23060, Telecopier 804-967-2009.

(b) Capital One and its Liaison assume no responsibility or liability for errors regarding HDI and its Promotion Copy after it has been approved by HDI; provided, however, that Capital One assumes liability for errors regarding HDI and its Catalogs and the Program made by Capital One or its agents, and shall indemnify HDI pursuant to Section III.I. below.

(c) HDI and its Liaison assume no responsibility or liability for errors regarding Capital One and its Promotion Copy after it has been approved by Capital One; provided, however, that HDI assumes liability for errors regarding Capital One and the Program made by HDI or its agents, and shall indemnify Capital One pursuant to Section IV. H below.

(d) Neither party may amend, modify, or alter another party's Promotion Copy in a material manner except with the explicit written approval of the other party. "Material" shall include Promotion Copy making implied or express claims and any Marks or text associated with Marks.

2. Any breach of the terms of this Section II.E may cause irreparable harm to a party.

(a) in the event of any threatened breach, the party placed in jeopardy shall be entitled to injunctive relief in addition to any other available remedy; and

(b) any failure of a party and its Liaison to adhere to the standards in this Section II.E which constitutes a material breach of this Agreement shall be subject to Section IV.C. below regarding "Termination."

F. USAGE REPORTS AND USER DATA

1. Each party will provide to the other party via email or other agreed upon means such usage reports containing such information as the Liaisons shall mutually agree is necessary and desirable, including but not limited to information with regard to open accounts for all HDI Customer Data, and accounts in process of screening, Delinquent Accounts, transaction data summaries, and open outstanding balances (collectively as further defined, "User Data" and "Usage Reports"). Each Usage Report will cover a calendar month and will be delivered within fifteen (15) days following the end of the applicable month. The parties may, by mutual written agreement, alter the content of the Usage Reports.
2. EACH PARTY WILL USE REASONABLE EFFORTS TO ENSURE THE ACCURACY OF THE USAGE REPORTS BUT NEITHER PARTY WARRANTS THAT THE USAGE REPORTS WILL CONFORM TO ANY SPECIFICATIONS AT ANY GIVEN TIME. NEITHER PARTY WILL BE HELD LIABLE FOR ANY CLAIMS AS THEY RELATE TO SUCH USAGE REPORTS, EXCEPT TO THE EXTENT THAT SUCH USAGE REPORTS SERVE AS THE BASIS FOR PAYMENTS UNDER THIS AGREEMENT.
3. All information required to be reported by Capital One shall be subject in all instances to compliance by Capital One, in Capital One and its legal counsel's reasonable judgment, with the requirements of Applicable Law. User Data shall be deemed proprietary and confidential and subject to the confidentiality provisions of this Agreement set forth in Section IV.L. below.
4. Both parties acknowledge that any individual user of a Media Channel such as the Internet could be a customer of Capital One and/or HDI through activities unrelated to this Agreement. Except as set forth in Section II.F(6)) below, both parties further acknowledge that any User Data gathered independent of this Agreement, even for credit card users that utilize both

parties' services, shall not be covered by this Agreement. The parties also acknowledge that any information collected by Capital One in media channels on which Capital One's name and/or brands do not appear shall not be covered by this Agreement.

5. Subject to the restrictions in this Section, the User Data shall be deemed to be the joint property of the parties and both parties shall retain all rights to any User Data obtained through this Agreement. However, HDI agrees that it will not use the User Data or transaction data to specifically target or solicit Capital One credit card users as a subset of HDI's Program credit card users (except as specifically provided herein) either individually or in the aggregate during the term of this Agreement.

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6. User Data Opt Out. Each party agrees that it will not sell, disclose, transfer, or rent the User Data of any HDI Account holder to any third party, nor will either party use said User Data on behalf of any third party, without the consent (either negative or affirmative as the case may be) by the Account holder to such sales, disclosures, transfers or rentals. In such cases where Account holder permission for dissemination of User Data has been obtained, HDI or Capital One, as the case may be, shall use all reasonable efforts to include and enforce within such dissemination contracts or agreements (e.g., list rental agreements) a requirement for the inclusion of an unsubscribe feature in all direct mail and email communications generated by, or on behalf of, third party users of said User Data.
7. Privacy Policy. Each of Capital One and HDI shall cooperate fully in the accurate depiction of the "Privacy Policy" and "Opt Out" language to be posted on HDI Sites in order to clearly and conspicuously inform customers and visitors to the site about the uses that will be made of customer information. Capital One does hereby agree to promptly comply with any reasonable requests received to remove card applicants or card users from any further contact or use of User Data by Capital One itself or by any third parties to whom Capital One may disclose User Data to the extent permitted hereunder if at all.
8. Marketing Reports. Upon request, Capital One shall provide a reasonable number of marketing reports to HDI in a format and frequency requested by HDI and containing particular aggregate

data requested by HDI to enable HDI to understand the general nature of HDI Accounts, including but not limited to the evaluation of the general nature of Capital One's HDI Accounts and the potential of particular promotions or success of past promotions ("Marketing Reports"), and Capital One shall make good faith efforts to cooperate with HDI for such reasonable requests. Such Marketing Reports shall be deemed proprietary to both of HDI and Capital One except that they shall not be required to be returned after the Term of this Agreement as Confidential Information defined in the attached Confidentiality Agreement.

### III. ISSUANCE AND MANAGEMENT OF ACCOUNTS.

- A. Issuance of Accounts. Capital One shall be the sole and exclusive issuer and creditor of HDI Accounts, HDI Cards and other Accounts issued bearing the Marks of HDI. Nothing herein shall prevent or be deemed to prevent HDI or its Affiliates from accepting as a means of payment Accounts of other issuers. HDI Cards shall be secured or unsecured Platinum, Gold or Classic Accounts as Capital One, in its sole discretion, may determine based on credit quality. In general, HDI Accounts shall use the dual-line Product. To the extent permitted by Applicable Law, Capital One shall issue new plastic cards to account holders in the Existing Portfolio, including accounts that have been inactive for up to two years. Capital One shall be solely responsible, at its expense, for the administration, credit approval, pricing, billing, collecting, account management and other servicing of HDI Accounts, including preparing and distributing HDI Account agreements, customer disclosures, billing statements, collection letters, and customer service materials. Capital One, in its sole discretion, may have its standard vendors, perform any or all of these functions; provided however, whether such functions are performed by Capital One or third parties, the functions shall be performed with the same degree of care as Capital One customarily exercises with all Accounts of Capital One, and further provided that

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the provisions of the Confidentiality Agreement incorporated herein and made a part hereof shall apply to such third parties.

- B. Solicitations for HDI Sales and Accounts. At any time during the Term, the parties shall jointly work together with respect to the creation and implementation of Solicitations for HDI sales and HDI Accounts.
1. Creation of Solicitation Package. HDI shall be responsible for

the creative design and content of the marketing communications to potential customers of HDI products and services, including broadcast marketing, publications, other advertising, catalogs, telemarketing and other direct mail pieces. The parties shall work together jointly on the creation and design of credit card marketing materials in respect of Solicitations for HDI Accounts; provided, however, that Capital One shall be responsible for the content of marketing communications related to the offer of credit to be made under the HDI Mark by Capital One, including content for the preparation of appropriate customer disclosures to be made in connection with such credit offer. HDI Liaisons shall work with operational personnel of Capital One to ensure that application creation and production and other Solicitation processes, including online decisioning methodologies which may be established from time to time and set forth in subsection (3) below, are properly functioning. Each of HDI and Capital One shall provide an initial Solicitation package to the other for review based on the respective timeframes established by the Liaisons to this Agreement prior to the anticipated date of such Solicitation. Each of HDI and Capital One agrees to respond to such initial Solicitation package within the timeframes established. In any Solicitation, COB shall provide the credit-related disclosures that it, in its sole discretion, deems necessary for purposes of compliance with Applicable Law, which disclosures shall be included, in their entirety in the Solicitation package. The parties shall continue to work together to ensure that each is mutually satisfied with the content and form of all marketing communications presented to potential customers; provided, however, that Capital One shall have final approval over all materials related to the offer of credit to be made by Capital One to potential customers as described above.

2. HDI Customer List. In the event of any direct mail Solicitation by Capital One which includes an offer of credit on a "pre-approved" basis, HDI shall provide to Capital One, or a third party designated by Capital One and reasonably acceptable to HDI, a HDI Customer List no later than sixteen weeks prior to such Solicitation. Capital One or such third party shall return to HDI one or more of such lists. HDI Customer Lists may be compiled by HDI, at its discretion and at its own expense, from its own customer records, lists provided by third-parties or otherwise. Nothing herein above shall be deemed to prohibit Capital One from using other HDI lists, in its sole discretion and expense only for credit purposes.
3. Solicitations and On-Line Decisioning. (i) In the event that the parties engage in a Solicitation which involves an offer of credit anticipating application of "on-line decisioning"

(pursuant to which a HDI Customer service representative obtains a credit decision while a HDI customer waits on the telephone), and provided that the Capital One Liaison has approved, the product launch date for on-line decisioning , Capital One

shall be generally prepared to process and approve or disapprove the applications generated by such Solicitations online at the time of telephone application. During the Set-up Period, the parties shall work together as may be mutually agreeable to build the necessary infrastructure to support the application of on-line decisioning by Capital One of HDI customer applications for HDI Accounts. Each party shall bear the cost of establishing the infrastructure within each party's operational and system architectures.

4. Mailing of Mail Channel Solicitation Packages; Expenses. Upon final approval, by HDI and Capital One of the Solicitation package to be mailed to existing or potential HDI Account customers, the applicable party shall undertake the Solicitation in a timely manner as the parties may mutually agree and as may be required by Applicable Law, including the Fair Credit Reporting Act. Each of HDI and Capital One shall provide to the other at the time of such approval projected mailing dates and volumes, and at the time of mailing the actual dates and volumes. Each party shall be responsible for marketing costs as set forth above. Capital One shall be responsible for costs associated with the processing of applications including telephone responses (and all such calls shall generally be directed to COSI's facilities).
5. Alternative Vehicles. In addition to Solicitation vehicles described above, HDI and Capital One may use telemarketing or similar means to acquire HDI Accounts; and the parties shall coordinate their efforts so that outbound Solicitations for HDI Accounts are made to customers on a mutually agreeable basis. In the event of Solicitations by telemarketing by HDI, HDI shall obtain Capital One's prior written approval of the offer of credit and the portion of the telescripts pertaining thereto. Telemarketing operations whether performed by HDI third party vendors or otherwise shall meet the service standards generally adhered to by HDI or as reasonably requested by Capital One consistent with Applicable Law. In all such oral communications, HDI and its employees and any third party vendor shall clearly disclose that Capital One solely is the issuer of the HDI Card. Based on its prior

review of relevant telemarketing scripts, Capital One shall ensure that telemarketing scripts for offers of credit comply with Visa or MasterCard regulations, including any registration requirements and HDI shall ensure that offers of credit are made in accordance with such telemarketing scripts. If applicable, HDI shall be responsible for registering, at its cost, as necessary, as an "independent service organization" as required by Visa or MasterCard, respectively.

6. Limited Audit Rights.

(i) Subject to reasonable security requirements of Capital One, Capital One shall grant HDI and its designated representatives, at HDI's expense, reasonable access upon advance notice during business hours to the premises and books and records of Capital One relating to the HDI Accounts and other activities undertaken by Capital One hereunder for the purpose of auditing the financial results of such HDI Accounts and compliance by Capital One with this Agreement, subject to the confidentiality provisions of Section \_\_ hereof. Any such activity by

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HDI shall be conducted in such a manner as not to unreasonably interfere with Capital One's normal business activities.

(ii) Subject to reasonable security requirements of HDI, HDI shall grant Capital One and its designated representatives and COB's primary regulatory agencies, at Capital One's expense, reasonable access upon advance notice during business hours to the premises and books and records of HDI relating to the HDI Accounts and telemarketing and other Solicitation activities being undertaken by HDI hereunder, for the purpose of determining compliance by HDI with this Agreement, subject to the confidentiality provisions of Section IV.L. hereof. Any such activity by Capital One shall be conducted in such a manner as not to unreasonably interfere with HDI's normal business activities.

C. Credit Approval by Capital One. Capital One shall evaluate all applications for HDI Accounts and shall approve such individual applicants and establish such credit lines as it deems appropriate in its sole discretion, subject to Applicable Law.

1. Decisioning. Prior to the launch of solicitations for HDI Accounts and in addition to arrangements with respect to on-line decisioning, the parties on a commercially reasonable

basis shall work jointly to ensure that mail and telephonic linkages necessary to permit decisions to be made with respect to prospective customers that seek a HDI Account are in place and working properly. To the extent that HDI customer service representatives are expected to take applications by telephone, they shall ask for pre-determined information from prospective customers and shall provide such information to Capital One personnel. During the Set-up Period, Capital One shall provide a list of information that HDI customer service representatives shall request from prospective HDI Account customers. From time to time during the Term, Capital One may add or delete items from this list, in its discretion. In addition, during the Set-up Period, the parties shall agree upon the script and similar materials used by HDI customer service representatives with respect to telephonic applications for credit by prospective HDI customers. Such scripts and customer service representatives shall generally present themselves as representatives of HDI in communications with existing and potential customers, consistent with Applicable Law.

2. Responses. Within processing times to be established by the parties during the Set-up Period, Capital One shall provide to HDI's customer service representative a response to such customer's application, including whether the application has been approved or requires further review by Capital One personnel and, if approved, the terms of such offer. Capital One shall also provide to the HDI customer service representative information regarding the amount of credit available to such customer under the HDI Line of Credit. Capital One shall be responsible, at its sole expense, for the communication of any denial to a prospective customer by mail or phone. Capital One, at its expense, shall be responsible for all application processing, including credit bureau report fees.
3. Credit Criteria. Capital One shall employ credit criteria and offer credit lines to prospective HDI Accounts for HDI Accounts as it may determine, in its sole discretion, consistent with the Credit Card Procedures and safe

and sound banking practices. Except as set forth herein, under no circumstances, shall Capital One be required to disclose information to HDI regarding individual customer credit data, regarding credit policies or any other Confidential Information of Capital One or any Affiliates thereof,

including delinquency, charge-off or any other data.

4. Response Time. Capital One shall meet response time standards for decision processes for purposes of inquiries from applicants concerning the approval or denial of their HDI Account applications and increased credit line requests consistent with the treatment of its own Accounts, the Credit Card Procedures and Applicable Law.
5. Welcome Packages. Capital One shall be responsible, at its own expense, for additional processing, including the creation and mailing of letters to prospective customers approving or denying an application, the mailing of a standard welcome kit to approved customers and related actions.

D. HDI Account Management.

1. Management. Except as may otherwise be set forth herein, Capital One shall perform all standard Account management and operational functions related to the HDI Accounts originated hereunder, in its sole discretion, and at its own expense, including correspondence, statement rendering, and similar communications with HDI Account customers of a type generally set forth in the Credit Card Procedures, line increases, payment processing and account repricing such Account management shall cover both Active and Inactive Accounts, including Accounts acquired in the purchase of the Existing Portfolio.
2. Pricing. Capital One shall have the right to change the pricing applicable to the HDI Accounts as set forth herein. COB will provide 30 days advance notice to HDI of a full file change to HDI Accounts, provided that COB shall not charge new fees (fees not currently charged by Capital One to its customers) without the prior consent of HDI, such consent not to be unreasonably withheld. Such changes shall not affect pricing between the parties pursuant to this Agreement. Except with the prior consent of HDI, the parties hereto agree that no annual fee shall be imposed upon HDI Accounts at any time during the term of this Agreement except in limited circumstances of Longstanding Delinquent Accounts.
3. Billing Statement Inserts. Subject to the reasonable agreement between the Liaisons of each party, HDI shall have the right to include inserts not to exceed more than 2 per quarter in billing envelopes of HDI Accounts subject to Capital One procedures and operational requirements. HDI shall be responsible for the cost of preparing such inserts and Capital One shall be responsible for the cost of stuffing and mailing such inserts. If there shall be any unused stuffing or postage capacity in any billing envelope, HDI shall be granted the

option to provide a statement insert for such mailing, for no fee; provided, however, if there is an incremental verifiable expense to Capital One for such participation by HDI (e.g., stuffing, postage), the payment thereof and exercise of such option to participate in such mailing shall be in HDI's sole discretion.

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E. Systems Upgrades. The parties agree to use commercially reasonable efforts to invest in systems upgrades as may be necessary or reasonable to ensure that their duties and the objectives set forth hereunder can continue to be achieved during the Term. Each party agrees to give the other party commercially reasonable notice of any system change or upgrade that might require a system change or upgrade by the other party, including those relating to time frames and quality assurance testing.

F. Compliance with Applicable Law. As the issuer and creditor and servicer of the HDI Accounts, Capital One shall comply with Applicable Law in respect of the HDI Cards and the HDI Accounts, including Applicable Law pertaining to credit applications, finance charges, HDI Card transactions and collections.

G. Status of HDI as Issuer

1. At no time will any party hereto represent to any Person that HDI or any Affiliate thereof, or any entity other than Capital One or a financial institution affiliate of COB, as the case may be, is the Person extending credit to any holder of an HDI Account; provided, however, that nothing shall limit HDI's ability to promote multi-pay accounts or installment billing programs to its customers.
2. Except as set forth in Section II.B.4 above (loss-sharing on Purchased Accounts) HDI shall bear no credit risk or risk of loss with respect to any HDI Account. HDI and its Affiliates shall have no responsibility to Capital One or an Affiliate of Capital One or to any Person for any chargebacks, claims or defenses with respect to goods or services purchased, leased or otherwise acquired through use of an HDI Card (except to the extent that HDI is the merchant with respect to such goods or services or as provided in Section III.I hereof).
3. Except as set forth herein, under no circumstances shall HDI be required to disclose information to Capital One regarding individual customer data not related to the provision of credit, catalog mail strategies or policies or any other Confidential Information of HDI.

H. Role of Each Party. Capital One will use reasonable efforts to respond to inquiries from HDI Accounts relating to the HDI products and programs working with HDI customer service representatives to resolve issues from a credit perspective.

1. Inquiries regarding HDI Products and Services. Capital One will refer inquiries concerning HDI products and services sold by HDI to the Customer Service Department of HDI at telephone numbers provided by HDI. HDI will use reasonable efforts to address such inquiries in a timely and effective manner.
2. Inquiries re: Capital One Products and Services. HDI will refer HDI Account holders' inquiries concerning HDI Accounts to the Capital One's Customer Service Department at telephone numbers provided by Capital One. Capital One will use reasonable efforts to address any such inquiries in a timely and effective manner consistent with the Credit Card Procedures.

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3. Customer Service Support. Each of Capital One and HDI will provide, at its own expense, one or more customer service contacts who will be available during Capital One's or HDI's respective normal business hours to assist the other party's Customer Service Department in resolving all issues related to the Program and disputes that may arise with customers.

I. Customer Disputes. HDI hereby agrees that the time limits and procedures set forth in operating rules and restrictions of MasterCard and Visa respecting billing disputes and charge back transactions shall not apply to limit the rights of HDI Account holders or of Capital One, under state or federal law, to respecting HDI products and services which are disputed charges, billing errors, unauthorized charges, and charges for which a customer can assert a "claim or defense" against HDI or other similar right of such holder under federal or state law. HDI further agrees that it shall cooperate fully with Capital One to resolve any such issue as may arise from time to time.

The parties agree that they shall follow Visa/MasterCard rules regarding interchange disputes, whether or not the Visa/MasterCard systems have been used.

J. Statements and Payments. On or before the twentieth (20th) day after the end of each calendar quarter during the Term, each party which is owed fees hereunder ("Payee") shall deliver to the other party ("Payor") a statement for the net fees due to Payee hereunder for the preceding

calendar quarter. Within five (5) days of receipt of such statement, the receiving party shall confirm amounts owed by it and within three days therefrom, Payor shall pay such invoice to Payee by wire transfer.

1. Statements sent to Capital One hereunder shall be delivered by facsimile or overnight mail to Finance and Accounting Special Projects Group;
2. Statements sent to HDI shall be delivered by facsimile or overnight mail to the name and address set forth in Section IV.G. and
3. All payments required to be made by wire transfer shall be made by wire transfer pursuant to written instructions provided by each party to the other at the Closing Date.

K. Daily Payments to HDI and By-pass of Card Payment Networks. On a daily basis, HDI shall send to Capital One documentation confirming HDI Account transactions involving the purchase of HDI products, as well as returned item and dispute information, in the form and containing information as the parties shall reasonably agree (which shall generally be the type of information provided by HDI to its Visa or MasterCard merchant bank for processing of non-Capital One Account charges). Such information shall be processed by Capital One and, on the next Business Day following receipt of such information, Capital One shall pay HDI by wire transfer the aggregated amount, but net of credits made to HDI Accounts for returned items. The Liaisons shall agree upon appropriate and reasonable procedures for authorizing daily transactions.

L. Delinquent Accounts. Notwithstanding anything contained herein to the contrary, Capital One shall be under no obligation to approve charges to a HDI Account which would normally be denied approval pursuant to the Credit Card Procedures, including Delinquent Accounts.

#### IV. GOVERNING PROVISIONS

##### A. TERM

1. The term of this Agreement ("Term") will begin on the Effective Date and will end on the close of business of the date thirty-six (36) months from Effective Date ("Initial Term"), unless earlier terminated pursuant to Section IV.C. below, and shall be automatically renewed, except as provided below, at the end of such period for additional consecutive one (1) year terms.
2. Notwithstanding the foregoing, the parties may notify each other

in writing, with no less than one hundred eighty (180) days notice, of any desire not to automatically renew this Agreement for each one-year additional term.

B. CLOSING OF SALE OF PURCHASED ACCOUNTS

1. Agreement of Purchase and Sale. On the terms and subject to the conditions hereafter set forth, HDI shall use best efforts to cause GECC to sell to HDI on or before the Closing Date in order that on the Closing Date HDI shall be able to sell to Capital One and Capital One shall be able to purchase from HDI all of HDI's right, title and interest in and to the Purchased Accounts for an amount equal to the par value of the outstanding receivables of all accounts in the Existing Portfolio which are Purchased Accounts (the "Purchase Price"). Unless otherwise expressly stated herein, Capital One is not, and shall in no way be deemed to be, assuming any liabilities, claims or other obligations of HDI or its Affiliates with respect to the Purchased Accounts or otherwise, or in amounts greater than the stated amounts assumed.

2. Closing. Subject to the satisfaction or waiver of Capital One's Closing Conditions and HDI's Closing Conditions, and subject to all other terms of this Agreement, the consummation of the purchase and sale of the Purchased Accounts contemplated hereby (the "Closing") shall take place at the offices of Capital One Bank, 11013 West Broad Street, Glen Allen, Virginia or at such other time, place and date, or by facsimile transmission as the parties shall agree in writing (the "Closing Date").

3. Obligations of HDI at Closing. At or prior to Closing, HDI shall:

- (a) use best efforts (provided that nothing herein shall obligate HDI to institute litigation in connection therewith) to cause the Purchased Accounts to be legally transferred to HDI by the Closing Date in order that HDI shall be able to legally sell and transfer the Purchased Accounts to Purchaser free and clear of any Encumbrance;
- (b) use best efforts (provided that nothing herein shall obligate HDI to institute litigation in connection therewith) to cause to be delivered to Capital One a magnetic tape containing the Existing Portfolio Account Holder List and all Existing Portfolio Account Information (the "Tape") and other data as reasonably requested by Capital One;
- (c) deliver to Capital One a certificate signed by an officer of HDI certifying that: (i) the representations and warranties of HDI

contained in Section IV.I.3 are true and correct as of the Closing Date; and (ii) all obligations and covenants required by this Agreement to be performed or complied with by HDI on or prior to the Closing have been duly performed or complied with; and

- (d) use best efforts (provided that nothing herein shall obligate HDI to institute litigation in connection therewith) to support the transfer of the Purchased Accounts to Capital One and to cause GECC to support the transfer of the Purchased Accounts to Capital One, including, without limitation, providing adequate personnel on a timely basis to enable Capital One to proceed in a timely manner, and to provide transferred data in a timely manner as may be reasonably requested by Capital One. As between Capital One and HDI, HDI shall be responsible for its own and GECC's costs of conversion and Capital One shall not be responsible for GECC's costs of conversion.

4. Obligations of Purchaser at Closing. At Closing Capital One shall:

- (a) pay to HDI the Purchase Price by wire transfer pursuant to written instructions provided by HDI upon or prior to the Closing; and
- (b) deliver to HDI a certificate signed by an officer of Capital One certifying that: (i) the representations and warranties of Capital One contained in Section IV.I.1&2 are true and correct as of the Closing Date; and (ii) all obligations and covenants required by this Agreement to be performed or complied with by Capital One on or prior to the Closing have been duly performed or complied with.

5. Capital One's Conditions to Closing. Capital One's obligation to purchase the Purchased Accounts shall be subject to the satisfaction by HDI or waiver by Capital One of the following conditions precedent ("Capital One's Closing Conditions"):

- (a) Representations and Warranties. All of the representations and warranties of HDI contained in this Agreement shall be true, correct and complete as of the Closing Date; all of the terms, covenants, agreements and conditions of this Agreement to be complied with,

performed or satisfied by HDI on or before the Closing Date shall have been duly complied with, performed or satisfied; and Capital One shall have received a certificate dated the Closing Date and signed by an officer of HDI to the foregoing effect.

- (b) No Litigation. No action or proceeding before a court or any other Competent Authority shall have been instituted or threatened to restrain or prohibit the transactions contemplated by this Agreement.
- (c) Consents. All necessary consents and approvals of, and filings with, any Competent Authority or third party relating to the

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consummation by HDI of the transactions contemplated hereby, if any, shall have been obtained and made.

- (d) Obligations. Any and all actions required to be taken or documents to be delivered by HDI shall have been taken or delivered by HDI.
6. HDI's Conditions to Closing. HDI's obligation to sell the Purchased Accounts shall be subject to the satisfaction by Capital One or waiver by HDI of the following conditions precedent ("HDI's Closing Conditions"):
- (a) Representations and Warranties. All of the representations and warranties of Capital One contained in this Agreement shall be true, correct and complete as of the Closing Date; all of the terms, covenants, agreements and conditions of this Agreement to be complied with, performed or satisfied by Capital One on or before the Closing Date shall have been duly complied with, performed or satisfied; and HDI shall have received a certificate dated the Closing Date and signed by an officer of Capital One to the foregoing effect.
  - (b) No Litigation. No action or proceeding before a court or any other Competent Authority shall have been instituted or threatened to restrain or prohibit the transactions contemplated by this Agreement.
  - (c) Consents. All necessary consents and approvals of, and filings with, any Competent Authority or third party, including GECC, relating to the consummation by HDI of

the transactions contemplated hereby, if any, shall have been obtained and made.

- (d) Obligations. Any and all actions required to be taken or documents required to be delivered by Capital One shall have been taken or delivered.

7. Conversion Matters

HDI shall use best efforts (provided that nothing herein shall obligate HDI to institute litigation in connection therewith) to provide assistance with respect to the conversion of the Existing Portfolio, including the following:

- 1. HDI will cause GECC to produce file layouts and sample files of all conversion-related data within two weeks of a signed contract.
- 2. HDI will also provide both systems and operational support capable of defining HDI and GECC business and operational practices.
- 3. HDI will provide support and assistance for data mapping and will facilitate the conversion.
- 4. HDI will support a full test conversion process one full month prior to the conversion, and provide data and resources to ensure successful conversion.

- 5. HDI will provide all necessary files at time of conversion to ensure successful conversion.
- 6. HDI will provide operational resources to design conversion process and timeline to ensure continuous customer service.
- 7. HDI will facilitate communication between COB and GECC.

C. TERMINATION

1. Material Breach in Performance of Contractual Obligations. At any time after 3 months following the Purchase Date:

- (a) if either party shall materially breach any term of this Agreement, or fail, neglect or refuse to perform any of its material obligations hereunder including, but not limited to,

its responsibility and that of its subcontractors to maintain service levels satisfactory to the other party ("Neglect/Failure Breach"), or

(b) if either party shall have committed any act or do anything that will injure or is reasonably likely to injure the success or prospects of the other party or its businesses ("Possible Injury Breach").

Then at any time after a party learns of any such act or omission by the other party, such party shall have the right, at its sole option and subject to the next succeeding sentence, to terminate this Agreement by giving written notice containing a detailed description of the Neglect/Failure Breach or Possible Injury Breach to the other party.

In the event that either party shall be accused of a Neglect/Failure Breach or a Possible Injury Breach, then within (10) days of receipt of notice, the defaulting party shall submit a written plan to the non-defaulting party, containing the detailed steps it plans to take to cure such breach, in which case the non-defaulting party shall have five (5) days to approve of such plan of cure. If disapproved, the non-defaulting party shall have the option to terminate this Agreement immediately, effective 90 days after receipt of such notice by the other party. If approved, the defaulting party shall take all steps described in the plan to cure such breach.

2. Insolvency or Dissolution of Any Performing Party. If any of the following occurs,

(a) the commencement of any voluntary bankruptcy, insolvency, reorganization, readjustment of debt, dissolution, liquidation of debt or other insolvency proceeding in which the other party, is debtor; or

(b) the suspension or termination of the other party's business or dissolution thereof or the appointment of a receiver, trustee or similar officer to take charge of a substantial part of such entity's assets;

either party may terminate this Agreement immediately upon written notice to the other party.

(c) Force Majeure. This Agreement may be terminated by HDI on the one hand, or COB and COSI on the other hand, on or after the ninetieth (90th) day following the giving of notice to the other party that such notice-giving party's

performance is prevented or delayed by a force majeure event listed in Section III.P herein, if the inability to perform has not been cured at the end of such ninety (90) day period.

3. Wind Down of Operations. At the date of expiration of this Agreement or earlier termination, as the case may be,

(a) Fulfillment Obligations. All fulfillment obligations of HDI and Capital One with respect to credit card transactions processed until the earlier to occur of the date of termination or date of termination advertised to cardholders, as mutually agreed-upon, shall continue with regard to orders received prior to and through the close of business on the termination date, including all items on backorder, in compliance with the Mail and Telephone Merchandise Order Rule;

(b) Reporting Obligations. All reporting obligations and fee payment of the parties required herein, shall continue until there is nothing more contained in such reports, and nothing more to be paid on account of orders taken up to and including the termination date, including all orders for which credit card billing has not yet been processed due to backorder situations for which shipment is delayed;

(c) Profit Sharing Arrangements. Profit sharing arrangements will continue in effect for existing customers until both parties agree to an alternative profit sharing arrangement;

(d) Final Accounting and Reconciliation. Any final accounting and reconciliation shall be done in accordance with the requirements of this Agreement, including the verification and audit of records; and

4. Survival of Provisions. The provisions of this Section, Section II.F. (Usage Reports and User Data), Section II.D. (Trademark Ownership and License), Section IV.L. (Confidentiality), Section IV.I.4. (Warranty), Section IV.J. (Indemnity), Section IV.H. (Insurance), Section IV.K. (Limitation of Liability) and Section IV.F. (Dispute Resolution) will survive any termination or expiration of this Agreement.

#### D. EXCLUSIVITY

1. Except as provided herein and other than existing ventures or business on the date hereof, during the term of this Agreement, both parties agree to engage in no new ventures or businesses with third

parties in the Unbanked Market;

2. The exclusivity agreement contained in Section IV.D.1. above shall remain in effect until the following event occurs:

(a) If Capital One should have an offer of an opportunity in the Unbanked Market, it shall provide 90 days advance written notice to HDI of the intended date of its binding agreement (or similar) to pursue such opportunity, with such notice containing sufficient detail to enable HDI to construe its competitive effect upon HDI in its agreement with Capital One to pursue the Unbanked Market hereunder; and

(b) HDI, in its sole discretion, shall have the right and option to permit Capital One to proceed with such third party opportunity upon

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terms and conditions acceptable to HDI hereunder and this Agreement will be amended to permit such activity upon mutually agreeable terms; provided, however, if HDI chooses not to permit such activity or amendment of this Agreement, it shall declare such third party activity to be directly competitive and the parties hereto shall declare a termination of the exclusivity agreement between them, enabling each of HDI and Capital One to pursue new ventures or businesses in the Unbanked Market.

E. CUSTOMER DATA AND CAPITAL ONE MARKETING TO HDI CUSTOMERS

1. Except as set forth in Section III.D.2 below with respect to Unbanked Consumers who become Program card members, all HDI Customer Data shall be deemed proprietary and confidential and subject to the confidentiality provisions of this Agreement set forth in Section IV.L. below and shall be and/or shall remain the property of HDI. However, Capital One may use the information for internal purposes to market financial services and other Capital One products using HDI Customer Data provided that such products and services do not directly compete with HDI products and services.

(a) "competitive products and services" shall be as defined on Appendix 2 attached hereto and made a part hereof;

(b) All such HDI Customer Data shall not be disclosed by Capital One on an individual customer level to any third party for any purpose, by sale, rental, gift, or otherwise, without HDI's prior written consent, nor used by Capital One itself

for any purpose other than for the purposes of carrying out its obligations under this Agreement and except as provided herein, except with respect to Capital One's standard industry credit reporting practices which Capital One is required to make in the ordinary course of its business. Any breach of the terms of this section may cause irreparable harm to HDI and in the event of any breach or threatened breach, HDI shall be entitled to injunctive relief in addition to any other available remedy.

2. Unbanked Consumers. For Unbanked Consumers approved by Capital One for a Program credit card account, HDI and Capital One shall both have unencumbered rights to the customer and may use, sell, transfer, or exchange such customer names and data in the same manner as for its non-credit card program customers, including but not limited to its discount buying club members;

3. Capital One understands that HDI makes a privacy pledge to its customers. Except with respect to Capital One's standard industry credit reporting practices which Capital One is required to make in the ordinary course of its business, Capital One shall not promote, sell, or transfer the HDI Customer Data if HDI informs Capital One that such customer has opted out of such promotion, sale, or transfer; and

4. Capital One and HDI agree to be in full compliance with all such laws and regulations applicable to each of the parties respectively, which may be in effect from time to time.

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5. During the Term, Capital One and HDI agree to work together to ensure that customers do not from time to time receive competing offers for products or services at the same time.

#### F. DISPUTE RESOLUTION

1. Disputes Regarding Intellectual Property and/or Confidentiality. The parties agree that any breach of either of the parties' obligations regarding the Marks and/or confidentiality would result in irreparable injury for which there is no adequate remedy at law. Therefore, in the event of any breach or threatened breach of a party's obligations regarding the Marks or confidentiality, the aggrieved party will be entitled to seek equitable relief in addition to its other available legal remedies in a court of competent jurisdiction.

2. All Other Disputes. In the event of disputes between the parties

arising from or concerning in any manner the subject matter of this Agreement, other than disputes arising from or concerning the Marks and/or confidentiality,

(a) the parties will first attempt to resolve the dispute(s) through good faith negotiation. In the event that the dispute(s) cannot be resolved through good faith negotiation, the parties will refer the dispute(s) to a mutually acceptable mediator for hearing in a mutually agreed-upon neutral county.

(b) in the event such disputes cannot be resolved through good faith negotiation and mediation, the parties will refer the dispute(s) to the American Arbitration Association for resolution through binding arbitration by a single arbitrator pursuant to the American Arbitration Association's rules applicable to commercial disputes. The arbitration will be held in a mutually agreed-upon neutral county.

3. Customer Disputes. For customer disputes, HDI and Capital One agree to use the standard dispute resolution procedures as outlined in the Visa/MasterCard merchant agreements unless otherwise required by Applicable Law.

G. GENERAL MANAGEMENT

1. Each of HDI and Capital One hereby agrees to appoint a general manager or liaison of its own (each, a "Liaison") for the purposes of managing, staffing, overseeing, and bearing responsibility for the business operations of the Program on a day-to-day basis. The Liaison shall be an employee of the respective party in the offices of such party. Each of the parties has appointed its Liaison prior to the execution of this Agreement. They are as follows:

For HDI:

Primary Liaison: Richard Hoffmann, Chief Marketing Officer

Alternate Liaison: Peter Bather, Vice President Corporate Marketing

For Capital One:

Primary Liaison: Scott Barton, Director, Partnership Finance

Alternate Liaison: Tony Santillo, Manager, Partnership Finance

2. Each Liaison shall have the authority to make or convey decisions

on behalf of the respective party and to be the liaison with the other party for all production and content matters.

3. Each Liaison shall cause there to be kept complete and accurate books and records of all Program transactions of such party with respect to its activities.

4. Each party shall have the right to examine or appoint an independent certified public accountant to examine and audit, at the expense of such party, not more than once a year, during normal business hours, all records and accounts as may contain information bearing upon the Program transactions maintained by the other party. If such audit uncovers a deficiency in accounting of greater than ten percent (10%), then the audited party shall immediately reimburse the auditing party for the costs of such audit, which it has reasonably verified.

#### H. INSURANCE

1. Capital One. Capital One shall have and continue to keep in force for the Term of this Agreement, (i) full general liability insurance coverage with a broad form vendor endorsement, in amounts not less than \$1 million per occurrence and \$2 million in the aggregate and (ii) full advertising injury liability insurance coverage for errors and omissions relating to advertising claims for the Program credit cards with the same limits of coverage. This general liability and errors and omissions insurance coverage will list HDI as an additional named insured, and will provide that the coverage will not be modified or terminated without at least 30 days prior written notice to HDI. Within thirty (30) days of execution of this Agreement, Capital One shall provide HDI with a certificate evidencing such insurance coverage.

2. HDI. HDI shall have and continue to keep in force for the life of this Agreement, (i) full product liability insurance coverage with a broad form vendor endorsement, in amounts not less than \$1 million per occurrence and \$2 million in the aggregate and (ii) full advertising injury liability insurance coverage for errors and omissions relating to advertising claims for the Program catalogs with the same limits of coverage. This product liability insurance coverage will list Capital One Services, Inc. ("COS") and Capital One Bank ("COB"), jointly and severally, as an additional named insured, and will provide that the coverage will not be modified or terminated without at least 30 days prior written notice to Capital One. Within thirty (30) days of execution of this Agreement, HDI shall provide to Capital One a certificate evidencing such insurance coverage.

#### I. REPRESENTATIONS AND WARRANTIES

1. By Capital One.

(a) COSI. COSI represents and warrants to HDI that: (i) it is a corporation organized, validly existing and in good standing under the laws of the State of Delaware; (ii) it has the full right, power and authority to enter into, and to perform the obligations contemplated in, this Agreement, and the person signing on its behalf has the full right, power and authority to enter into this Agreement on behalf of COSI; (iii) the Agreement constitutes a legal, valid and binding obligation of COSI,

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enforceable in accordance with its terms except as such enforcement may be limited by bankruptcy, insolvency, reorganization, moratorium and other laws relating to or affecting creditors' rights generally and by general principles of equity; and (iv) the execution of this Agreement will not conflict in any way with any pre-existing agreements of COSI with any other person or entity.

COSI represents and warrants further as follows:

(b) None of the execution and delivery of this Agreement, the performance by COS of its obligations hereunder nor the consummation of the transactions contemplated by this Agreement will conflict with, or result in a breach of the terms, conditions, or provisions of, or constitute a default under, and no condition exists that with notice or the lapse of time or both would constitute a violation or default under, or result in the violation or acceleration of, COS's charter or bylaws, or their equivalent, or any agreement, order, award, judgment, decree, statute, law, rule, regulation or any other instrument to which COS is a party or by which it or its properties may be bound. COS is not subject to any agreement with any regulatory authority which would prevent the consummation by COS of the transactions contemplated by this Agreement.

(c) Except for those consents, licenses, permits, approvals, authorizations, notices, reports, registrations, filings or declarations which have been obtained or made no consent of any Person (including, without limitation, any stockholder or creditor of COS) and no consent, license, permit or approval or authorization or exemption by notice of or report to, or registration, filing or declaration with, any Competent Authority is required in connection with the execution or delivery of this Agreement by COS, the validity of this

Agreement with respect to COS, the enforceability of this Agreement against COS, consummation by COS of the transactions contemplated hereby, or the performance by COS of its obligations hereunder.

(d) There is no claim, action, suit, trial, demand, arbitration, governmental investigation or other proceeding (whether or not purportedly on behalf of COS or its Affiliates) (an "Action") pending, threatened against or involving COS or any of the Purchased Accounts, which: (i) might adversely affect the Purchased Accounts or COS's ability to consummate the transactions contemplated by this Agreement; (ii) questions the validity of this Agreement or (iii) seeks to prohibit, enjoin, recover damages or otherwise challenge any of the transactions contemplated in this Agreement and, to the best of COS's knowledge and information, no facts exist which would provide a basis for an Action.

(2) COB represents and warrants as follows:

(a) COB. COB represents and warrants to HDI that: (i) it is a banking corporation organized, validly existing and in good standing under the laws of the Commonwealth of Virginia; (ii) it has the full right, power and authority to enter into, and to perform the obligations contemplated in, this Agreement, and the person signing on its behalf has the full right, power and authority to enter into this Agreement on behalf of

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COB; (iii) the Agreement constitutes a legal, valid and binding obligation of COB, enforceable in accordance with its terms except as such enforcement may be limited by bankruptcy, insolvency, reorganization, moratorium and other laws relating to or affecting creditors' rights generally and by general principles of equity; and (iv) the execution of this Agreement will not conflict in any way with any pre-existing agreements of COB with any other person or entity.

(b) None of the execution and delivery of this Agreement, the performance by COB of its obligations hereunder nor the consummation of the transactions contemplated by this Agreement will conflict with, or result in a breach of the terms, conditions, or provisions of, or constitute a default under, and no condition exists that with notice or the lapse of time or both would constitute a violation or default under, or result in the violation or acceleration of, COB's charter

or bylaws, or their equivalent, or any agreement, order, award, judgment, decree, statute, law, rule, regulation or any other instrument to which COB is a party or by which it or its properties may be bound. COB is not subject to any agreement with any regulatory authority which would prevent the consummation by COB of the transactions contemplated by this Agreement.

(c) Except for those consents, licenses, permits, approvals, authorizations, notices, reports, registrations, filings or declarations which have been obtained or made, no consent of any Person (including, without limitation, any stockholder or creditor of COB) and no consent, license, permit or approval or authorization or exemption by notice of or report to, or registration, filing or declaration with, any Competent Authority is required in connection with the execution or delivery of this Agreement by COB, the validity of this Agreement with respect to COB, the enforceability of this Agreement against COB, consummation by COB of the transactions contemplated hereby, or the performance by COB of its obligations hereunder.

(d) There is no Action pending, threatened against or involving COB or any of the Purchased Accounts, which: (i) might adversely affect the Purchased Accounts or COB's ability to consummate the transactions contemplated by this Agreement; (ii) questions the validity of this Agreement or (iii) seeks to prohibit, enjoin, recover damages or otherwise challenge any of the transactions contemplated in this Agreement and, to the best of COB's knowledge and information, no facts exist which would provide a basis for an Action.

### 3. By HDI.

(a) HDI represents and warrants to Capital One that: (i) it is a corporation organized, validly existing and in good standing under the laws of the State of Delaware; (ii) it has the full right, power and authority to enter into, and to perform the obligations contemplated in, this Agreement, and the person signing on its behalf has the full right, power and authority to enter into this Agreement on behalf of HDI; (iii) the Agreement constitutes a legal, valid and binding obligation of HDI, enforceable in accordance with its terms except as such enforcement may be limited by bankruptcy, insolvency, reorganization, moratorium and other laws relating to or affecting

creditors' rights generally and by general principles of equity; and (iv) the execution of this Agreement will not conflict in any way with any pre-existing agreements or understandings of HDI with any other person or entity, including GECC.

- (b) It has received any consents, approvals or other agreements of GECC necessary to perform the conversion of the Existing Portfolio to Capital One.
- (c) None of the execution and delivery of this Agreement, the performance by HDI of its obligations hereunder nor the consummation of the transactions contemplated by this Agreement will conflict with, or result in a breach of the terms, conditions, or provisions of, or constitute a default under, and no condition exists that with notice or the lapse of time or both would constitute a violation or default under, or result in the violation or acceleration of, HDI's charter or bylaws, or their equivalent, or any agreement, order, award, judgment, decree, statute, law, rule, regulation or any other instrument to which HDI is a party or by which it or its properties may be bound. HDI is not subject to any agreement with any regulatory authority which would prevent the consummation by HDI of the transactions contemplated by this Agreement.
- (d) Except for those consents, licenses, permits, approvals, authorizations, notices, reports, registrations, filings or declarations which have been obtained or made, no consent of any Person (including, without limitation, any stockholder or creditor of HDI) and no consent, license, permit or approval or authorization or exemption by notice of or report to, or registration, filing or declaration with, any Competent Authority is required in connection with the execution or delivery of this Agreement by HDI, the validity of this Agreement with respect to HDI, the enforceability of this Agreement against HDI, consummation by HDI of the transactions contemplated hereby, or the performance by HDI of its obligations hereunder.
- (e) There is no Action pending, threatened against or involving HDI or any of the Purchased Accounts, which:
  - (i) might adversely affect the Purchased Accounts or HDI's ability to consummate the transactions contemplated by this Agreement;
  - (ii) questions the validity of this Agreement or
  - (iii) seeks to prohibit, enjoin, recover damages or otherwise challenge any of

the transactions contemplated in this Agreement and, to the best of HDI's knowledge and information, no facts exist which would provide a basis for an Action.

(f) Purchased Accounts

- (i) All of the Purchased Accounts were validly and lawfully established, and remain currently open and eligible for charging.
- (ii) Except as set forth on Schedule 3 hereto, neither HDI nor any predecessor of HDI has charged off any loan or portion thereof with respect to any Purchased Account.

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- (iii) To the knowledge of HDI, none of the Purchased Accounts: (1) has a non-U.S. address; (2) has a returned mail (RM) status; (3) has a deceased account holder status; (4) is a fraudulent account, (5) is a re-aged or re-affirmed account; (6) is a bankrupt account, (7) is securitized or has otherwise been sold by HDI; (8) is a co-brand or affinity account or contains any brand name other than that of Seller; or (9) is currently the subject of any litigation or other Action.

(g) Immediately prior to and at the Closing, HDI will hold good and unencumbered title to, and will be the sole owner of, the Purchased Accounts and at Closing shall transfer to Capital One good and valid title to the Purchased Accounts free and clear of all Encumbrances. Immediately prior to and at the Closing, each Existing Portfolio Account Contract will be freely assignable by HDI, and the assignment of such Existing Portfolio Account Contract shall not require the approval of the account holder or any other third party.

(h) Validity of Accounts.

- (i) HDI has no actual knowledge pursuant to information provided by GECC, which would lead it to believe that any Existing Portfolio Account Contract is not the legal, valid and binding obligation of the account holder enforceable against such account holder in accordance with its terms under the applicable laws of the state of Delaware (except as such enforcement may be limited by bankruptcy, insolvency, reorganization,

moratorium and other laws relating to or affecting creditors' rights generally and by general principles of equity) and, upon consummation of the transactions contemplated hereby, Capital One shall possess the rights and obligations of lender to the Purchased Accounts held by HDI immediately prior to Closing.

(ii) HDI has no actual knowledge pursuant to information provided by GECC, which would lead it to believe that either HDI or any account holder of a Purchased Account has breached, closed, canceled or otherwise terminated any Existing Portfolio Account Contract, and each Existing Portfolio Account Contract has been and remains in full force and effect. Except for the receipt by HDI of a waiver delivered by GECC, HDI has not received notice of any account holder's intention to cancel an Existing Portfolio Account Contract.

(iii) HDI has no actual knowledge pursuant to information provided by GECC, which would lead it to believe that either HDI or any account holder is in violation of, or in default under, and no condition exists that with notice or lapse of time or both would constitute a violation or default under, any Existing Portfolio Account Contract.

(iv) HDI has no actual knowledge pursuant to information provided by GECC, which would lead it to believe otherwise than that (1) no proceeding has been instituted by or against any account holder of a Purchased Account seeking to adjudicate

such account holder a bankrupt or insolvent; (2) no receiver or trustee has been appointed for an account holder of a Purchased Account and (3) no account holder of a Purchased Account has made an assignment for the benefit of its creditors, or is generally unable to pay its debts as they become due.

(i) The solicitation, origination and administration by HDI of the Purchased Accounts has been in compliance with all Applicable Laws.

(j) HDI has filed all Tax Returns required to be filed on or before the date hereof, if any, with respect to the Purchased Accounts within the time prescribed by law (including

extensions of time approved by the appropriate taxing authority). The Tax Returns so filed are complete and accurate representations of the Tax liabilities of HDI in all material respects and such Tax Returns accurately set forth or will accurately set forth in all material respects all items to the extent required to be reflected or included in such Tax Returns.

(k) The Existing Portfolio Account Information and all information generated or provided by HDI to Capital One in connection with Capital One's due diligence or otherwise is now, and was at the time such information was provided, true, complete and accurate in all material respects.

4. DISCLAIMER OF WARRANTY EXCEPT AS SPECIFIED IN THIS AGREEMENT, NEITHER PARTY MAKES ANY WARRANTY IN CONNECTION WITH THE SUBJECT MATTER OF THIS AGREEMENT AND HEREBY DISCLAIMS ANY AND ALL IMPLIED AND EXPRESS WARRANTIES, INCLUDING ALL IMPLIED WARRANTIES OF MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE, ACCURACY, AND RELIABILITY REGARDING SUCH SUBJECT MATTER.

#### J. INDEMNIFICATION

1. Indemnification by Capital One. Capital One shall defend, indemnify and hold harmless HDI, its subsidiaries and affiliated companies and their respective officers, directors, shareholders, partners, employees, licensees, agents, successors and assignees from and against any and all liabilities, losses and expenses whatsoever, including without limitation claims, damages, judgments, awards, settlements, investigations, costs and expenses (including without limitation reasonable attorneys fees and disbursements) ("Claims") which any of them may incur or become obligated to pay arising out of or resulting from: (i) advertising and promotion of the Capital One credit card, except to the extent that such advertising was expressly approved upon review by HDI or its legal counsel; (ii) Capital One services provided pursuant to this Agreement; (iii) any Claim that Capital One infringes or violates any third party's copyright, patent, trade secret, trademark, right of publicity or right of privacy or contains any defamatory content; (iv) any breach by Capital One of any of its representations, warranties, covenants or obligations under this Agreement; (v) the acts or omissions of its employees, subcontractors, and agents in the performance of their obligations in connection with this Agreement; or (vi) any errors caused by Capital One's transaction data systems, including but not limited to errors in the amounts of money to be collected for merchandise, insurance, or delivery charges, and

errors regarding the correct calculation, collection, and refund of payments by customers except to the extent caused by HDI negligence.

2. Indemnification by HDI. HDI shall defend, indemnify and hold harmless Capital One, jointly and severally, its parent, subsidiary and affiliated companies and their respective officers, directors, shareholders, partners, employees, licensees, agents, successors and assignees from and against any and all Claims which any of them may incur or become obligated to pay arising out of or resulting from (i) advertising and promotion of the Program card, except to the extent that such advertising was expressly approved upon review by Capital One or its legal counsel; (ii) HDI services provided pursuant to this Agreement; (iii) any alleged defects in, or product liability Claims involving HDI merchandise; (iv) any Claim that HDI infringes or violates any third party's copyright, patent, trade secret, trademark, right of publicity or right of privacy or contains any defamatory content; (v) any breach by HDI of any of its representations, warranties, covenants or obligations under this Agreement; or (vi) the acts or omissions of its employees, subcontractors, and agents in the performance of their obligations in connection with this Agreement; or (vii) any errors caused by HDI's transaction data systems, including but not limited to errors in the amounts of money to be collected for merchandise, insurance, or delivery charges, and errors regarding the correct calculation, collection, and refund of payments by customers except to the extent caused by Capital One negligence.

3. Indemnification Procedure. Either party seeking indemnification under subsection (a) or (b) immediately above (the "Indemnitee") shall give the party from which indemnification is sought (the "Indemnitor") prompt notice of any claim for which indemnification is sought. The Indemnitor shall have control over the defense and settlement of any such claims, except that the prior written consent of the Indemnitee (which shall not be unreasonably conditioned, delayed, or withheld) shall be required for any settlement that does not involve only the payment of cash. To the extent reasonably requested by the Indemnitor, the Indemnitee shall cooperate in such defense, at the Indemnitor's cost and expense. The Indemnitee shall have the right to participate in the defense of any such claim at its own expense.

K. LIMITATION OF LIABILITY EXCEPT UNDER REPRESENTATIONS MADE BY EACH PARTY HEREUNDER IN NO EVENT WILL EITHER PARTY BE LIABLE TO THE OTHER WITH RESPECT TO THE SUBJECT MATTER OF THIS AGREEMENT UNDER CONTRACT, TORT (INCLUDING NEGLIGENCE), STRICT LIABILITY OR ANY OTHER LEGAL OR EQUITABLE THEORY, WHETHER OR NOT THAT PARTY HAS BEEN ADVISED OF THE POSSIBILITY OF SUCH DAMAGE (I) FOR ANY INCIDENTAL OR CONSEQUENTIAL DAMAGES OR LOST PROFITS; OR (II) IN ANY CASE, FOR ANY AMOUNTS IN EXCESS OF THE FEES PAID TO EACH OF THE PARTIES HEREUNDER DURING THE TWELVE MONTH PERIOD PRIOR TO

L. CONFIDENTIAL INFORMATION

1. Each party agrees that all information conveyed by any party to the other party relating to the disclosing party's business, whether or not designated by the disclosing party as proprietary and confidential, including without limitation the terms of this Agreement, customer lists, merchandise, marketing techniques, sales information, credit information, all code, inventions, algorithms, know-how and ideas and all other business, technical and financial information, and

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including all items defined as "Confidential Information" in the Confidentiality Agreement between the parties dated as of September 15, 1998, attached hereto as Appendix 2, and made a part hereof, shall be subject to that certain Confidentiality Agreement as provided therein.

2. Except as such terms and conditions were and are required to be submitted in whole or in extracted form to GECC, as agreed between the parties, for its consideration in connection with its right of first refusal contained in the agreement between HDI and GECC, the terms and conditions of this Agreement, the letter of intent between the parties dated as of December 23, 1998, and information contained in usage reports shall be deemed the Confidential Information of each party, subject to that Confidentiality Agreement dated as of September 15, 1998 between the parties, and shall not be disclosed without the written consent of the other party.

3. Existence of this Agreement / Publicity. Notwithstanding any Section above, except as provided by law, neither party to this Agreement shall refer to the existence of this Agreement or its business relationship with the other party by virtue of this Agreement in any press release, advertising or materials distributed to prospective customers without the prior written consent of the other party.

M. NOTICES Any notice under this Agreement shall be in writing and delivered by personal delivery, express courier, confirmed facsimile, confirmed email or certified or registered mail, return receipt requested, and will be deemed given upon personal delivery, one (1) day after deposit with express courier, upon confirmation of receipt of facsimile or email or five (5) days after deposit in the mail. Notices will be sent to a party at its address set forth below or such other address as that party may specify in writing pursuant to this Section.

1. All notices to HDI shall have a copy delivered to its counsel at Brown Raysman Millstein Felder & Steiner, LLP, CityPlace I, 185 Asylum Street, 37th Floor, Hartford, CT 06103, Attention: Monte E. Wetzler, Esq., Telecopier 860-275-6410.

2. All notices to Capital One shall have a copy delivered to its counsel at Capital One Financial Corporation, 2980 Fairview Park Drive, Suite 1300, Falls Church, VA 22042, Attention: Frank R. Borchert, III, Telecopier 703-205-1094.

N. ASSIGNMENT

1. Except as provided in subsection 2 below, no party may, without the other party's written consent (which consent shall not be unreasonably withheld), assign, sublicense, encumber, pledge or otherwise transfer its rights and obligations under this Agreement, in whole or in part, and especially in connection with a merger, reorganization or sale of all, or substantially all, of such party's assets;

- (a) this Agreement and the respective duties and responsibilities of the parties hereunder may not be assigned, in whole or in part, without the prior written consent of the other parties except to a Related Company. "Related Company" means (i) a company of which more than 50% of the Voting Shares or Voting Interests are owned by a party, (ii) a company that owns or controls, directly or indirectly, more than 50% of the Voting Shares or Voting Interests of a party, or (iii) a

company of which more than 50% of the Voting Shares or Voting Interests are under common control or ownership, directly or indirectly, with the Voting Shares or Voting Interests of a party. "Voting Shares" or "Voting Interests" (for non-corporate entities) means outstanding shares, interests, or securities representing the right to vote for the election of directors or other managing authority.

2. This Agreement may be assigned by either party, in whole or in part, as without the prior written consent of the other party, as long as

- (a) the assignee is not deemed a competitor with the other party, at the sole discretion of such other party; and

- (b) the assignment shall not be deemed to be in conflict with the provisions of any pre-existing agreement or any agreement in a stage of active negotiation, at the sole discretion of the other party; or
- (c) the assignment is to a wholly-owned subsidiary of such party or affiliate of a party's controlling (100%) owner.

3. Any attempt to assign or transfer this Agreement other than as permitted above will be null and void. This Agreement is binding on the parties and their respective successors and permitted assigns.

O. GOVERNING LAW

1. With regard to any disputes arising between the parties hereto, this Agreement shall be governed by and construed in accordance with the laws of the State of New York applicable to contracts made and to be performed within such state, notwithstanding the actual state or country of residence or incorporation of the parties which constitute Capital One, without regard to conflicts of laws principles. In any action to enforce rights under this Agreement, the prevailing party shall be entitled to recover costs and reasonable attorneys' fees.

2. With regard to any disputes arising between the parties hereto and any consumer, such dispute shall be governed by and construed in accordance with the laws of the Commonwealth of Virginia applicable to contracts made and to be performed within such state.

P. INTEGRATION / COSTS / SEVERABILITY

1. Entire Agreement. This Agreement is the complete and exclusive agreement between the parties with respect to the subject matter hereof, superseding any prior agreements and communications (both written and oral) regarding such subject matter. This Agreement may only be modified, or any rights under it waived, by a written document executed by both parties. The invalidity or unenforceability of any provision of this Agreement shall not affect the enforceability or validity of any other provision.

2. Costs. Each party shall bear its own costs and expenses in connection with the transactions contemplated hereby.

3. Severability. If any provision of this Agreement is declared invalid or otherwise determined to be unenforceable for any reason, such provision shall be

deemed to be severable from the remaining provisions of this Agreement, which shall otherwise remain in full force and effect.

4. Relationship of the Parties. The parties agree that in performing their responsibilities pursuant to this Agreement they are in the position of independent contractors. This Agreement is not intended to create, nor does it create and shall not be construed to create, a relationship of partner or joint venturer or any association for profit between and among COB, COSI and HDI.

Q. WAIVER OF BREACH. The failure of either party hereto at any time to enforce any of the provisions of this Agreement shall not be deemed or construed to be a waiver of any such provisions, or in any way to affect the right of any party hereto to thereafter enforce each and every provision of this Agreement. No waiver of any breach of any provisions of this Agreement shall be effective unless set forth in a written instrument executed by the party against which enforcement of such waiver is sought; and no waiver of any such breach shall be construed or deemed to be a waiver of any other or subsequent breach.

R. FORCE MAJEURE. Any delay in or failure of performance by either party of its obligations under this Agreement will not be considered a breach of this Agreement and will be excused to the extent caused by any occurrence beyond the fault or reasonable control of such party including, but not limited to acts of "Force Majeure". "Force Majeure" shall mean any reason which is beyond any party's control, such as boycotts, war, acts of God, labor troubles, strikes, restraints of public authority, or any similar occurrence in which a party is prevented from having another party render its services hereunder or if a party is prevented from utilizing another party's transaction systems, processing systems, supply systems, reporting systems for a time.

S. FURTHER ASSURANCES. The parties agree to execute and deliver, or to cause to be executed and delivered, such further instruments or documents, and to take such other action, as may be reasonably required to carry out the transactions contemplated by this Agreement, in each case provided the same do not impose any additional liabilities or material obligations upon the other party.

T. NO EXCLUSIVE COMMITMENT. Capital One, on the one hand, and HDI, on the other hand, shall have no obligation to perform any services for or as agent of the other party other than as specifically provided for in this Agreement unless mutually agreed by the parties. Except as herein otherwise provided, each party and any Affiliate thereof may engage in any other business activities as it may in its sole discretion determine during the Term of this Agreement and any renewals thereof, including without limitation any solicitation, notwithstanding that such activities may be similar to and competitive with the activities of another party, provided that no such activity causes a breach of such party's obligations

under this Agreement.

U. PERFORMANCE BY SUBSIDIARY. HDI may cause any or all of its obligations or duties to be performed by, or grant any of its rights to, any majority owned subsidiary of HDI, which subsidiary, for the purpose of such obligation, duty or right, shall be considered to be "HDI" as set forth in this Agreement; provided that HDI shall continue to be responsible for and guarantee the performance of all obligations hereunder.

V. COUNTERPARTS This letter may be executed by the parties hereto in separate counterparts, which, taken together, shall constitute one and the same agreement.

IN WITNESS WHEREOF, the parties have caused this Account Purchase & Credit Card Marketing & Services Agreement to be duly executed effective as of the date first above written.

HANOVER DIRECT, INC.

CAPITAL ONE SERVICES, INC.

By: /s/ Larry Svoboda

By: /s/ Scott Barton

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Larry Svoboda  
Chief Financial Officer  
March 9, 1999

Scott Barton  
Director, Partnerships  
Date: March 9, 1999

1500 Harbor Boulevard  
Weehawken, New Jersey 07087  
201-272-3389 (voice)  
201-272-3270 (fax)

11013 West Broad Street  
Glen Allen, Virginia 23060  
804-967-1605 (voice)  
804-967-8012 (fax)

CAPITAL ONE BANK

By: /s/ Scott Barton

-----

Scott Barton  
Director, Partnerships  
Date: March 9, 1999

11013 West Broad Street  
Glen Allen, Virginia 23060  
804-967-1605 (voice)  
804-967-8012 (fax)

Attachments:

Appendix 1: Confidentiality Agreement dated as of September 15, 1998  
[previously executed]

Appendix 2: Definition of "competitive products and services"

Exhibit A: Data Mapping Information

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APPENDIX 1

Confidentiality Agreement dated as of September 15, 1998

[To be added in conformed version]

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APPENDIX 2

"competitive products and services" shall be defined herein to include:

the following product categories:

Bedding  
Bath  
Furniture covers  
Window treatments  
Furniture  
Furnishings (wall decor, rugs, accents, clocks etc.)  
Lighting  
Floor covering  
Housewares  
Table Linens  
Tabletop (dinnerware, flatware)  
Food prep (cookware, bakeware, gadgets, small electric, etc.)  
Christmas decorations  
Apparel (mens, womens, kids, accessories)  
Books  
Storage  
Personal care  
Home office  
Cleaning supplies (other household chemicals)  
Appliances  
Pet products  
Automotive products  
Cleaning equipment  
Tools

Lawn and Garden  
Safety/security  
Hardware  
Collectibles  
Jewelry  
Watches  
Sporting Goods  
Electronics

In addition, the following services:

Magazine offers  
Buyer clubs

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### APPENDIX 3

#### Charged-Off Purchased Accounts

[To be added by the Parties at closing]

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### EXHIBIT A

[List of Accounts of Existing Portfolio]

[To be added by the Parties at closing]

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### Exhibit B

[Data Mapping Information]

[To be added by the Parties at closing]

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## SUBSIDIARIES OF THE REGISTRANT

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COMPANY	INCORPORATION
-----	-----
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American Down & Textile Company.....	Wisconsin
Brawn of California, Inc. ....	California
Company Store Holdings, Inc.....	Delaware
Gump's By Mail, Inc.....	Delaware
Gump's Corp.....	California
Hanover Direct Pennsylvania, Inc. ....	Pennsylvania
Hanover Direct Virginia, Inc. ....	Delaware
LWI Holdings, Inc.....	Delaware
Scandia Down Corporation.....	Delaware
Hanover Holding Corp. ....	Delaware
Gump's, Holdings, Inc. ....	Delaware
D.M. Advertising, Inc. ....	New Jersey
Hanover Realty, Inc. ....	Virginia
The Company Store Factory, Inc.....	Delaware
The Company Office, Inc. ....	Delaware
Austad Holdings, Inc.....	Delaware
The Austad Company.....	South Dakota
Colonial Garden Kitchens, Inc.....	Delaware
Keystone Fulfillment, Inc.....	Delaware
Silhouettes, LLC.....	Delaware
Tweeds, LLC.....	Delaware
Hanover Women's Apparel, LLC.....	Delaware
Hanover Home Fashion Group, LLC.....	Delaware
Domestications, LLC.....	Delaware
Hanover Company Store, LLC.....	Delaware
The Horn & Hardart Company, Inc.....	New York
Aegis Catalog Corporation.....	Delaware
Aegis Retail Corporation.....	Delaware

&lt;/TABLE&gt;

## CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation of our reports included in this Form 10-K, into The Horn & Hardart Company's (predecessor to Hanover Direct, Inc.) previously filed Registration Statement File Nos. 33-66394, 33-58760, 33-58756, 33-58758, 33-52687, 33-52059, 33-52061, 333-3871, 333-13817, 2-94286 and 2-92383. It should be noted that we have not audited any financial statements of the company subsequent to the date of our report.

ARTHUR ANDERSEN LLP

New York, New York  
March 26, 1999

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THE SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE HANOVER DIRECT, INC. AND SUBSIDIARIES CONDENSED CONSOLIDATED BALANCE SHEETS AND STATEMENTS OF INCOME FOR THE TWELVE MONTHS ENDED DECEMBER 26, 1998 AND IS QUALIFIED IN IT ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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