FORM S-3

Registration statement for specified transactions by certain issuers

Filing Date: **1994-01-07**
SEC Accession No. 0000950150-94-000012

FILER

CARTER HAWLEY HALE STORES INC /DE/

CIK:**750217**| IRS No.: **940457907** | State of Incorp.:**DE** | Fiscal Year End: **0202**
Type: **S-3** | Act: **33** | File No.: **033-51847** | Film No.: **94500752**
SIC: **5311** Department stores

Business Address
3880 N MISSION RD
LOS ANGELES CA 90031
2132272000

AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON JANUARY 7, 1994

REGISTRATION NO. 33-

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM S-3
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

CARTER HAWLEY HALE STORES, INC.
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

<TABLE>
<S> <C>

DELAWARE	94-0457907
(STATE OF INCORPORATION)	(I.R.S. EMPLOYER IDENTIFICATION NO.)

</TABLE>

3880 NORTH MISSION ROAD
LOS ANGELES, CALIFORNIA 90031
(213) 227-2000
(ADDRESS, INCLUDING ZIP CODE, AND TELEPHONE NUMBER, INCLUDING AREA CODE, OF REGISTRANT'S PRINCIPAL EXECUTIVE OFFICES)

MARC E. BERCOON, ESQ., GENERAL COUNSEL AND CORPORATE SECRETARY
CARTER HAWLEY HALE STORES, INC.
3880 NORTH MISSION ROAD
LOS ANGELES, CALIFORNIA 90031
(213) 227-2000
(NAME, ADDRESS, INCLUDING ZIP CODE, AND TELEPHONE NUMBER, INCLUDING AREA CODE, OF AGENT FOR SERVICE)

It is requested that copies of communications be sent to:

<TABLE>
<S> <C>

ERIC H. SCHUNK, ESQ.	SANDRA A. SEVILLE-JONES, ESQ.
MILBANK, TWEED, HADLEY & MCCLOY	MUNGER, TOLLES & OLSON
601 SO. FIGUEROA STREET, SUITE 3000	355 SO. GRAND AVENUE
LOS ANGELES, CALIFORNIA 90017	LOS ANGELES, CALIFORNIA 90071
(213) 892-4000	(213) 683-9100

</TABLE>

APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALES TO THE PUBLIC: AT SUCH TIME OR TIMES ON AND AFTER THE EFFECTIVE DATE OF THIS REGISTRATION STATEMENT AS THE SELLING HOLDERS MAY DETERMINE.

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

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

CALCULATION OF REGISTRATION FEE

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

TITLE OF CLASS OF SECURITIES TO BE REGISTERED	AMOUNT TO BE REGISTERED	PROPOSED MAXIMUM OFFERING PRICE PER UNIT(1)	PROPOSED MAXIMUM AGGREGATE OFFERING PRICE(1)	AMOUNT OF REGISTRATION FEE
6 1/4% Convertible Senior Subordinated Notes due 2000	$143,750,000	100%	$143,750,000	$49,569.31

</TABLE>

Common Stock, par value $0.01 per share(2).....	11,792,453	--	--	--

</TABLE>

(1) Estimated solely for the purpose of calculating the registration fee, pursuant to Rule 457 (i) of Regulation C under the Securities Act of 1933.

(2) Such number represents the number of shares of Common Stock as are initially issuable upon conversion of the 6 1/4% Convertible Senior Subordinated Notes due 2000 registered hereby and, pursuant to Rule 416 under the Securities Act of 1933, such indeterminate number of shares of Common Stock as may be issued from time to time upon conversion of the Notes by reason of adjustment of the conversion price in certain contingencies outlined in the Prospectus.

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

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

SUBJECT TO COMPLETION DATED JANUARY 7, 1994

PROSPECTUS

$143,750,000 [LOGO]

CARTER HAWLEY HALE STORES, INC.
6 1/4% CONVERTIBLE SENIOR SUBORDINATED NOTES DUE 2000

This Prospectus relates to the 6 1/4% Convertible Senior Subordinated Notes due 2000 (the "Notes") of Carter Hawley Hale Stores, Inc. (the "Company") and the shares of the Company's common stock, par value $.01 per share ("Common Stock"), issuable upon conversion of the Notes. The Notes were issued and sold on December 21, 1993 (the "Original Offering"), in a transaction exempt from the registration requirements of the Securities Act of 1933, as amended (the "Securities Act"), to persons reasonably believed by the initial purchaser of the Notes to be "qualified institutional buyers" (as defined by Rule 144A under the Securities Act), other institutional "accredited investors" (as defined in Rule 501(a)(1), (2), (3) or (7) under the Securities Act) or in transactions complying with the provisions of Regulation S under the Securities Act. The Notes and the Common Stock issuable upon conversion thereof may be offered and sold from time to time by such holders or by their transferees, pledgees, donees or their successors (collectively, the "Selling Holders") pursuant to this Prospectus. The Registration Statement of which this Prospectus is a part has been filed with the Securities and Exchange Commission pursuant to a registration rights agreement entered into in connection with the Original Offering.

The Notes will mature on December 31, 2000. Interest on the Notes will be paid semi-annually on December 31 and June 30 of each year, commencing June 30, 1994. The Notes are convertible at the option of the holder thereof at any time after 90 days following the date of original issuance thereof and prior to maturity, unless previously redeemed, into shares of Common Stock of the Company, at a conversion price of $12.19 per share, subject to adjustment in certain events. On January 6, 1994, the last reported sale price of the Company's Common Stock on the New York Stock Exchange (symbol "CHH") was $9.00 per share.

The Notes are redeemable at the option of the Company, in whole or in part, at any time on and after December 31, 1998, at a redemption price equal to 100% of the principal amount thereof, together with accrued and unpaid interest. The Notes do not provide for any sinking fund. Upon a Change in Control (as defined), holders of the Notes will have the right, subject to certain restrictions and conditions, to require the Company to purchase all or any part of the Notes at the principal amount thereof together with accrued and unpaid interest to the date of purchase.

The Notes are unsecured obligations of the Company and (i) are subordinate in

right of payment to all existing and future Senior Debt (as defined) of the Company and (ii) rank pari passu in right of payment with all existing and future Senior Subordinated Indebtedness (as defined). On January 1, 1994, the Company had approximately $901.7 million of Senior Debt outstanding.

The Notes and the Common Stock issuable upon conversion of the Notes may be sold by the Selling Holders from time to time directly to purchasers or through agents, underwriters or dealers. See "Plan of Distribution." If required, the names of any such agents or underwriters involved in the sale of the Notes and the Common Stock issuable upon conversion of the Notes in respect of which this Prospectus is being delivered and the applicable agent's commission, dealer's purchase price or underwriter's discount, if any, will be set forth in an accompanying supplement to this Prospectus (the "Prospectus Supplement").

The Selling Holders will receive all of the net proceeds from the sale of the Notes and the Common Stock issuable upon conversion of the Notes and will pay all underwriting discounts and selling commissions, if any, applicable to the sale of the Notes and the Common Stock issuable upon conversion of the Notes. The Company is responsible for payment of all other expenses incident to the offer and sale of the Notes and the Common Stock issuable upon conversion of the Notes.

The Selling Holders and any broker-dealers, agents or underwriters which participate in the distribution of the Notes and the Common Stock issuable upon conversion of the Notes may be deemed to be "underwriters" within the meaning of the Securities Act, and any commission received by them or purchase by them of the Notes and Common Stock issuable upon conversion of the Notes at a price less than the initial price to the public may be deemed to be underwriting commissions or discounts under the Securities Act. See "Plan of Distribution" for a description of indemnification arrangements.

PROSPECTIVE INVESTORS SHOULD CAREFULLY CONSIDER MATTERS DISCUSSED UNDER THE CAPTION "INVESTMENT CONSIDERATIONS."

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

The date of this Prospectus is , 1994.

AVAILABLE INFORMATION

The Company is currently subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and in accordance therewith files reports, proxy statements, information statements and other information with the Securities and Exchange Commission ("the Commission"). Any reports, proxy statements, information statements and other information filed by the Company with the Commission may be inspected and copied at the public reference facilities maintained by the Commission at Room 1024, Judiciary Plaza, 450 Fifth Street, N.W., Washington, D.C. 20549, and at the Commission's Regional Offices located at Suite 1400, Northwestern Atrium Center, 500 West Madison Street, Chicago, Illinois 60661 and 13th Floor, Seven World Trade Center, New York, New York 10048, and copies of such material may also be obtained by mail from the Public Reference Section of the Commission at 450 Fifth Street, N.W., Washington, D.C. 20549, at prescribed rates.

The Company's Common Stock is listed on the New York Stock Exchange ("NYSE") and the Pacific Stock Exchange. The Company files the reports, proxy and information statements and other information described above with the NYSE, and such material may be inspected at the offices of the NYSE, 20 Broad Street, New York, New York 10005.

The Company has filed with the Commission a Registration Statement on Form S-3 (herein together with all amendments and exhibits thereto, called the "Registration Statement") under the Securities Act of 1933, as amended (the "Act") with respect to the securities offered by this Prospectus. This Prospectus does not contain all of the information set forth or incorporated by reference in the Registration Statement and the exhibits and schedules relating thereto, certain portions of which have been omitted as permitted by the rules and regulations of the Commission. For further information with respect to the Company and the securities offered by this Prospectus, reference is made to the Registration Statement and the exhibits filed or incorporated as a part thereof, which are on file at the offices of the Commission and may be obtained upon payment of the fee prescribed by the Commission, or may be examined without charge at the offices of the Commission. Statements contained in this Prospectus as to the contents of any documents referred to are not necessarily complete, and, in each such instance, are qualified in all respects by reference to the applicable documents filed with the Commission.

INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

The following documents filed by the Company with the Commission are hereby incorporated by reference into this Prospectus:

(a) The Company's Annual Report on Form 10-K for the fifty-two week period ended January 30, 1993, as amended by the Company's Annual Report on Form 10-K/A No. 1 dated May 14, 1993;

(b) The Company's Quarterly Reports on Form 10-Q for the thirteen-week period ended May 1, 1993, the thirteen-week period ended July 31, 1993, and the thirteen-week period ended October 30, 1993;

(c) The Company's Current Reports on Form 8-K, dated October 25, 1993, November 8, 1993 and December 21, 1993; and

(d) The description of the Common Stock of the Company contained in its Registration Statement on Form 8-A (File No. 1-8765), dated August 13, 1992, as amended by Amendment No. 1 on Form 8, dated September 10, 1992 and any amendment or report filed with the Commission for the purpose of updating such description.

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

The Company hereby undertakes to provide without charge to each person to whom a copy of this Prospectus has been delivered, on the written or oral request of any such person, a copy of any or all of the documents referred to above which have been or may be incorporated in this Prospectus by reference (other than certain exhibits). Requests for such copies should be directed to: Carter Hawley Hale Stores, Inc., 3880 North Mission Road, Los Angeles, California 90031. Attention: Marc E. Bercoon, Esq., telephone (213) 227-2000.

PROSPECTUS SUMMARY

The following summary is qualified in its entirety by the more detailed information contained elsewhere in this Prospectus, which should be read in its entirety. Prospective investors should carefully consider matters discussed under the caption "Investment Considerations." Unless the context otherwise requires, references to the "Company" include Carter Hawley Hale Stores, Inc. and its subsidiaries.

THE COMPANY

The Company is one of the leading operators of department stores in California and the Southwestern United States. Organized in 1896, the Company currently operates 83 department stores under the names The Broadway, Emporium and Weinstocks. The Company generates approximately 50% of its sales from Southern California, 40% of its sales from Northern California and 10% of its sales from four other states in the Southwest. The management of the Company (the "Management") believes the Company enjoys a number of significant strengths including convenient store locations, a loyal customer base and an advanced management information system. The Company emerged from bankruptcy, pursuant to a plan of reorganization on October 8, 1992. In July, 1993, the Company completed a public offering of the Company's Common Stock with net proceeds of $147.5 million. As of January 1, 1994, Zell/Chilmark Fund, L.P. ("Zell/Chilmark") owned approximately 54.5% of the outstanding Common Stock of the Company.

David L. Dworkin joined the Company as its President and Chief Executive Officer on March 24, 1993. Prior to joining the Company, he served as Chairman and Chief Executive Officer of London-based retailer BhS (British Home Stores), a division of Storehouse PLC ("Storehouse"), from November 1989 until July 1992, and as Group Chief Executive of Storehouse from July 1992 until joining the Company. During the time he was at BhS and Storehouse, BhS refocused its merchandise assortment, strengthened its merchandising organization, remodeled 64 of its 137 stores and substantially reduced its supplier base. Mr. Dworkin has in excess of 25 years experience in the retailing industry. In addition, as part of the process of building a strong management team, Mr. Dworkin has either hired or promoted six new senior executive officers since May 1993.

BUSINESS STRATEGY

Under David Dworkin's leadership, the Company has begun the process of transforming itself into a focused, value-oriented retail operation with a merchandising strategy and a customer base that reflects the demographic, ethnic and life-style diversity of California and the Southwest. Toward this goal, the Company is in the process of implementing, or has already implemented, strategies to improve the merchandise offerings, remodel the stores, improve inventory management, refocus marketing efforts, improve the selling culture and reduce costs. The specific strategies are described below.

Improve Merchandise Offerings: The Company is adjusting its merchandise assortments toward faster-turning, higher profit core merchandise categories which include women's and men's apparel, accessories, women's shoes, cosmetics and soft home goods. Management believes the Company's increased offering of private label products across the merchandise spectrum will enhance this strategy and assist the Company in differentiating both its product lines and its image in the marketplace. Furthermore, the Company's newly implemented everyday value pricing strategy currently offers over 17% of the Company's merchandise at "value" prices. Management believes this value image coupled with broad assortments in staple items, differentiation of the Company's product line, the rapid flow of merchandise to the selling floor and minimization of out-of-stock items allows the Company to present an authoritative and competitive merchandising image. During the second half of 1993, Mr. Dworkin recruited and put in place a new merchandising team of key executives in core business areas. Management expects that the Company will not realize the full benefits of its new merchandising strategy until 1994 and beyond.

Remodel the Stores: To create an appealing shopping environment, the Company intends to spend approximately $336 million on capital expenditures over the next three years, consisting of $276 million to remodel and/or reallocate space within at least 40 of its 83 stores and $60 million for maintenance capital expenditures. The goal of the remodeling program is to increase the space allocated to core merchandise, increase selling square footage, improve merchandise presentation and facilitate more efficient customer service, and modernize the stores. The Company began the remodeling program in 1993 by completing 58 quick-win capital investments at a cost of $17.4 million and investing an additional $12.5 million on new fixtures to enhance merchandising and displays. (Quick-win investments involve the installation of vendor shops and low cost upgrade and reallocation of selling space without significant relocation of walls and fixtures.) The Company also created a "model store" space distribution floor plan in concert with the new merchandising strategy. This space redistribution/remodel plan will be the foundation of the capital expenditure program and will be implemented in the Company's stores over the next three years in conjunction with the introduction of new fixtures to maximize merchandise presentation and capacity.

Improve Inventory Management: To continuously provide a fresh flow of new goods to the selling floor, increase inventory turnover and reduce markdowns, the Company has implemented a new inventory management strategy. Since 1992, the Company has reduced the number of its vendors by over 40%, thereby becoming more important to the remaining vendors. The Company has also expanded vendor participation in its quick response inventory replenishment program to reduce purchase lead-time, maintain a faster and more continuous flow of merchandise and facilitate automatic replenishment of staple items. In addition, the Company has entered into strategic alliances with vendors in which vendors cooperate with respect to assortment, marketing, visual presentation and sales promotion. Coupled with more effective vendor relationships, the Company has implemented a new receipt-based internal inventory management system which is designed to improve the efficiency of its inventory management through a new focus on receipt flow, gross margin return on investment and timely markdowns to insure the freshness of its merchandise offerings. This system has already resulted in an improvement in the aging of the Company's inventory and a reduction in the weeks of supply on hand. Management believes this new inventory management system will allow the Company to continue to improve its inventory turns and decrease its weeks of supply on hand.

Refocus Marketing Efforts: To present a focused image to its customers, the Company has redirected its marketing efforts to create a research-based marketing strategy that is fully integrated with both the merchandising and store operations functions. To this end, the Company has created a customer database through the use of both proprietary internal information and externally available information which enables the Company to identify its target customers by region and to tailor its marketing and merchandising strategy to best serve that customer base. In addition, in order to increase the number of target customers, the Company is pursuing a strategy of marketing to the ethnically diverse population of California and the Southwest through the use of targeted marketing programs and bilingual

sales associates, signage and advertising.

Improve the Selling Culture: The Company is in the process of creating a new selling culture. This new culture is customer driven, competitive and focuses on improving productivity and providing an improved shopping environment. To accomplish these goals, the Company is recruiting talented store personnel, improving customer service and sales training and redesigning the compensation structure to align more closely the sales associates' incentives with the customer service goals.

Reduce Costs: The consolidation of operations to date has significantly reduced the Company's expense infrastructure. Furthermore, in September 1993, the Company completed an Activity Value Analysis ("AVA") program. This program was designed to evaluate the importance and value of all activities within each of its areas of operation and identify duplicative and

low value-added functions, potential staff reductions and other actions which would improve efficiency. This review yielded more than 1,500 cost-saving ideas and identified approximately $40 million of annual expense reductions. The Company began implementing these measures earlier this year and expects to complete their implementation in 1995. Management believes the implementation of these measures will result in incremental annual savings of $7.0 million in 1993, $30 million in 1994 and $3.0 million in 1995. Management intends to invest some of the annual savings generated by the expense reductions in programs designed to improve the Company's sales and marketing efforts. In addition to the above-mentioned cost savings, the Company continually strives for ways to control expenses and expects to develop further cost efficiencies.

The Company's principal place of business is located at 3880 North Mission Road, Los Angeles, California 90031; telephone (213) 227-2000.

RECENT DEVELOPMENTS

In July 1993 the Company raised net proceeds of $147.5 million in a public offering of its Common Stock to fund its business strategy, including the remodeling and upgrading of stores. As a result of the implementation of its business strategy, the Company has incurred significant one-time charges. These charges included a $25 million charge in connection with the AVA program (which is expected to achieve $40 million in annual expense reductions by 1995) and $18 million of inventory clearance markdowns designed to upgrade the Company's merchandise offerings ($6 million of which is expected to be incurred in the fourth quarter). In addition, during fiscal 1993, the Company expects that it will expend $60 million on its capital expenditure program, $66 million on cash interest payments, $20 million on additional working capital and $14 million to repay debt. The Company believes that cash flow from operations, amounts available under its credit facilities and the proceeds from the Original Offering will enable it to implement the major elements of its business strategy. However, the Company continuously evaluates increasing or decreasing the number of stores, the terms of its credit facilities and other operating and financing alternatives.

THE OFFERING

Issue.....	$143,750,000 principal amount of 6 1/4% Convertible Senior Subordinated Notes due 2000.
Maturity.....	December 31, 2000.
Interest Payment Dates.....	December 31 and June 30 of each year, commencing June 30, 1994.
Conversion.....	The Notes, unless previously redeemed, are convertible at the option of the holder at any time after 90 days following the date of original issuance thereof and prior to maturity into shares of Common Stock at a conversion price of $12.19 per share, subject to adjustment in certain events. See "Description of the Notes -- Conversion."
Optional Redemption.	The Notes may be redeemed, at the Company's option, in whole or from time to time in part, on and after December 31, 1998, at a price equal to 100% of the principal amount thereof, together with accrued and

	unpaid interest to the date of redemption. See "Description of the Notes -- Optional Redemption."
Ranking.....	The Notes are unsecured obligations of the Company and (i) are subordinate in right of payment to all existing and future Senior Debt (as defined) of the Company and (ii) rank pari passu in right of payment with all existing and future Senior Subordinated Indebtedness (as defined). On January 1, 1994, the Company had approximately $901.7 million of Senior Debt outstanding.
Change in Control...	Upon a Change in Control (as defined), holders of the Notes will have the right, subject to certain restrictions and conditions, to require the Company to purchase all or any part of their Notes at the principal amount thereof plus accrued and unpaid interest thereon to the date of purchase. See "Description of the Notes -- Change in Control."
Use of Proceeds.....	The Net Proceeds from the Original Offering were used by the Company to make capital available to fund the Company's business strategy, including the modernization of the Company's stores, and, until such capital expenditures are made, to the repayment of certain amounts outstanding under the Company's credit facilities. The Company will not receive any proceeds from the Sale of Notes and/or Common Stock offered pursuant to this Prospectus. See "Use of Proceeds" and "Selling Holders."

SUMMARY OF CONSOLIDATED FINANCIAL DATA AND CERTAIN OPERATING DATA

The following table presents summary consolidated financial data and certain operating data of the Company as of and for the 52-week periods ended January 30, 1993, February 1, 1992 and February 2, 1991 and for the 39-week periods ended October 30, 1993 and October 31, 1992. The financial data has generally been derived from the Company's consolidated financial statements. The following financial and other operating data should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations, the consolidated financial statements included in the Company's Annual Reports on Form 10-K and Quarterly Reports on Form 10-Q, the related summaries of significant accounting policies and financial review contained therein and the other information contained elsewhere in this Prospectus.

<TABLE>
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	FOR THE PERIOD ENDED				
	OCTOBER 30, 1993 (39 WEEKS)	OCTOBER 31, 1992 (39 WEEKS)	JANUARY 30, 1993(1) (52 WEEKS)	FEBRUARY 1, 1992 (52 WEEKS)	FEBRUARY 2, 1991 (52 WEEKS)
	(DOLLAR AMOUNTS IN MILLIONS, EXCEPT SALES PER GROSS SQUARE FOOT)				
<S>	<C>	<C>	<C>	<C>	<C>
EARNINGS DATA					
Sales.....	$ 1,387.1	$ 1,405.3	$ 2,137.8	$ 2,127.9	$ 2,532.7
Finance charge revenue.....	60.0	61.9	82.7	94.0	110.7
Cost of goods sold, including occupancy and buying costs.....	1,049.8	1,065.6	1,577.0	1,581.1	1,885.1
Selling, general and administrative expenses.....	393.3	397.6	572.6	570.5	681.6
Other expense, net(2).....	25.0	--	--	--	17.6
Earnings (loss) from operations before interest expense, reorganization income (costs) and income taxes ("EBIT").....	(21.0)	4.0	70.9	70.3	59.1
Interest expense, net.....	63.8	67.3	89.8	102.3	145.0
Loss from operations before reorganization income (costs) and income taxes.....	(84.8)	(63.3)	(18.9)	(32.0)	(85.9)
Reorganization income (costs)(3).....	--	884.1	884.1	(138.1)	(40.0)
Earnings (loss) from operations before income taxes.....	(84.8)	820.8	865.2	(170.1)	(125.9)
Income tax benefit (expense).....	6.9	6.8	(9.8)	--	26.3
Earnings (loss) from operations.....	(77.9)	827.6	855.4	(170.1)	(99.6)
Extraordinary income (costs) and changes in accounting(4).....	--	323.2	323.2	(46.9)	(20.1)

Net earnings (loss)	$ (77.9)	$ 1,150.8	$ 1,178.6	$ (217.0)	$ (119.7)
OTHER DATA					
Depreciation and amortization	$ 25.0	$ 30.7	$ 38.5	$ 43.6	$ 42.6
Capital expenditures	$ 39.7	$ 19.6	$ 38.2	$ 34.8	$ 80.6
Gross square footage at period end (in thousands)	15,177	15,842	15,177	15,995	16,156
Sales per gross square foot(5)	N/A	N/A	$ 137	$ 133	$ 145
Comparative store sales gain (decrease)	1.8%	(1.3)%	0.9%	(9.9)%	(2.3)%
Number of stores	83	87	83	88	89
Inventory turnover	N/A	N/A	2.1x	2.1x	2.2x
BALANCE SHEET DATA					
Working capital	$ 674.3	$ 602.2	$ 701.5	$ 628.3	$ 978.1
Total assets	$ 1,869.4	$ 1,866.2	$ 1,912.9	$ 1,667.7	$ 1,755.4
Liabilities subject to settlement under reorganization proceedings	$ --	$ --	--	$ 598.3	$ 598.6
Receivables based financing	$ 388.7	$ 398.0	$ 467.6	$ 489.3	$ 633.8
Other long-term debt and capital lease obligations	$ 559.8	$ 566.7	$ 563.2	$ 508.4	$ 515.3
Stockholders' equity (deficit)	$ 445.3	$ 344.9	$ 374.8	$ (508.5)	$ (272.6)

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(1) Upon emergence from bankruptcy, the Company adopted the principles of fresh start reporting as of October 3, 1992 to reflect the impact of the reorganization. The 52-week period ended January 30, 1993 is thus comprised of the 35 weeks ended October 3, 1992 and the 17 weeks ended January 30, 1993. In addition, the 39-week period ended October 31, 1992 is comprised of the 35 weeks ended October 3, 1992 and the 4 weeks ended October 31, 1992. As a result of the application of fresh start reporting, the financial condition and results of operations of the Company for dates and periods subsequent to October 3, 1992 are not necessarily comparable to those prior to October 3, 1992.

(2) Includes a $25.0 million charge for costs to implement the Company's strategic plan which is designed to streamline the Company's organizational structure, in the 39-week period ended October 30, 1993, and a $30.0 million gain on sale of the Company's Thalhimer Brothers, Inc. subsidiary ("Thalhimers") and a $47.0 million provision for consolidation programs in the 52-week period ended February 2, 1991.

(3) Includes income of $906.4 million resulting from adjustments to reflect the revaluation of assets and liabilities as a result of the application of fresh start reporting, $13.8 million in costs directly related to the reorganization, and $8.5 million in adjustments to the provision for disputed claims in the 52-week period ended January 30, 1993; $65.0 million provision for consolidation, $29.4 million in costs related to the reorganization, $25.0 million in adjustments to the provisions for disputed claims, a $9.7 million charge for unamortized costs on subordinated debt, and $9.0 million of adjustments to the carrying value of assets in the 52-week period ended February 1, 1992; and a $40.0 million provision for store closings in the 52-week period ended February 2, 1991.

(4) Includes an extraordinary gain on debt discharge of $304.4 million and income from a change in accounting for income taxes of $18.8 million for the 52-week period ended January 30, 1993; a charge for a change in accounting for post-retirement medical benefits of $30.0 million and an extraordinary charge of $16.9 million for costs relating to early retirements of debt for the 52-week period ended February 1, 1992; and extraordinary charges of $14.1 million for costs relating to early retirements of debt and $6.0 million for uninsured losses associated with the October 1989 San Francisco earthquake for the 52-week period ended February 2, 1991.

(5) Based on sales for stores open at each period end.

INVESTMENT CONSIDERATIONS

The Notes offered hereby are subject to a number of material risks and other investment considerations, including those summarized below. These risks and investment considerations should be carefully considered by prospective investors.

LEVERAGE; RESTRICTIVE COVENANTS AND OTHER TERMS OF INDEBTEDNESS

The Company has consolidated indebtedness that is greater than its stockholders' equity. See "Capitalization." This degree of leverage increases

the Company's vulnerability to adverse general economic and retailing industry conditions and to increased competitive pressures, including pricing pressure from better capitalized competitors. The Indenture (as hereafter defined) and the other debt instruments to which the Company is a party contain a number of restrictive covenants, including covenants limiting capital expenditures, incurrence of debt and sales of assets and prohibiting the payment of dividends on the Company's Common Stock. In addition, under certain of its debt instruments, the Company is required to achieve certain minimum levels for net cash flows, earnings before interest, taxes, depreciation and amortization, and other financial measures. See "Indebtedness of the Company." In the event that the Company fails to comply with the financial covenants and certain other covenants associated with the Company's debt instruments, the Company will be in default under those debt instruments, which could result in the acceleration of all of the Company's indebtedness and other obligations. The Company's ability to comply with such covenants could be affected by lower than anticipated margins or sales and there can be no assurance that the Company would be able to obtain amendments to such covenants should this occur. See "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Liquidity and Capital Resources." In addition, in the event of such a default, the creditors to certain debt instruments could proceed against collateral securing such debt, which includes substantially all of the Company's assets. As a result of the Company's continuing substantial indebtedness, restrictive covenants and other terms of its debt instruments, the Company's ability to obtain additional financing in the future, make acquisitions, complete its planned capital expenditure program or take advantage of significant business opportunities could be impaired.

OPERATING LOSSES; CHANGES IN OPERATIONS

The Company reported losses from operations before reorganization income (costs) and income taxes for the 52-week periods ended January 30, 1993, February 1, 1992 and February 2, 1991 of $18.9 million, $32.0 million and $85.9 million, respectively, and for the 39-week period ended October 30, 1993 of $84.8 million. See "Management's Discussion and Analysis of Financial Condition and Results of Operations." The Company emerged from bankruptcy pursuant to a plan of reorganization ("POR") on October 8, 1992 (the "Emergence Date"). See "Business -- Recapitalization." Recently, the Company has implemented measures designed to reduce operating costs, has hired new senior management and is in the process of implementing a new business strategy intended to improve the overall operating performance of the Company. Seven of the Company's nine executive officers have either joined the Company or were promoted to their present positions since February 1993. See "Business -- Business Strategy." No assurance can be given that such measures will be successful or that the Company will not continue to incur losses in subsequent periods. Losses could negatively affect working capital and the extension of credit to the Company's suppliers by the factor community, significantly impair the Company's ability to reduce or refinance existing indebtedness and impact the Company's ability to implement its strategic plan.

The Company does not, as a matter of policy, publish projections covering future performance. However, in connection with the consummation of the POR, the Company was required by law to include certain projections in its disclosure statement to establish the viability of the POR. Those projections were prepared in early 1992. With the introduction of new management and the implementation of its business strategy, along with other factors, the Company believes that the

projections it prepared in connection with its emergence from bankruptcy are not necessarily indicative of future performance.

SUBORDINATION

The Notes are unsecured and subordinate in right of payment to all existing and future Senior Debt of the Company, including the Credit Facility. In the event of the Company's insolvency or liquidation, or upon acceleration of the Senior Debt, the holders of the Senior Debt must be paid in full before holders of the Notes may be paid. Furthermore, payment on the Notes may not be permitted if a default exists on the Senior Debt. On January 1, 1994, the Company had approximately $901.7 million of Senior Debt outstanding. The Company may incur additional Senior Debt to the extent permitted by the terms of such Senior Debt. See "Indebtedness of the Company -- Credit Facility" and "Description of the Notes -- Subordination of Notes." In addition, substantially all of the Company's assets have been pledged to secure indebtedness of the Company. In the event of the Company's insolvency or liquidation, the claims of the secured lenders would have to be satisfied out of such collateral before any such assets would be available to pay claims of the Company's other debtholders, including holders of the Notes. See "Indebtedness of the Company."

CONSEQUENCES OF FURTHER EQUITY OFFERINGS

The Company could make additional sales of equity securities. Depending on market conditions and other factors, the effect of such equity offerings could

be to cause a dilution with respect to the holders of the Common Stock.

DEPENDENCE ON KEY PERSONNEL

The development and operation of the Company depends significantly upon the continued efforts of David L. Dworkin, the Company's President and Chief Executive Officer. He joined the Company in March 1993 and has a three-year employment agreement with the Company, which includes a provision permitting him to terminate the agreement in the event of a change of control. See "Management -- Employment Agreements." The loss of David Dworkin's services could have an adverse effect upon the Company's operations.

ISSUANCE OF ADDITIONAL SHARES FOR DISPUTED CLAIMS

Notwithstanding the confirmation and effectiveness of the POR, the bankruptcy court continues to have jurisdiction to, among other things, resolve disputed prepetition claims against the Company and to resolve other matters that may arise in connection with or relate to the POR. The terms of the POR require the Company to exchange .046 shares of Common Stock for each $1.00 of allowed general unsecured claims. As of January 1, 1994, $52.9 million of disputed claims remained outstanding. Management believes such claims will ultimately be allowed upon settlement or litigation for approximately $19.0 million, for which the Company has reserved approximately 1.0 million shares. Management believes that reserved shares of Common Stock will be sufficient to meet the Company's obligations to such claim holders. If all disputed claims were allowed in full, such claim holders would be entitled to a total of 2.4 million shares of Common Stock, compared to the 1.0 million shares reserved, resulting in dilution to holders of the outstanding Common Stock of approximately 3%. In addition, the Company has reserved approximately 0.2 million shares for preconfirmation stockholders of the Company who have not yet claimed the distribution of Common Stock to which they were entitled under the POR. The total of 1.2 million shares is included in the Company's outstanding Common Stock. In addition, 0.2 million warrants to purchase Common Stock (the "Warrants") remain issuable to certain preconfirmation stockholders pursuant to the POR. There are no contractual restrictions on the resale of any of these securities issuable pursuant to the POR. Such securities may be sold into a public market without restriction at any time, potentially resulting in an adverse effect on the market for, or the market price of, shares of Common Stock. See "Business -- Legal Proceedings -- Chapter 11 Proceedings; Unresolved Claims."

COMPETITIVE CONDITIONS; REGULATION; SEASONALITY; REGIONAL CONCENTRATIONS

The retailing industry, in general, and the department store business, in particular, are highly competitive. The Company's stores compete with the other department stores in the geographic areas in which they operate and also with numerous other types of retail outlets, including specialty stores, general merchandise stores, and off-price and discount stores. Some of the retailers with which the Company competes have substantially greater financial resources than the Company. See "Business -- Competition." In addition, the Company's proprietary credit card operations are subject to legal and regulatory requirements which, if changed, could adversely affect the Company's results of operations. See "Business -- Proprietary Credit Card Operations."

The department store business is seasonal in nature with a high proportion of sales and operating income generated in November and December. Working capital requirements fluctuate during the year, increasing somewhat in late Summer in anticipation of the Fall merchandising season and increasing substantially at the outset of the holiday season as significantly higher inventory levels are necessary. See "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Seasonality."

In addition, approximately 90% of the Company's sales are generated by its stores located in California. As a result, the Company's sales are very sensitive to fluctuations in the level of economic activity in California. The California economy has remained in a recession longer than the economy in many other portions of the United States. The current recession has had an adverse effect on the Company's revenues and operating results and there can be no assurance it will not continue to do so.

MAJORITY STOCKHOLDER; RESTRICTED STOCK

As of January 1, 1994 Zell/Chilmark owned approximately 24.8 million shares or 54.5% of the outstanding Common Stock. Zell/Chilmark, therefore, may control the election of the Company's directors and may be able to effect amendments to the Company's Certificate of Incorporation or a merger, sale of assets, "going private," or other corporate transactions. Under the Company's Amended and Restated Certificate of Incorporation, at least two members of the Company's Board of Directors must be neither members of the Company's management nor designated by Zell/Chilmark or any of its affiliates.

Any transactions involving shares of Common Stock owned by Zell/Chilmark or First Plaza Group Trust ("First Plaza"), which owns 2.5 million shares of the Common Stock, may have an adverse effect on the market for, or the market price of, the Common Stock. See "Security Ownership of Certain Persons." Such shares may be sold in the public market, subject to the volume limitations and other conditions of Rule 144 under the Securities Act of 1933, as amended (the "Securities Act"), or the filing of a registration statement with the Securities and Exchange Commission.

MARKET FOR THE NOTES

The Company does not intend to list the Notes for trading on any exchange. Accordingly, there can be no assurance as to the development or liquidity of any market that may develop for the Notes.

USE OF PROCEEDS

The Selling Holders will receive all of the net proceeds from the Notes sold pursuant to this Prospectus and the Common Stock issuable upon conversion thereof sold pursuant to this Prospectus.

The net proceeds to the Company from the Original Offering were approximately $137.9 million. The Original Offering was principally intended to make capital available for the execution of the Company's business strategy including the remodeling and upgrading of stores. Pending such expenditures, the Company has applied the net proceeds of the Original Offering (i) to repay indebtedness outstanding under the Company's $225.0 million credit facility (as heretofore amended, the "Credit Facility"), (ii) to repay a portion of the Company's credit card receivables securitization facility (the "Receivables Facility"), and (iii) for other general corporate purposes.

The interest rate on borrowings under the Credit Facility was 7.5% at January 1, 1994 and borrowings thereunder are repayable on or before October 31, 1995. The interest rate on borrowings under the Receivables Facility was 4.5% at January 1, 1994 and borrowings thereunder are repayable on or before October 8, 1995. As of January 1, 1994, no advances were outstanding under the Credit Facility and $337.1 million was outstanding under the Receivables Facility. See "Indebtedness of the Company."

Upon consummation of the Original Offering and the application of the net proceeds, the Company did not have any outstanding indebtedness under the Credit Facility. The Company expects to utilize certain of the available borrowing capacity under the Credit Facility and Receivables Facility not needed for seasonal working capital requirements to implement its business strategy, including the remodeling and upgrading of stores.

PRICE RANGE OF COMMON STOCK

The Common Stock is listed on the New York Stock Exchange and the Pacific Stock Exchange under the symbol CHH. The following table sets forth, for the indicated periods, the high and low last reported sale prices per share of the Common Stock after the Emergence Date as furnished by the New York Stock Exchange. See "Business -- Recapitalization."

<TABLE>
<CAPTION>

	COMMON STOCK	
	HIGH	LOW
<S>	<C>	<C>
9-week period ended January 1, 1994	$14 3/4	$8 1/2
13-week period ended October 30, 1993	16	13
13-week period ended July 31, 1993	17 1/2	12 3/8
13-week period ended May 1, 1993	12 3/4	9 1/2
13-week period ended January 30, 1993	10 3/8	5 3/4
For the period from October 8 to October 31, 1992	7 1/4	5 7/8

</TABLE>

The last reported sale price of the Common Stock as quoted on the New York Stock Exchange on January 6, 1994 was $9.00 per share. As of January 1, 1994, there were 18,620 holders of record of the Common Stock.

Although the Company's stock was publicly traded prior to the period from October 8 to October 31, 1992, the table above excludes data with respect to the Company's common stock outstanding prior to the Emergence Date, which data is not comparable with data related to the Common Stock.

DIVIDEND POLICY

Since May 1987, the Company has not declared or paid any cash dividends on its common stock. The Company anticipates that no cash dividends on its Common Stock will be declared in the foreseeable future, and that all earnings will be retained for the development of the Company's business. Any future dividends would be conditioned upon, among other things, future earnings, the financial condition of the Company and regulatory requirements. In addition, certain of the Company's credit agreements currently prohibit the Company from paying dividends to stockholders. See "Indebtedness of the Company."

CAPITALIZATION

The following table sets forth the consolidated capitalization and short-term debt of the Company as of October 30, 1993, and as adjusted to give effect to the Original Offering and the application of approximately $137.9 million of net proceeds therefrom.

<TABLE>
<CAPTION>

	ACTUAL AS OF OCTOBER 30, 1993	AS ADJUSTED FOR THE ORIGINAL OFFERING
	(dollar amounts in thousands)	
<S>	<C>	<C>
SHORT-TERM DEBT		
Credit Facility(1)	$ 44,280	$ --
Current portion of long-term secured debt	275	275
Current portion of capital lease obligations	2,920	2,920
TOTAL	$ 47,475	$ 3,195
LONG-TERM SENIOR DEBT		
Receivables Facility(1)(2)	$ 388,681	$ 295,042
Secured Debt		
Term Loans due in 1999 (3.8125% at October 30, 1993)	89,663	89,663
9.0% Note due 2002	65,490	65,490
9.9% Note due 2010	9,441	9,441
10.67% Notes due 2002(3)	344,000	344,000
Other	6,152	6,152
Total secured debt	514,746	514,746
Less current portion of secured debt	(275)	(275)
Total long-term portion of secured debt	514,471	514,471
TOTAL LONG-TERM SENIOR DEBT	903,152	809,513
CAPITAL LEASE OBLIGATIONS (excluding current maturities of $2,920)	45,338	45,338
CONVERTIBLE SENIOR SUBORDINATED NOTES	--	143,750
STOCKHOLDERS' EQUITY		
Preferred Stock -- 25 million $.01 par value shares authorized; 0.9 million shares outstanding	11	11
Common Stock -- 100 million $.01 par value shares authorized; 46.7 million shares outstanding(4)	467	467
Other Paid-in Capital	499,991	499,991
Accumulated Earnings	(55,194)	(55,194)
TOTAL STOCKHOLDERS' EQUITY	445,275	445,275
TOTAL CAPITALIZATION	$ 1,393,765	$1,443,876

</TABLE>

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(1) As of January 1, 1994, there were no outstanding borrowings under the Credit Facility and outstanding borrowings under the Receivables Facility were $337.1 million. Pending usage of the proceeds of the Original Offering for remodeling and upgrading of stores, the net proceeds were used to paydown borrowings under the Credit Facility and the Receivables Facility.

(2) The Company funds its credit card activities through the Receivables Facility, which provides for a special purpose corporation, whose accounts

are consolidated into the Company, to purchase the Company's proprietary credit card receivables and to pay for these interests through the issuance of up to $575.0 million in commercial paper. The securitization program is currently scheduled to mature on October 8, 1995.

(3) Cash interest is payable on the 10.67% Notes at the reduced rate of 7.5% per annum until October 8, 1994. The remaining interest (the difference between the contractual rate of 10.67% and 7.5%) is capitalized into the 9.0% Notes due 2002. After October 8, 1994 cash interest will be payable at 10.67%.

(4) Based on the number of shares of Common Stock outstanding as of October 30, 1993. Includes approximately 1,318,167 shares of Common Stock reserved for issuance or otherwise issuable to certain prepetition creditors or preconfirmation stockholders pursuant to the Company's POR. Does not include: (i) 5,900,000 shares reserved for issuance under the 1992 Stock Incentive Plan, as amended (of which options with respect to 1,448,988 shares of Common Stock are outstanding and immediately exercisable at prices of between $10.22 and $11.00 per share); (ii) 1,500,000 shares reserved for issuance to the Company's 401(k) Plan (none of which will be issued in calendar year 1993); or (iii) 2,476,054 shares issuable at $17.00 per share upon exercise of Warrants issued or issuable pursuant to the POR. Warrants to purchase 1,380,713 of such shares are currently outstanding; Warrants to purchase 905,474 shares are issuable upon surrender of outstanding Series A Exchangeable Preferred Stock (the "Preferred Stock") for exchange; and Warrants for 189,867 shares remain issuable to certain preconfirmation stockholders.

SELECTED CONSOLIDATED FINANCIAL DATA

A summary of certain financial information about the Company is presented in the following tables. The financial data for the first table has generally been derived from the Company's consolidated financial statements. The information for the second table has been derived from the Company's unaudited quarterly financial data. Both tables should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations, the consolidated financial statements contained in the Company's Annual Reports on Form 10-K and Quarterly Reports on Form 10-Q, the related summaries of significant accounting policies and financial review contained therein and the other information contained elsewhere in this Prospectus. Effective as of February 2, 1991, the Company changed its fiscal year end from the Saturday closest to July 31 of each year to the Saturday closest to January 31 of each year.

<TABLE>
<CAPTION>

	AS OF AND FOR THE PERIOD ENDED							
	JANUARY 30, 1993(1) (52 WEEKS)	JANUARY 30, 1993 (17 WEEKS)	OCTOBER 3, 1992 (35 WEEKS)	FEBRUARY 1, 1992 (52 WEEKS)	FEBRUARY 2, 1991 (52 WEEKS)	FEBRUARY 2, 1991 (26 WEEKS)	AUGUST 4, 1990 (53 WEEKS)	JULY 29, 1989 (52 WEEKS)
	(PRO FORMA COMBINED)				(UNAUDITED)			
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
	(DOLLAR AMOUNTS IN THOUSANDS)							
EARNINGS DATA								
Sales.....	$2,137,847	$ 889,843	$1,248,004	$2,127,917	$2,532,749	$1,318,565	$2,857,819	$2,787,393
Finance charge revenue.....	82,642	27,265	55,377	93,992	110,707	49,262	125,036	94,888
Cost of goods sold, including occupancy and buying costs.....	1,576,952	638,173	938,779	1,581,144	1,885,152	985,018	2,085,344	2,001,188
Selling, general and administrative expenses.....	572,637	209,992	362,645	570,512	681,561	341,503	742,616	702,329
Other expense, net(2).....	--	--	--	--	17,681	17,000	4,831	6,000
EBIT.....	70,900	68,943	1,957	70,253	59,062	24,306	150,064	172,764
Interest expense, net.....	89,808	29,623	60,185	102,288	144,982	71,046	161,534	160,344
Earnings (loss) from operations before reorganization costs and income taxes.....	(18,908)	39,320	(58,228)	(32,035)	(85,920)	(46,740)	(11,470)	12,420
Reorganization income (costs)(3).....	884,131	--	884,131	(138,057)	(40,000)	(40,000)	--	--

Pretax earnings (loss) from operations.....	865,223	39,320	825,903	(170,092)	(125,920)	(86,740)	(11,470)	12,420
Income tax benefit (expense).....	(9,800)	(16,600)	6,800	--	26,250	13,200	2,000	(5,000)
Earnings (loss) from operations.....	855,423	22,720	832,703	(170,092)	(99,670)	(73,540)	(9,470)	7,420
Extraordinary income (costs) and changes in accounting(4)....	323,220	--	323,220	(46,894)	(20,070)	(14,070)	(16,500)	6,050
Net earnings (loss).....	$1,178,643	$ 22,720	$1,155,923	$ (216,986)	$ (119,740)	$ (87,610)	$ (25,970)	$ 13,470
OTHER DATA								
Depreciation and amortization.....	$ 38,540	$ 10,617	$ 27,923	$ 43,636	$ 42,630	$ 21,836	$ 50,995	$ 52,956
Capital expenditures.....	$ 38,242	$ 21,190	$ 17,052	$ 34,850	$ 80,556	$ 37,989	$ 83,220	$ 75,849
Gross square footage at period end (in thousands)...	15,177	15,177	15,842	15,995	16,156	16,156	18,958	18,815
Sales per gross square foot(5)...	$ 137	N/A	N/A	$ 133	$ 145	N/A	$ 147	$ 150
Comparative store sales gain (decrease).....	0.9%	3.5%	(0.9)%	(9.9)%	(2.3)%	(3.5)%	2.0 %	5.6 %
Number of stores.....	83	83	87	88	89	89	115	114
Inventory turnover.....	2.1x	N/A	N/A	2.1x	2.2x	N/A	2.2 x	2.2 x
BALANCE SHEET DATA								
Working capital...	$ 701,478	$ 701,478	$ 598,806	$ 628,270	$ 978,082	$ 978,082	$ 843,414	$ 873,307
Total assets.....	$1,912,902	$1,912,902	$1,918,701	$1,667,662	$1,755,421	$1,755,421	$2,045,194	$1,988,365
Liabilities subject to settlement under reorganization proceedings.....	--	--	--	$ 598,321	$ 598,650	$ 598,650	--	--
Receivables based financing.....	$ 467,577	$ 467,577	$ 388,306	$ 489,254	$ 633,798	$ 633,798	$ 678,646	$ 652,432
Other long-term debt and capital lease obligations.....	$ 563,216	$ 563,216	$ 566,267	$ 508,429	$ 515,290	$ 515,290	$ 939,797	$ 956,665
Stockholders' equity (deficit).....	$ 374,761	$ 374,761	$ 350,000	$ (508,476)	$ (272,627)	$ (272,627)	$ (193,820)	$(211,617)
Common shares outstanding (in thousands)...	35,200(6)	35,200(6)	34,986(6)	30,349	30,369	30,369	29,848	23,060

</TABLE>

(see footnotes on following page)

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(1) Upon emergence from bankruptcy on October 8, 1992, the Company adopted the principles of fresh start reporting as of October 3, 1992 to reflect the impact of the reorganization. The 52-week period ended January 30, 1993 is thus comprised of the 35 weeks ended October 3, 1992 and the 17 weeks ended January 30, 1993. As a result of the application of fresh start reporting, the financial condition and results of operations of the Company for dates and periods subsequent to October 3, 1992 are not necessarily comparable to those prior to October 3, 1992.

(2) Includes a $30.0 million gain on the sale of Thalhimers and a $47.0 million provision for consolidation programs in the 52-and 26-week periods ended February 2, 1991; gains on asset sales of $7.3 million and costs of closing certain facilities of $12.1 million for the 53-week period ended August 4, 1990; and a $6.0 million charge for costs of closing certain facilities for the 52-week period ended July 29, 1989.

(3) Includes income of $906.4 million resulting from adjustments to reflect the revaluation of assets and liabilities as a result of the application of fresh start reporting, $13.8 million in costs directly related to the

reorganization, and $8.5 million in adjustments to the provision for disputed claims in the 52-week period ended January 30, 1993 and the 35-week period ended October 3, 1992; $65.0 million provision for consolidation, $29.4 million in costs related to the reorganization, $25.0 million in adjustments to the provisions for disputed claims, a $9.7 million charge for unamortized costs on subordinated debt, and $9.0 million of adjustments to the carrying value of assets in the 52-week period ended February 1, 1992; and a $40.0 million provision for store closing in the 52-and 26-week periods ended February 2, 1991.

(4) Includes an extraordinary gain on debt discharge of $304.4 million and income from a change in accounting for income taxes of $18.8 million for the 52-week period ended January 30, 1993 and the 35-week period ended October 3, 1992; a charge for a change in accounting for post-retirement medical benefits of $30.0 million and an extraordinary charge of $16.9 million for costs relating to early retirements of debt for the 52-week period ended February 1, 1992; extraordinary charges of $14.1 million for costs relating to early retirements of debt for the 52-and 26-week periods ended February 2, 1991, and $6.0 million for uninsured losses associated with the October 1989 San Francisco earthquake for the 52-week period ended February 2, 1991; an extraordinary charge of $16.5 million for the uninsured loss associated with the October 1989 San Francisco earthquake for the 53-week period ended August 4, 1990; and income from a change in accounting for income taxes of $15.3 million and an extraordinary charge for costs relating to the early retirements of debt of $9.2 million for the 52-week period ended July 29, 1989.

(5) Based on sales for stores open at each period-end excluding Thalhimers for the 53-week period ended August 4, 1990 and the 52-week period ended July 29, 1989.

(6) Includes shares of Common Stock reserved for issuance or otherwise issuable to certain prepetition creditors or preconfirmation stockholders in accordance with the POR. Does not include shares reserved for issuance under the 1992 Stock Incentive Plan, as amended, shares reserved for issuance to the Company's 401(k) Plan, or shares issuable upon exercise of Warrants.

SELECTED CONSOLIDATED FINANCIAL DATA (CONTINUED)

<TABLE>
<CAPTION>

	AS OF AND FOR THE PERIOD ENDED	
	OCTOBER 30, 1993 (39 WEEKS)	OCTOBER 31, 1992 (39 WEEKS)
<S>	<C> (UNAUDITED)	<C> (UNAUDITED)
<CAPTION>		
	(DOLLAR AMOUNTS IN THOUSANDS)	
<S>	<C>	<C>
EARNINGS DATA		
Sales	$1,387,103	$1,405,321
Finance charge revenue	59,988	61,908
Cost of goods sold, including occupancy and buying costs	1,049,833	1,065,584
Selling, general and administrative expenses	393,271	397,663
Charge for non-recurring costs(1)	25,000	
EBIT	(21,013)	3,982
Interest expense, net	63,801	67,312
Loss from operations before reorganization costs and income taxes	(84,814)	(63,330)
Reorganization income	--	884,131
Pretax earnings (loss) from operations	(84,814)	820,801
Income tax benefits	6,900	6,800
Earnings (loss) before extraordinary item and cumulative effect of change in accounting	(77,914)	827,601
Extraordinary gain in debt discharge	--	304,388
Cumulative effect of change in accounting for income taxes	--	18,832
Net earnings (loss)	$ (77,914)	$1,150,821
OTHER DATA		
Depreciation and amortization	$ 25,033	$ 30,657
Capital expenditures	$ 39,674	$ 19,608
Gross square footage at period end (in thousands)	15,177	15,842
Comparative store sales gain (decrease)	1.8%	(1.3)%

Number of stores	83	87
BALANCE SHEET DATA		
Working capital	$ 674,260	$ 602,193
Total assets	$1,869,351	$1,866,223
Receivables based financing	$ 388,681	$ 397,972
Other long-term debt and capital lease obligations	$ 559,809	$ 566,651
Stockholders' equity	$ 445,275	$ 344,898
Common shares outstanding (in thousands)	46,781(2)	34,986(2)

</TABLE>

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(1) Represents a second-quarter charge for non-recurring costs to be incurred in connection with the implementation of the Company's strategic plan to streamline its organizational structure.

(2) Includes shares of Common Stock reserved for issuance or otherwise issuable to certain prepetition creditors or preconfirmation stockholders in accordance with the POR. Does not include shares reserved for issuance under the 1992 Stock Incentive Plan, as amended, shares reserved for issuance to the Company's 401(k) Plan, or shares issuable upon exercise of Warrants.

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

INTRODUCTION

The discussion of results of operations that follows is based upon the Company's consolidated financial statements and quarterly information included or incorporated by reference in this Prospectus. The discussion of liquidity and capital resources is based upon the Company's current financial position. Upon emergence from bankruptcy, the Company adopted the principles of fresh start reporting as of October 3, 1992 (the "Effective Date") to reflect the impact of the reorganization. As a result of the application of fresh start reporting, the financial condition and results of operations of the Company for dates and periods subsequent to the Effective Date are not necessarily comparable to those prior to the Effective Date.

RESULTS OF OPERATIONS

Overview. The Company changed its fiscal year-end in 1991 and emerged from bankruptcy in 1992, leading to another fiscal period-end as a result of accounting for the effects of the bankruptcy reorganization at the Effective Date. Consequently, the last four fiscal "years" of the Company consist of a 26-week transition period ended February 2, 1991, a 52-week period ended February 1, 1992, a 35-week period ended October 3, 1992 and a 17-week period ended January 30, 1993. There are inherent difficulties in comparing such periods due to the application of fresh start reporting, although certain prepetition and post-petition income and expense elements remain comparable.

13-Week and 39-Week Periods Ended October 30, 1993. The following table summarizes the results of the 13-week and 39-week periods ended October 30, 1993 on a comparable period basis. During these periods, the Company incurred certain one-time charges due to continued execution of the Company's business strategy. These charges included inventory clearance markdowns, which are part of the Company's inventory repositioning program. These markdowns were taken over and above markdowns taken in the normal course of business. In the prior year periods, markdowns of this nature were charged to previously established inventory valuation reserves. The one-time charges also included a non-recurring charge of $25 million for costs to implement a strategic plan to streamline the Company's organizational structure and reduce administrative costs. Annualized expense savings of approximately $40.0 million by 1995 have been identified from this plan.

This table illustrates reported EBIT as well as pro forma operating EBIT which adds back the one-time charges described above.

<TABLE>
<CAPTION>

	THIRTEEN WEEKS ENDED		THIRTY-NINE WEEKS ENDED	
	OCTOBER 30, 1993	OCTOBER 31, 1992	OCTOBER 30, 1993	OCTOBER 31, 1992
<S>	<C>	<C>	<C>	<C>
Sales	$ 469.7	$ 490.4	$ 1,387.1	$ 1,405.3
Finance Charge Revenue	18.9	19.3	60.0	61.9
Cost of goods sold, including occupancy and buying				

costs (on a proforma FIFO basis).....	353.6	366.0	1,036.3	1,041.0
Selling, general and administrative expenses.....	133.8	135.0	393.3	397.6
Pro forma operating FIFO EBIT(1).....	1.2	8.7	17.5	28.6
Adjustments to arrive at reported EBIT:				
LIFO charge.....	(.5)	(5.1)	(1.5)	(7.1)
Realignment markdowns.....	(6.0)	--	(12.0)	--
Special period-end adjustments.....	--	(17.5)	--	(17.5)
Charge for non-recurring costs.....	--	--	(25.0)	--
Reported EBIT.....	$ (5.3)	$ (13.9)	$ (21.0)	$ 4.0

</TABLE>

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(1) The 1992 pre-and post-emergence reporting periods each required separate year-end type closings. Accordingly, buying and occupancy costs totalling $17.5 million, which would normally have been allocated to the fourth quarter of fiscal 1992, were required to be expensed in September 1992. In addition, the LIFO charge for the 35 week period ended October 3, 1992 was computed on a discrete period basis and was unusually high for the 1992 third quarter (approximately $4 million higher than usual).

For the current quarter and year-to-date periods ended October 30, 1993, sales were $469.7 million and $1,387.1 million, respectively, compared to sales of $490.4 million and $1,405.3 million in the comparable prior periods. Included in the prior year periods were the results for three Utah stores and the Anaheim, California store which were closed in January 1993. On a comparative store basis sales decreased 0.8 percent in the current quarter, but were up 1.8 percent for the thirty-nine week year-to-date period.

On the pro forma basis shown above, cost of goods sold of $353.6 million, 75.3 percent of sales, in the current quarter and $1,036.3 million, 74.7 percent of sales in the year-to-date period, compare to $366.0 million, 74.6 percent of sales, and $1,041.0 million, 74.1 percent of sales in the comparable prior year periods. The 0.7 percent and 0.6 percent increases as a percent to sales reflect a reduction in markup rate resulting primarily from a movement to everyday low pricing strategies and reflect the impact of competitive pricing pressures.

Selling, general and administrative expenses ("SG&A") of $133.8 million, 28.5 percent of sales, in the current quarter and $393.3 million, 28.4 percent of sales in the year-to-date period, compared to $135.0 million, 27.5 percent of sales, and $397.6 million, 28.3 percent of sales in the comparable prior year periods. The impact of tighter expense controls during the current year was negated on a percent to sales basis as a result of lower sales in the current year.

Finance charge revenue of $18.9 million, 4.0 percent of sales, and $60.0 million, 4.3 percent of sales in the current quarter and year-to-date periods, compares to $19.3 million, 3.9 percent of sales, and $61.9 million, 4.4 percent of sales in the comparable prior year periods.

Interest expense of $19.8 million and $63.8 million in the current quarter and year-to-date periods compare to $22.4 million and $67.3 million in the comparable prior year periods. The decrease in current year interest expense results primarily from lower average borrowing rates under the Company's Receivables Facility subsequent to the Emergence Date and the utilization of

the proceeds from the equity offering to lower borrowings under these facilities subsequent to July 1993.

Limitations on the Company's ability to record income tax benefits for net operating loss carryforwards for financial statement purposes is expected to result in an effective income tax rate in the current year that is substantially below the statutory rate and results in no income tax benefit being recorded for the current quarter. The $6.8 million tax benefit recognized in the prior year reflects the release of tax reserves on favorable resolution of income tax audits for tax years through July 1990.

Due to the seasonal nature of the retail business wherein a significant portion of sales for the year are generated in the fourth quarter, the Company follows the practice of allocating certain fixed buying and occupancy costs among quarters within the fiscal year to match these costs with the associated seasonal sales revenue. Operating results, on a net of tax basis, reflect the allocation of such buying and occupancy costs that were less than those incurred by $7.5 million and $16.1 million in the current quarter and year-to-date periods. The application of fresh start reporting required the recognition at October 3, 1992 of $17.5 million of such deferred buying and occupancy costs. The expense allocation method had no significant impact on the results for the

four weeks ended October 31, 1992.

The seasonal nature of the retail business also results in a significant portion of the earnings from operations for the year being generated in the fourth quarter. Interim operating results are thus not necessarily indicative of results from operations that will be realized for the full fiscal year.

Thirty-six months ended January 30, 1993. The following table summarizes the results of operations for certain periods in the 36 months ended January 30, 1993, presented on a comparable period basis (dollar amounts in millions).

<TABLE>
<CAPTION>

Period end date	JANUARY 30, 1993	FEBRUARY 1, 1992	JANUARY 30, 1993	FEBRUARY 1, 1992	FEBRUARY 2, 1991
Number of weeks reported	17(1)	17(1)	52	52	52
<S>	<C>	<C>	<C>	<C>	<C>
	(pro forma)(2)				
SALES	$889.8	$859.6	$ 2,137.8	$2,127.9	$2,532.7(3)
FINANCE CHARGE REVENUE	27.3	30.7	82.7	94.0	110.7
COST OF GOODS SOLD					
Cost of merchandise and other	571.1	548.2	1,374.5	1,358.9	1,647.2
Buying and occupancy costs	84.6	88.7	202.5	222.2	237.9
Total cost of goods sold	655.7	636.9	1,577.0	1,581.1	1,885.1
SG&A					
Sales promotion	48.3	45.3	123.2	107.4	124.6
Selling payroll	70.3	69.1	195.5	190.5	246.9
Other	91.4	97.9	253.9	272.6	310.1
Total SG&A	210.0	212.3	572.6	570.5	681.6
OTHER COSTS, NET	--	--	--	--	17.6
EBIT	$ 51.4	$ 41.1	$ 70.9	$ 70.3	$ 59.1
SALES	100.0%	100.0%	100.0%	100.0%	100.0%
FINANCE CHARGE REVENUE	3.1	3.6	3.9	4.4	4.3
COST OF GOODS SOLD					
Cost of merchandise and other	64.2	63.8	64.3	63.9	65.0
Buying and occupancy costs	9.5	10.3	9.5	10.4	9.4
Total cost of goods sold	73.7	74.1	73.8	74.3	74.4
SG&A					
Sales promotion	5.4	5.3	5.8	5.0	4.9
Selling payroll	7.9	8.0	9.1	9.0	9.8
Other	10.3	11.4	11.9	12.8	12.2
Total SG&A	23.6	24.7	26.8	26.8	26.9
OTHER COSTS, NET	--	--	--	--	0.7
EBIT	5.8%	4.8%	3.3%	3.3%	2.3%

</TABLE>

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(1) Interim period results are affected by the Company's practice of allocating certain fixed buying and occupancy costs among periods within the fiscal year to match these costs with the associated seasonal sales revenue. See "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Seasonality."

(2) Reported costs of goods sold for the 17-week period ended January 30, 1993 was $638.2 million and reported EBIT was $68.9 million. The pro forma column reflects the addition of $17.5 million of allocated fixed buying and occupancy costs into the 17-week period ended January 30, 1993, which were recognized at October 3, 1992 as a result of the application of fresh start reporting.

(3) Includes Thalhimers sales of $183.6 million.

17-Week Period Ended January 30, 1993 ("Post-reorganization Period"). Sales increased 3.5 percent to $889.8 million in the

Post-reorganization Period from $859.6 million in the comparable prior-year 17-week period ended February 1, 1992. On a comparable store basis, the sales increase was also 3.5 percent. For the 13-week period ended January 30, 1993, comparable store sales increased 5.5 percent over the same period last year, reflecting a generally strong holiday selling season and positive responses to the Company's sales and credit promotional activities.

Pro forma EBIT increased to $51.4 million, 5.8 percent of sales, in the Post-reorganization Period from $41.1 million, 4.8 percent of sales, in the comparable prior-year period. Pro forma EBIT reflects the reversal of the cost-of-goods-sold adjustment described in note 2 to the table above. The improvement reflects the increased sales base and the realization of the benefits of cost reduction programs. Reported EBIT increased to $68.9 million, 7.7 percent of sales, in the Post-reorganization period.

Pro forma cost of goods sold decreased to 73.7 percent of sales, $655.7 million, in the Post-reorganization Period from 74.1 percent, $636.9 million, in the comparable prior-year period. Cost of goods sold as a percentage of sales decreased 0.4 percent as a result of higher sales and lower buying and occupancy costs partially offset by lower merchandise gross margins due to competitive pressures. The LIFO credit of $1.9 million for the Post-reorganization Period compares to a charge of $3.2 million in the comparable prior-year period. Actual cost of goods sold increased $1.3 million.

SG&A decreased to $210.0 million, 23.6 percent of sales, in the Post-reorganization Period from $212.3 million, 24.7 percent of sales, in the comparable prior-year period. This decrease is comprised of a $6.5 million decrease in other SG&A primarily reflecting reduced fixed costs resulting from the Company's consolidation programs, partially offset by a $4.2 million increase in sales promotion and selling expenses in response to competitive pressures during the holiday season.

Finance charge revenue decreased to $27.3 million, 3.1 percent of sales, in the Post-reorganization Period from $30.7 million, 3.6 percent of sales, in the comparable prior-year period, reflecting the conservative approach to credit purchases generally, including proprietary credit card purchases, taken by customers prior to the holiday season, and the continuation of the trends discussed under "Business -- Proprietary Credit Card Operations." In addition, during the past two years, including the Post-reorganization Period, the Company has experienced an accelerated collection rate on proprietary credit card accounts resulting in lower overall outstanding customer receivables.

Interest expense decreased to $29.6 million in the Post-reorganization Period from $32.1 million in the comparable prior-year period. This reduction was largely due to lower average interest rates.

Net earnings of $22.7 million in the Post-reorganization Period are net of taxes at statutory rates and reflect an effective tax rate of 42.2 percent.

The seasonal nature of the retail business results in a significant portion of the earnings from operations for the year being generated in the 17-week period. Interim operating results are thus not necessarily indicative of earnings from operations that will be realized for the full fiscal year.

52-Week Period Ended January 30, 1993 ("1992"). Although the adoption of fresh start reporting significantly affected comparability, certain income and expense elements for the Post-reorganization Period and the 35-week period ended October 3, 1992 (the "Pre-reorganization Period") remain comparable and are addressed in the following analysis of results of operations for 1992.

Sales for both 1992 and the prior fiscal year ended February 1, 1992 ("1991") were $2.1 billion. Sales growth during the first three quarters of 1992 was significantly limited by the weakness in the California economy from which approximately 90 percent of the Company's business is generated. On a comparable store basis, sales for 1992 increased 0.9 percent as compared to the prior year. Sales per square foot increased to $137 in 1992 and $133 in the prior year as a result of the corresponding increase in sales.

EBIT increased to $70.9 million, 3.3 percent of sales, in 1992 from $70.3 million, 3.3 percent of sales, in 1991. While EBIT was essentially unchanged, 1992 reflects the effect of overhead reductions resulting from the Company's consolidation programs substantially offset by increased promotional and selling expenses in response to current economic and competitive factors particularly during the first three quarters of 1992.

Cost of goods decreased to $1,577.0 million, 73.8 percent of sales, in 1992 from $1,581.1 million, 74.3 percent of sales, in 1991. The improvement reflects

a 0.9 percent increase in gross margin representing the impact of reductions in fixed buying and occupancy costs partially offset by a 0.4 percent decline in gross margin resulting from lower purchase mark-up. The LIFO method of inventory accounting resulted in a charge of $5.2 million in both periods.

SG&A increased to $572.6 million in 1992 from $570.5 million in 1991. However, as a percentage of sales, SG&A was 26.8 percent in both years. Although there was no net improvement in SG&A as a percent of sales, 1992 reflects an $18.7 million decrease in other SG&A reflecting the impact on fixed costs of the Company's consolidation programs offset by a $20.8 million increase in promotional expenses and selling and support services in order to stimulate business in the difficult California retail environment.

Finance charge revenue decreased to $82.7 million, 3.9 percent of sales, in 1992 from $94.0 million, 4.4 percent of sales, in 1991. The reduction reflects the impact of lower levels of consumer confidence in the California economy manifested by a decrease in credit purchases and an acceleration in the paydown of outstanding credit card balances.

Interest expense decreased to $89.8 million in 1992 from $102.3 million in 1991. This decline was largely due to lower average interest rates.

Net earnings of $1,178.6 million in 1992 reflect reorganization and debt discharge related gains of $1,188.5 million and a benefit of $18.8 million from the adoption of Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes." The change in accounting reflects the elimination of existing deferred income taxes through the recognition of net operating loss carryforwards for which no benefit could be recognized under the previous accounting standard. The $6.8 million tax benefit recognized in the Pre-reorganization Period reflects the reversal of existing tax reserves on the favorable resolution of income tax audits for tax years through July 1990. The tax provision of $16.6 million for the Post-reorganization Period reflects state and federal taxes at statutory rates on pre-tax earnings for that period.

52-Week Period Ended February 1, 1992 ("1991"). Sales for 1991 decreased 16.0 percent to $2.1 billion from $2.5 billion for the comparable 52-week period ended February 2, 1991 ("1990"). The decrease was attributable to the disruption of inventory flows surrounding the date the Company filed for bankruptcy, the recessionary retail environment experienced in the Company's primary markets, and the sale of Thalhimers, whose sales were included in the sales data for the first six months of the comparable prior-year period. On a comparable store basis, sales for 1991 decreased 9.9 percent compared to 1990. Sales per square foot decreased to $133 in 1991 from $145 in the prior year as a result of the corresponding decrease in sales.

EBIT increased to $70.3 million, 3.3 percent of sales, in 1991 from $59.1 million, 2.3 percent of sales, in 1990. EBIT for 1991 was affected by the substantial reduction in the sales base. EBIT in 1990 includes a $47.0 million charge for costs associated with certain functional consolidations and the consolidation of the administrative functions of the Company's Emporium and Weinstocks divisions. These charges were partially offset by a gain of $30.0 million related to the November 1990 sale of Thalhimers.

Cost of goods sold decreased to $1,581.1 million, 74.3 percent of sales, in 1991 from $1,885.1 million, 74.4 percent of sales, in 1990. Although cost of goods sold as a percentage of sales remained relatively unchanged, 1991 reflects the impact of a $19.7 million reduction in the LIFO charge and reductions in fixed buying and occupancy costs resulting from the sale of Thalhimers and the effects of cost reduction programs undertaken subsequent to October 1990.

SG&A decreased to $570.5 million, 26.8 percent of sales, in 1991 from $681.6 million, 26.9 percent of sales, in 1990. This decrease reflects the impact of the cost reduction programs initiated in 1990 and the sale of Thalhimers.

Finance charge revenue decreased to $94.0 million, 4.4 percent of sales, in 1991 from $110.7 million, 4.3 percent of sales, in 1990. This decrease principally resulted from reduced proprietary credit sales during 1991 and the elimination of finance charge revenue relating to Thalhimers, which had been included in six months of the prior-year period.

Interest expense decreased to $102.3 million in 1991 from $145.0 million in 1990. This reduction principally comprises interest expense and amortization of debt issue costs on $350.0 million of subordinated debt, for which no interest was recognized subsequent to the date the Company filed for bankruptcy. As a result of the claims relating to the subordinated debt being allowed pursuant to the provisions of the Bankruptcy Code, unamortized subordinated debt issue costs totaling $9.7 million were charged to reorganization costs in the fourth quarter of 1991.

The net loss of $217.0 million in 1991 includes a charge of $138.1 million

for reorganization costs comprised of a $65.0 million provision for the consolidation of the Company into a single operating entity, a $34.0 million charge for settlement of certain disputed prepetition trade claims and valuation adjustments to reflect the effect of the chapter 11 proceedings on the amounts to be realized for certain assets, a $29.4 million charge for professional fees and other costs directly related to the proceedings, and a $9.7 million charge to write-off unamortized debt issue costs related to the Company's subordinated debt. In addition, the net loss reflects an extraordinary net-of-tax charge of $16.9 million on the early extinguishment of an interim receivables facility entered into as a result of the filing for bankruptcy and a net-of-tax charge of $30.0 million resulting from a change in the method of accounting for post-retirement medical and other benefits as a result of the adoption of Statement of Financial Accounting Standards No. 106, "Employers Accounting for Post-retirement Benefits Other Than Pensions."

26-Week Period Ended February 2, 1991 (the "Transition Period"). Effective as of February 2, 1991, the Company changed its fiscal year from the Saturday closest to July 31, to the Saturday closest to January 31. As a result, the results of operations for the Transition Period were separately reported.

Sales for the Transition Period decreased 19.8 percent to $1.3 billion as compared to $1.6 billion in the comparable prior-year period. The decrease was largely attributable to Thalhimers' sales included in the prior year. In addition, the prior-year period comprised 27 weeks compared with the 26 weeks included in the Transition Period. On a comparable store and period basis, Transition Period sales decreased 3.5 percent from the prior year's level, reflecting the impact of the generally weak retail environment and the disruption of inventory flows prior to the date the Company filed for bankruptcy.

EBIT decreased to $24.3 million, 1.8 percent of sales, in the Transition Period from $115.3 million, 7.0 percent of sales, in the comparable prior-year period. The Transition Period reflects the generally weak holiday sales performance, the absence of Thalhimers' results and a $47.0 million charge for consolidation programs. The decreases were partially offset by the $30.0 million gain on the sale of Thalhimers. The comparable prior-year period included a net charge of $4.2 million relating to consolidation charges partially offset by gains on asset sales.

Cost of goods sold decreased to $985.0 million, 74.7 percent of sales, in the Transition Period from $1,185.2 million, 72.1 percent of sales, for the comparable prior-year period. This increase in cost of goods sold as a percentage of sales reflects a significant increase in markdowns in response to the generally weak economic conditions and a highly competitive retail environment during the 1990 fall season. The LIFO inventory method resulted in a charge of $4.7 million in the Transition Period compared to $2.0 million in the comparable prior-year period.

SG&A decreased to $341.5 million, 25.9 percent of sales, in the Transition Period from $402.6 million, 24.5 percent of sales, in the comparable prior-year period. This decrease reflects the sale of Thalhimers, the impact of cost reduction programs initiated in 1990, and the inclusion of an

additional week in the comparable prior-year period. The increase in SG&A as a percentage of sales principally reflects the impact of the lower sales base during the Transition Period.

Finance charge revenue decreased to $49.3 million, 3.7 percent of sales, in the Transition Period from $63.6 million, 3.9 percent of sales, in the comparable prior-year period. This decrease resulted from lower levels of credit sales in the Transition Period and the sale of Thalhimers in 1990.

Interest expense for the Transition Period decreased to $71.0 million from $87.6 million in the comparable prior-year period. The reduction reflects debt retirements directly related to the sale of Thalhimers, the effect of other reductions in borrowings, and generally lower interest rates.

The net loss of $87.6 million in the Transition Period includes a charge of $40.0 million for estimated costs associated with certain store and facility closings resulting from the Chapter 11 proceedings and an extraordinary charge of $14.1 million resulting from the early extinguishment of debt. The $13.2 million income tax benefit for the Transition Period was based on a 15.2 percent effective tax rate, reflecting limitations on the Company's ability to utilize net operating loss carryforwards.

LIQUIDITY AND CAPITAL RESOURCES

The chapter 11 proceedings significantly affected the Company's capital structure, liquidity and capital resources.

Recapitalization and Deferral of Principal Amortization. Upon emergence

from bankruptcy, $600.0 million of subordinated debt and other liabilities were converted into equity. In addition, $451.8 million of secured debt and $66.1 million of accrued interest was restructured to capitalize the accrued interest and defer principal amortization. In the case of the $344 million of 10.67% Notes, cash interest payments through October 8, 1994 were reduced as well. The scheduled principal payments on real property secured debt for the next four years are $4.4 million in 1994, $6.7 million in 1995, $5.6 million in 1996 and $10.2 million in 1997. The Company made no principal payments on such debt in 1991. In 1992, the Company made principal payments on such debt of $1.7 million. In addition, Management estimates that annual expenses under real estate and equipment leases were reduced by approximately $15.0 million. The Company also received a $50.0 million equity infusion. Concurrently with its emergence from bankruptcy, the Company obtained three-year credit and accounts receivable financing facilities. In July 1993, the Company raised net proceeds of $147.5 million through a public offering of Common Stock.

Credit Facilities. As of the Emergence Date, the Company obtained a new three-year Credit Facility and a new three-year Receivables Facility. Subject to collateral limitations, the new facilities provide for up to $225.0 million in credit financing and up to $575.0 million to finance the Company's proprietary credit card receivables portfolio. As of January 1, 1994, no advances and $45.4 million in letters of credit were outstanding under the Credit Facility and $337.1 million of borrowings, $182.7 million less than the maximum available based on the level of customer receivables, were outstanding under the Receivables Facility.

A substantial portion of the Company's debt is variable rate debt. Assuming that the average borrowings and all other variables would have remained constant, an increase (or decrease) in the annual interest rates applicable to the variable rate portion of the Company's debt throughout the 52-week period ended January 30, 1993 of one percent would have increased (or decreased) the Company's interest expense for such period by $5.8 million.

The Credit Facility contains a number of operating and financial covenants, as well as significant negative covenants. The Credit Facility includes covenants for material adverse changes, minimum aggregate net cash flow and earnings before interest, taxes, depreciation and amortization ("EBITDA"). In addition, the Credit Facility prohibits the Company from paying dividends on its stock and places limitations on the Company's capital expenditures. The Credit Agreement and the

Company's agreements with its other principal secured creditors also contain other covenants and requirements. See "Indebtedness of the Company."

Since July 1, 1993, the Company has had to amend its financial covenants in the Credit Facility as a result of charges incurred with respect to implementation of its business strategy, increased competitive pressure on sales and margins and the weak California economy. The charges included a $25 million charge in connection with the AVA program (which is expected to achieve $40 million in annual expense reductions by 1995) and $18 million of inventory clearance markdowns designed to upgrade the Company's merchandise offerings ($6 million of which is expected to be incurred in the fourth quarter). In addition, during fiscal 1993, the Company expects that it will expend $60 million on its capital expenditure program, $66 million on cash interest payments, $20 million on additional working capital and $14 million to repay debt.

The Company is currently in compliance with all covenants under the credit facility. For the 13-week period ended October 30, 1993, the Company had EBITDA of $3.3 million, or $2.3 million more than the EBITDA minimum level required under the Credit Facility. During this period, the Company had consolidated net negative cash flows of $20.2 million, or $7.6 million less than the maximum consolidated net negative cash flow allowed under the Credit Facility. At October 30, 1993, the Company's net inventory ratio was 71.2%, or 4.0% less than the maximum inventory ratio permitted under the Credit Facility. In addition, the Company's inventory balance at October 30, 1993 was within the range specified under the Credit Facility. Finally, the Company's capital expenditures during the 22-week period ended October 30, 1993 were $28.1 million, compared to the maximum capital expenditure allowed during such period of $84.5 million.

Capital Expenditures. In light of the bankruptcy proceedings, the Company's capital expenditure programs were curtailed in 1992 and 1991. Capital expenditures amounted to $38.2 million in 1992 and $34.9 million in 1991, compared to $38.0 million in the 26-week Transition Period, and $83.2 million in 1990. The Company concentrated its capital expenditures in 1993 on store modernization and selling space improvement in addition to ongoing required maintenance expenditures. The Company is projected to spend $60.0 million for capital expenditures during the 1993 fiscal year. Capital expenditures between 1994 and 1996 are expected to be approximately $336.0 million. During this period capital expenditures for modernization and selling space improvements, including capitalized interest, are expected to total approximately $276.0 million, and maintenance capital expenditures are expected to total

approximately $60.0 million. The following table sets forth Management's estimates of the amounts, timing and allocation of capital expenditures for fiscal years 1993 through 1996. The capital expenditure program may be modified over time to accommodate market factors and the Company's then existing financial condition. In addition, from time to time the Company considers proposals to close existing stores or open new stores.

CAPITAL EXPENDITURE PROGRAM
(DOLLAR AMOUNTS IN MILLIONS)

<TABLE>
<CAPTION>

	1993	1994	1995	1996
<S>	<C>	<C>	<C>	<C>
Modernization and Selling Space Improvements.....	$ 44.7	$ 85.6	$ 89.1	$ 95.0
Maintenance Capital Expenditures.....	13.5	22.4	14.9	23.0
Capitalized Interest.....	1.8	2.0	2.0	2.0
Total.....	$ 60.0	$110.0	$106.0	$120.0

</TABLE>

The Company's ability to fund its capital expenditure program and to implement its business strategy will depend on cash flow from operations and the continued availability of borrowings under the Credit Facility. Operating cash flow will be affected by, among other things, the timing of results from the Company's business strategy, sales during the holiday season, and general competitive and economic conditions. The Company believes that operating cash flow and amounts available under the Credit Facility, together with proceeds from the Original Offering, will be sufficient to fund

the major elements of the business strategy. However, the Company continuously evaluates increasing or decreasing the number of stores, the terms of its Credit Facility and Receivables Facility and other operating and financing alternatives.

Other Matters. At January 30, 1993, the Company had an estimated federal tax net operating loss ("NOL") carryforward of $360.0 million, which expires in years 2005 through 2008. The Company's ability to utilize the NOL carryforward is limited on an annual basis as a result of the change in control that occurred at the emergence from bankruptcy. Notwithstanding this limitation, Management does not currently anticipate that the Company will have any significant cash requirements for income tax payments for the next several years based on the availability of the NOLs.

If within a three-year period, however, 50% or more of the stock of the Company changes ownership again, the future annual use of NOLs may be limited to a greater extent by a new annual limit. The new annual limitation would be calculated as the product of (i) the highest long-term tax-exempt rate for a designated period prior to the ownership change and (ii) the market value of the Company at such time. This annual limit would apply to any NOLs incurred prior to the new change in control, but after the change in control that occurred at the emergence from bankruptcy. Furthermore, if the new annual limit were lower than the current annual limit, the new annual limit would apply to all NOLs of the Company incurred prior to the new change in control and could increase cash requirements for income tax payments.

INFLATION

The effect of inflation on the Company's sales and cost of sales is, in the opinion of Management, most closely approximated by the available inflation factors utilized in the computation of LIFO inventories. Commencing with the 17-week period ended January 30, 1993, the Company is utilizing an internally developed inflation index based on an analysis of the Company's unique merchandise assortment. For periods prior to the the Effective Date, the Company utilized the Department Store Inventory Price Index published by the Bureau of Labor Statistics (the "BLS Index"). For the 17-week period ended January 30, 1993, inflation as measured by the internally developed index was not significantly different than that disclosed in the BLS Index. The inflationary effect on SG&A is reflective of a variety of factors including the impact of changes in the consumer price index and the state of the California economy. The BLS Index increased 0.9 percent in the 52 week period ended October 30, 1993 compared to an increase of 0.6 percent in fiscal 1992.

SEASONALITY

The department store business is seasonal in nature with a high proportion of sales and earnings generated in November and December. Working capital requirements fluctuate during the year, increasing somewhat in late Summer in advance of the Fall merchandising season and increasing substantially at the outset of the holiday season when the Company must carry significantly higher inventory levels. Quarterly sales and EBIT for the twenty-four months ended January 30, 1993 were as follows:

<TABLE>
<CAPTION>

	SALES		
	DOLLAR SALES	PERCENT OF ANNUAL SALES	EBIT
	(DOLLAR AMOUNTS IN MILLIONS)		
<S>	<C>	<C>	<C>
13 weeks ended January 30, 1993 (pro forma)	$ 732.5	34.3%	$49.4(1)
13 weeks ended October 31, 1992 (pro forma)	490.3	22.9	3.6(1)
13 weeks ended August 1, 1992	481.4	22.5	12.3
13 weeks ended May 2, 1992	433.6	20.3	5.6
13 weeks ended February 1, 1992	693.2	32.6	36.2
13 weeks ended November 2, 1991	508.7	23.9	15.1
13 weeks ended August 3, 1991	495.9	23.3	15.3
13 weeks ended May 4, 1991	430.1	20.2	3.7

</TABLE>

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(1) Reported EBIT for the 13-week periods ended October 31, 1992 and January 30, 1993 were $(13.9) million and $66.9 million, respectively. Pro forma EBIT reflects the allocation to the 13-week period ended January 30, 1993 of $17.5 million of fixed buying and occupancy costs recognized at October 3, 1992 as a result of the application of fresh start reporting.

As a result of the seasonal nature of the Company's business, the Company follows the practice of allocating certain fixed buying and occupancy costs among quarters within the fiscal year in proportion to projected quarterly sales results. This allocation of costs, therefore, results in a higher portion of yearly fixed buying and occupancy costs being allocated to the fourth quarter.

BUSINESS

INTRODUCTION

The Company is one of the leading operators of department stores in California and the Southwestern United States. Organized in 1896, the Company currently operates 83 department stores under the names The Broadway, Emporium and Weinstocks with more than 15 million gross square feet of retail space. The Company's 41 Southern California stores generate approximately 50% of the Company's sales. Approximately 40% of the Company's sales are generated by its Emporium and Weinstocks stores located in Northern California. The remainder of the Company's sales are generated through stores located in Arizona, Nevada, Colorado and New Mexico. The Company's stores are generally situated in prime locations in popular malls and retail shopping centers.

Management believes the Company enjoys a number of significant strengths. These include operating in convenient store locations, a loyal customer base and an advanced management information system.

Locations and Demographics. During the bankruptcy proceedings, the Company was able to close certain under-performing stores, and reduce lease and common area maintenance charges at a number of locations. As a result, Management believes the Company now has a focused portfolio of stores in desirable locations at attractive costs although Management continues to evaluate the profitability and strategic contribution of each store. See "Business -- Property." While the recent national recession has affected California to a greater extent than most other regions of the country, Management believes the Company is well positioned to benefit from any regional economic recovery.

Advanced Management Information System. The Company believes its management information system ("MIS System") is among the most advanced and efficient in the department store retailing industry. The MIS System provides sophisticated inventory tracking and control, automatic inventory replenishment of certain items through links to key vendors, price look-up capability and a fully integrated voice and data communication network. See "Business -- Management Information System."

During the last two years, the Company has implemented substantial operating and financial changes which have significantly reshaped both its business and capitalization.

Consolidation of Operations. The Company has also substantially completed a consolidation of its operations, which resulted in a significant reduction of administrative expenses. The Company consolidated its four separate divisions into one, which also permitted the closure of two warehouses in Northern California. Management believes these steps resulted in cost savings of approximately $30.0 million per year. The Company combined its proprietary credit and accounts payable operations into a single administrative center, which Management believes has resulted in annual cost savings of approximately $6.0 million compared to amounts paid in the year prior to the filing of the chapter 11 petition. The Company also downsized its data processing operation, which Management believes reduced annual data processing costs by approximately $17.0 million. In addition, the Company negotiated significant reductions in its annual equipment and real estate lease and common area charge payments of $15 million compared to the amounts paid for the year prior to filing for bankruptcy. See "Business -- Consolidation of Operations." In September 1993 the Company completed an AVA study to identify ways to reduce administrative costs. Management believes the implementation of these measures will yield annual cost-savings of approximately $40 million by 1995.

Restructured Balance Sheet. The Company has significantly restructured its secured debt obligations by extending maturities and adjusting the prospective interest and principal payment terms for such debt. During the bankruptcy proceedings, the Company restructured its secured and unsecured debt, obtained a $50.0 million cash equity infusion and put in place the new

three-year Credit Facility and the new three-year Receivables Facility. See "Indebtedness of the Company." In connection with the Company's reorganization and recapitalization, Zell/Chilmark acquired approximately 70% of the Common Stock. Additionally, the Company successfully completed a public offering of Common Stock in July, 1993 which raised net proceeds of approximately $147.5 million through the issuance of 11.45 million shares of stock. The Company raised approximately $137.9 million through the Original Offering in December, 1993. As of January 1, 1994, Zell/Chilmark owned approximately 54.5% of the outstanding Common Stock.

NEW MANAGEMENT

David L. Dworkin joined the Company as its President and Chief Executive Officer on March 24, 1993. Prior to joining the Company, he served as Chairman and Chief Executive Officer of a London-based retailer, BhS, a division of Storehouse, from November 1989 until July 1992, and as Group Chief Executive of Storehouse from July 1992 until joining the Company in March of 1993. During the time he was with BhS and Storehouse, BhS refocused its merchandise assortment, strengthened its merchandising organization, remodeled 64 of its 137 stores and substantially reduced its supplier base. Mr. Dworkin has in excess of 25 years experience in the retail industry, including service as President and Chief Executive Officer of Bonwit Teller and President and Chief Operating Officer of Neiman Marcus, then a division of the Company.

David Dworkin has begun to change the management of the Company and intends to reduce the number of management layers and increase the level of communication within the organization. The Company hired Gerald Mathews from Saks Fifth Avenue as Executive Vice President, Stores; Elayne M. Garofolo from GFT USA Corp. as Executive Vice President, Marketing and Sales Promotion; Patricia A. Warren from The Bon Marche as Executive Vice President, Merchandising, Women's Apparel; and Robert J. Lambert from the Stride Rite Corporation, as Executive Vice President, Human Resources. Robert M. Menar was promoted from Senior Vice President, Information Services to Executive Vice President, Logistics and Information Services. See "Management."

As a result of a leveraged recapitalization in 1987, significant asset sales in 1990 and the bankruptcy proceedings, Management's attention was diverted from the Company's core business. In addition, the Company has been operating under significant capital constraints. With an improved balance sheet, increased efficiency in its operations, the arrival of new leadership and completion of the Original Offering, Management believes the Company is well positioned to capitalize on its inherent strengths and to focus on its stores and customers.

BUSINESS STRATEGY

David Dworkin and the other senior executives have begun to implement a long-term plan to improve store sales productivity and profitability, further reduce operating expenses and identify other opportunities to increase the profitability of the Company's business. The Company's sales per gross square foot ($137) in 1992 were significantly below the department store industry average and below the level achieved by the Company in fiscal 1989 ($150 per

gross square foot). Similarly, the Company's operating profit margin (EBIT margin) is well below the department store industry average. Management believes an opportunity exists to improve financial performance with the implementation of clear merchandising and operating strategies and the investment of capital in its stores.

In mid 1993, the new management team developed a Mission Statement defining the Company's target customer, merchandising focus and store identity. Consistent with its Mission Statement, Management has developed specific strategies that are intended to improve merchandise offerings, remodel the stores, improve inventory management, refocus marketing efforts, improve the selling culture and reduce costs.

Improve Merchandise Offerings. The Company plans to significantly reallocate selling space towards faster turning, higher profit core merchandise categories, which represent the primary merchandise which attracts customers to the stores, and away from slower turning, low profit

categories. Other initiatives being taken to improve the Company's merchandise offerings are described below.

- Improve Merchandise Profitability. The Company will increase private-label products across the merchandise spectrum. The Company will also offer exclusive brand name product offerings by exploiting a dramatically edited vendor base.

- Emphasize Value Pricing. Management will continue to refine its focused pricing architecture which emphasizes value and quality. The Company currently offers over 17% of its merchandise at every-day value pricing and intends to merchandise 20% of its product offerings in this manner.

- Ensure Merchandise Freshness. The Company plans to provide fresh merchandise by using a receipts-driven planning process (the retail equivalent of just-in-time) which allows operation with lower stocks, creating faster inventory turnover and obviating the need for excessive markdowns to move dated merchandise.

  To support the Company's new merchandising strategy, Management has implemented a revised marketing and sales promotion strategy. This new focused marketing strategy relies on the collection and usage of demographic data on the Company's market areas obtained through the proprietary credit card operations, the point-of-sale ("POS") data base, independent data bases and both broad-based and focused market research. The new sales promotion strategy focuses promotional activity on key periods and specific events which complement, rather than define, the core business.

Remodel Stores. The Company has developed several specific strategies to improve presentation of merchandise assortments and to communicate with its target customers.

- Reallocate and Remodel Selling Space. Management is developing, on a store-by-store basis, a program to reallocate space away from non-core merchandise categories in favor of core merchandise. Management plans to remodel a number of stores to more effectively allocate selling space, increase selling square footage, improve merchandise presentation and general store appearance and facilitate better customer service.

  The Company plans to spend approximately $336.0 million for store modernization, selling space improvements and maintenance capital expenditures through 1996. Over the next three years, the Company intends to remodel/reallocate space within at least 40 of its 83 stores. The Company will first remodel those stores in which Management believes capital expenditures can produce the greatest return on investment through increases in sales productivity.

  In fall 1993, the Company completed "quick win" improvements in 58 stores at a cost of $17.4 million and invested an additional $12.5 million on fixtures to enhance merchandising and displays. These improvements involve low cost upgrades, reallocation of selling space without significant relocations of fixtures and walls and installation of additional vendor shops. The "quick win" strategy was designed to allow the Company's sales and profits to benefit from actions which involve relatively modest capital investment and could be implemented prior to formal store remodels. See "Business -- Store Remodeling."

  The Company has created a model store space distribution floor plan in concert with its merchandising strategy. This space redistribution/remodel plan will be the foundation of the capital expenditure program and will be implemented in the Company's stores over the next three years.

Improve Inventory Management. The Company has begun to tailor merchandise assortments to its stores and develop more effective partnerships with its vendors. Management believes these actions will increase the freshness of merchandise assortments, improve store sales and inventory turnover and reduce markdowns.

- Utilize Planner-Distributor Department. The Company's planner-distributor department ("P&D Department") works closely with the Company's buying organization to improve the allocation and distribution of inventory to the Company's stores. The P&D Department analyzes demographic and market research data, as well as data on customer buying patterns captured through the Company's proprietary credit card system, to tailor merchandise assortments for individual stores. Management believes the P&D Department can provide the Company an advantage over large national department store chains with standardized merchandising. The tailoring of merchandise presents a particular marketing opportunity in California and the Southwest given the ethnic diversity of these regions. See "Business -- Merchandising and Planner-Distributor Organizations."

- Reduction of Vendors. The Company has reduced the vendor base by 40%, with ongoing purchases consolidated in the remaining vendors. Management believes this reduction will increase the Company's importance to its remaining vendors.

- Inventory Level Reduction/Focus on Receipt Flow and Gross Margin Return on Investment. The Company has increased vendor participation in its quick response inventory replenishment program to reduce purchase lead time, maintain a faster and more continuous merchandise flow and facilitate automatic replenishment of staple items. Automatic replenishment and cooperative supply arrangements enhance efficiency and drive down both inventory levels and costs. By coupling this approach to on-hand stock reduction with automatic markdown programs to clear-out slow moving items, Management will be able to simultaneously cut the investment in inventory and speed up the turnover of merchandise on the selling floor. Management intends to improve the efficiency of inventory through a new focus on receipt flow, gross margin return on investment and timely markdowns. Management believes this focus has already resulted in an improvement in the aging of the Company's inventory and a reduction in the weeks of supply on hand.

Refocus Marketing Efforts. The Company has refocused its marketing efforts to create a research based marketing strategy that is fully integrated with both the merchandising and store operation functions. To implement this strategy, the Company has created a customer database through the use of both proprietary internal information and externally available information which enables the Company to identify its customer base and to tailor its marketing and merchandising strategy to reach its core customer. The Company is using its market research to determine ways to communicate with the customer and enhance the shopping environment. Additionally, the Company is pursuing a strategy of marketing to the ethnically diverse population of California and the Southwest through the use of targeted marketing programs and bilingual sale associates, signage and advertising. The Company is redirecting its marketing to provide a more focused image and communicate the changes underway.

Improve Store Selling Culture. The Company is revitalizing its selling culture. This new customer-driven culture focuses on improving productivity by reallocating store personnel and providing an enhanced shopping environment. In order to accomplish these goals, the Company is recruiting talented store personnel, improving customer service and sales training, and redesigning the compensation structure to align more closely the sales associates' incentives with the customer service goals.

Reduce Costs. The consolidation of operations to date has significantly reduced the Company's expense infrastructure. In September 1993, the Company completed an AVA program. This program was designed to evaluate the importance and value of each of its areas of operation and identify duplicative and low value-added functions, potential staff reductions and other actions which improve efficiency. This review yielded more than 1,500 cost-saving ideas and identified approximately $40.0 million of annual expense reductions. The Company began implementing these measures earlier this year and expects to complete their implementation in 1995. Management

believes the implementation of these measures will result in incremental annual savings of $7.0 million in 1993, $30.0 million in 1994 and $3.0 million in 1995.

COMPANY OPERATIONS

The Company's stores presently operate under the names The Broadway, Emporium and Weinstocks. All support functions have been centralized, resulting in the elimination of many duplicate support functions. Management, marketing and sales promotion, merchandising and administrative functions (other than accounts payable and proprietary credit card operations, which are consolidated in Tempe, Arizona, and data processing operations, which are consolidated in Anaheim, California) are all located at the Company's corporate offices in Los Angeles, California.

Forty-one Broadway stores are spread over a seven-county area in Southern California extending from Bakersfield and Santa Barbara in the North to San Diego in the South. The Company's twenty-two Emporium stores are located predominantly in the San Francisco Bay area. Of the Company's nine Weinstocks stores, eight are located in the Sacramento and Central Valley region of California, and one in Reno, Nevada. The eleven non-California Broadway stores are located in Arizona, Colorado, Nevada and New Mexico.

<TABLE>
<CAPTION>

STORE NAME	GEOGRAPHIC REGION	NUMBER OF STORES	GROSS SQUARE FOOTAGE	FISCAL 1992 SALES ($000)	SALES PER GROSS SQUARE FOOT
<S>	<C>	<C>	<C>	<C>	<C>
The Broadway	Southern California	41	7,096,500	$1,063,977	$ 150
	Other Southwest	11	1,701,900	217,012	128
Emporium	Greater San Francisco Bay Area	22	4,943,100	604,008	122
Weinstocks	California Central Valley and Reno, Nevada	9	1,435,300	187,240	130
Totals		83	15,176,800	$2,072,237(1)	$ 137

</TABLE>

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(1) Excludes sales of $65.6 million relating to five stores closed during 1992.

During the past five years, one California Broadway store was opened and three stores were closed. In addition, one store was opened and one store was closed in Arizona. In January 1993, the Company closed three Weinstocks stores located in Utah. No Emporium stores were opened or closed in the past five years. The following table summarizes the number of stores opened and closed during the period August 2, 1987 through January 30, 1993 (excluding Thalhimers stores).

<TABLE>
<CAPTION>

	NUMBER OF STORES OPEN AT BEGINNING OF PERIOD	STORES OPENED	STORES CLOSED	NUMBER OF STORES OPEN AT END OF PERIOD
<S>	<C>	<C>	<C>	<C>
17-week period ended January 30, 1993	87	--	4	83
35-week period ended October 3, 1992	88	--	1	87
52-week period ended February 1, 1992	89	--	1	88
26-week transition period ended February 2, 1991	89	1	1	89
53-week period ended August 4, 1990	88	1	--	89
52-week period ended July 29, 1989	88	--	--	88
52-week period ended July 30, 1988	88	--	--	88

</TABLE>

The Company intends to aggressively manage its portfolio of stores by identifying and closing, if necessary, underperforming stores, as well as identifying opportunities to open new stores.

CONSOLIDATION OF OPERATIONS

The Company has undertaken a significant series of programs over the past few years to consolidate its operating divisions and reduce its expenses. In the fall of 1990, the Company sold Thalhimers, its only East Coast retailing subsidiary. As of January 1991, the Company operated its stores through four separate divisions, each with separate management, administrative, marketing and sales promotion functions. In April of 1991, the Company consolidated its Weinstocks and Emporium divisions. In January of 1992, the Company consolidated the Broadway-Southwest division into the Broadway-Southern California division. Finally, in April of 1992, the Company consolidated its Emporium-Weinstocks

division into its Broadway division, forming a single operating unit based in Southern California. Management believes that the divisional consolidations have resulted in cost savings of approximately $30.0 million per year.

With the consolidation of the Company's store operations, the Company consolidated its proprietary credit card and accounts payable operations into a single administrative center located in Tempe, Arizona, which the Company estimates will result in an estimated annual cost savings of approximately $6.0 million compared to the costs incurred in the year prior to the filing of the chapter 11 petition. Over the last three years, the Company has downsized its Anaheim, California data processing operation, reducing employment from approximately 530 full-time employee equivalents to approximately 330 full-time employee equivalents. Management estimates that this downsizing has reduced annual data processing costs by approximately $17.0 million. The consolidation of its operating divisions described above also reduced the requirements for separate distribution and warehouse facilities, permitting the closure of two warehouses in the San Francisco and Sacramento areas. As of April 1993, the Company began operating its Broadway Southern California and Broadway Southwest stores under the name "The Broadway."

In connection with the chapter 11 proceedings, the Company negotiated reductions in rental rates and common area charges under many of its real property leases and related agreements, which the Company estimates will result in an annual cost savings of approximately $6.0 million compared to the amounts paid for the year prior to the bankruptcy filing. The Company also renegotiated many of its equipment leases. As a result, rental charges under the Company's equipment leases have been reduced by approximately one-third, which the Company estimates will yield an annualized cost savings of approximately $9.0 million compared to the amounts paid for the year prior to filing for bankruptcy.

MERCHANDISE ASSORTMENT

The Company's stores carry a broad merchandise assortment of apparel, shoes, cosmetics, accessories and home products such as tabletop and housewares, domestic items, furniture and floor coverings and electronics. The following table summarizes the Company's sales for the year ended January 30, 1993 by merchandise category (including leased categories except leased automotive centers) as a percentage of sales.

<TABLE>
<CAPTION>

	PERCENT OF SALES(1)	PERCENT OF NET SELLING SPACE(2)
<S>	<C>	<C>
APPAREL AND SOFT GOODS		
Women's Apparel	28.0%	28.6%
Men's Apparel	15.8	13.8
Cosmetics	12.5	3.9
Accessories	7.5	6.0
Children's Apparel	4.6	7.0
Shoes	4.9	3.7
Fine Jewelry	2.5	0.6
HOME STORE GOODS		
Tabletop and Housewares	7.6	10.9
Domestic Items	5.4	8.1
Furniture and Floor Coverings	3.5	7.7
Electronics	3.1	2.2
OTHER	4.6	7.5
Totals	100.0%	100.0%

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(1) Excludes sales from clearance centers, closed stores and leased automotive centers.

(2) Net selling space calculations are based on selling space existing as of the last week of November 1992.

The Company intends to de-emphasize certain slow-turning or low margin merchandise, such as furniture and electronics, and place more emphasis on women's and men's apparel and accessories, cosmetics, women's shoes and soft home goods (such as tabletop and housewares and domestic items), which constitute the Company's core merchandise categories. See "Business -- Business Strategy."

Approximately 9% of store retail space (other than space leased for

automotive centers) is leased to outside vendors operating stand-alone departments within each store. Leased departments include the shoe and jewelry departments in each store and the automotive departments at certain store locations. The independent operators supply their own merchandise and sales personnel, contribute to advertising and pay the Company a percentage of gross sales as rent. These departments (including leased automotive departments) accounted for approximately 10.7% of the Company's total sales for the year ended January 30, 1993. In connection with the refocusing of the Company's merchandise assortments, the Company intends to carefully review the merchandise offerings of its leased-space vendors to ensure that they appeal to the Company's target customers and are consistent in terms of price, quality, assortment and fashion with the Company's merchandise offerings in its other departments.

STORE REMODELING

The Company's store remodeling program is designed to increase the available selling space within existing stores and make more productive use of the existing selling space through the reallocation of space in favor of apparel, accessories, cosmetics and soft home goods, categories of merchandise which generally turn faster, have higher gross margins and constitute the Com-

pany's core merchandise. The Company's store remodeling program has a "quick win" component and a longer-term component.

"Quick Win" Remodeling. Management has completed "quick win" minor adjustments in selling space allocation and appearance in 58 stores at a cost of $17.4 million. These improvements involve low-cost upgrades and the favorable reallocation of selling space to the extent possible without relocating significant fixtures or walls. Many of these improvements also involved the installation of vendor shops or updated fixtures, which are typically partially paid for by the vendor but operated by the Company. A vendor shop is a custom display area dedicated to a specific vendor. Such shops are generally jointly designed by the vendor and the Company and create a physical identity for the vendor in the store. In 1992, 212 such vendor shops were opened and 252 additional vendor shops have been opened during 1993.

Long-term Remodeling. The Company has targeted approximately 40 stores for remodeling by 1996. Stores are being selected for remodeling based primarily on sales potential, demographic trends and expected return on investment. Over the next three years the Company plans to spend approximately $336.0 million on capital expenditures, with spending on store modernization and selling space improvements expected to be $276.0 million after contributions from developers and landlords, and maintenance capital expenditures of $60.0 million. See "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Liquidity and Capital Resources -- Capital Expenditures."

The Company's long-term remodeling plan contemplates three different types of remodeling: major remodeling, which involves the total refitting of a store, including the reallocation of selling space, the relocation or replacement of significant interior walls and fixtures and the realignment of selling departments to place complimentary merchandise offerings in closer proximity with each other so as to stimulate cross-shopping and cross-selling opportunities; moderate remodeling, in which selling space would be reallocated, selling departments would be realigned, significant interior walls and fixtures would be relocated or replaced and signage, lighting, carpeting and wall covering would be changed to upgrade the store's appearance; and minor remodeling, in which signage, lighting, carpeting and wall covering changes would be made to upgrade the store's appearance, but no space reallocation would occur. In addition, the Company plans to expend money for vendor shops and general upgrading and maintenance of fixtures and merchandise presentation in its stores.

These store remodeling activities will generally be carried out over an extended period between peak selling seasons. Management believes that the Company will realize substantial long-term benefits from the remodeling program. Moreover, Management believes that the remodeling program will be implemented in a way that should avoid any material adverse impact on sales in the short term.

MERCHANDISING AND PLANNER-DISTRIBUTOR ORGANIZATIONS

With the consolidation of its divisions, buying activities were centralized for the Company's 83 stores. The centralized buying organization facilitates the editing of assortments and reduction in the number of vendors and increases the importance of the Company to its key vendors. The centralized buying function has enabled the Company to improve the overall quality of its buying staff, increase the depth and specialization of buyers dedicated to its merchandise categories, and improve the consistency and coordination of the buying process.

In 1992, in conjunction with the consolidation of the Company's operating divisions, the Company established the P&D Department to work closely with its

buying organization and improve the allocation and distribution of inventory to the Company's stores. The P&D Department synthesizes demographic and market research along with data on current sales performance for each market served by the Company. Using this information, the P&D Department works closely with the buyers in the Company's merchandising department to determine the appropriate merchandise mix

for each store, specifying the appropriate styles, colors and sizes to be provided, the timing for delivery and the quantity of goods to be delivered. In determining the merchandise mix for a particular store, the P&D Department takes into account local differences in lifestyle and ethnic background, seasonal differences and other factors.

Planner-Distributor departments have been used extensively in the specialty store sector. The Company believes its P&D Department enables it to better merchandise its stores, react effectively and quickly to local market conditions, improve inventory turnover and reduce markdowns. Management believes the P&D Department can provide the Company an advantage over large national department store chains with standardized merchandising, particularly in California and the Southwest given the ethnic diversity of these regions.

PURCHASING

Since 1992, the Company has reduced the number of vendors by 40% as it continues to edit its merchandise assortment. By continuing to reduce the number of vendors, the Company anticipates that it will become more important to its remaining vendors. To facilitate this, the Company is increasing vendor participation in the Company's quick response program and increasing the number of strategic alliances with vendors. Management does not believe that reducing the number of its vendors poses any material risk.

The Company has increased the number of strategic alliances from four, as of July 1993, to 13, as of December 1993 (three of which represent separate departments of the same vendor), and expects to have entered into a total of 60 such alliances over the next few years. Strategic alliances allow the Company and the vendor to better direct merchandise to the Company's customers. Pursuant to such alliances, the vendor and the Company cooperate with respect to assortment, marketing issues, visual presentation, sales promotion and staffing. In addition, strategic alliances better enable the Company to obtain the vendor's merchandise in the size, color and style specifications desired for each store, as directed by the P&D Department.

Management believes that the Company's quick response program and its strategic alliances with vendors improve the Company's marketing decisions and provide the Company with greater control over its merchandise assortments. In addition, both programs reduce purchase order lead times, provide a faster and more continuous flow of merchandise, increase sales and inventory turns and reduce inventory investment and markdowns. The quick response program and the strategic alliances improve the accuracy of the Company's inventory reporting and reduce the Company's expenses.

The Company purchases merchandise from many suppliers, no one of which accounted for more than 5% of the Company's net purchases during 1992. The Company has no long-term purchase commitments or arrangements with any of its suppliers, and believes that it is not dependent on any one supplier. The Company considers its relations with its suppliers to be satisfactory.

MANAGEMENT INFORMATION SYSTEM

Management believes that its internally developed MIS System is among the most advanced in the department store retailing industry. Management believes its systems capability will play an important role in the implementation of its business strategy. The MIS System provides detailed information that enables Management to monitor the effectiveness of merchandise strategies, improve merchandise assortments and reduce inventory costs. The MIS System capability fully supports its efforts with vendors to shorten lead times and manage the level of merchandise shipments received based on most recent sales trends.

The Company's information services facility provides data processing, systems development and communication services to all of the Company's stores, headquarters and distribution and

support facilities. The MIS System provides fully integrated voice and data communication links to its point-of-sale terminals, computer systems and telephone system. The system currently provides sophisticated inventory tracking and control for more than 800,000 stock-keeping units and has the capacity to track 2 million units. The system also provides automatic inventory

replenishment of selected inventory items using computer-generated purchase orders, and links the Company with more than 160 vendors through an interactive electronic communications network. In addition, the MIS System's price management system allows daily updating of merchandise prices (either store-by-store or Company-wide) and provides on-line price-lookup capability at the point-of-sale register. All of the major components of the MIS System are protected from major systems failures through the MIS System's architecture, as well as through an arrangement with a leading provider of back-up information systems. Management believes that the Company's MIS System will continue to play a central role in the execution of the Company's merchandising strategy and the ongoing containment of inventory and operating costs.

PROPRIETARY CREDIT CARD OPERATIONS

Customers may purchase merchandise at any of the Company's stores for cash, with certain common third-party credit or charge cards, or on credit in accordance with revolving credit account terms provided by the Company through its own proprietary credit card operations. In addition to providing a source of credit that customers may use to make purchases at Company stores, these programs generate a significant body of marketing data related to customers' tastes and buying patterns. Demographic and purchasing information available as a result of the proprietary credit card program provides Management with a valuable tool to analyze customer demographics and shopping patterns. The Company uses this information to provide specific customers with information about merchandise or events that would be of particular interest to them based on their historical shopping patterns.

In recent years, the Company's proprietary credit card sales have declined while third-party credit card sales have been increasing. The Company believes that this is due to the broader utility of third-party credit and stronger marketing and expanded availability of third-party credit. The Company continually evaluates the effectiveness of various credit-promotion programs to maximize proprietary credit card sales volume consistent with the Company's credit standards. For example, the Company developed a preferred proprietary credit card. Under this preferred credit card program, customers are offered special incentives designed to stimulate proprietary credit card purchases. Effective October 1993, changes in the terms of the Company's revolving charge accounts reduced the minimum monthly payment requirement on outstanding balances from 10% to 5%. This change is expected to result in increases in customer receivable balances outstanding and corresponding finance charge revenue gains.

In the year ended January 30, 1993 proprietary credit card sales accounted for 52.3 percent of gross sales. As of January 30, 1993, short-term revolving proprietary credit card charge accounts comprised approximately 85 percent and long-term revolving proprietary credit card charge accounts comprised approximately 15 percent of total customer receivables. The following tables reflect selected proprietary credit operations data:

<TABLE>
<CAPTION>

AS OF	NUMBER OF BILLED ACCOUNTS	NUMBER OF DAYS CREDIT SALES OUTSTANDING	AVERAGE CREDIT BALANCE PER BILLED ACCOUNT
<S>	<C>	<C>	<C>
January 30, 1993.....	3,184,000	138	$168
February 1, 1992.....	3,660,000	146	157
February 2, 1991.....	3,830,000	141	168

</TABLE>

The Company's average accounts receivable balances during the years ended January 30, 1993, February 1, 1992 and February 2, 1991 were $532.6 million, $580.9 million and $632.2 million,

respectively (excluding Thalhimers data). During these periods, the Company's finance charge revenue decreased from $99.4 million in 1990 (excluding Thalhimers finance charge revenue) to $82.7 million in 1992. Management believes that the decrease in the Company's finance charge revenue in recent years is due to the decrease in the size of the Company's accounts receivable during the same period attributable to lower proprietary credit sales and accelerated customer repayments. Seasonal customer purchasing in November and December produces an increase in credit purchases. As a result, customer receivable balances outstanding and the number of accounts with unpaid balances normally reach their highest levels in the months of December and January.

Customer receivables are generally written-off when the aggregate of payments made in the last six months is less than one full scheduled monthly payment, or when it is otherwise determined that the account is uncollectible. Proprietary credit card sales, net write-offs with respect thereto, and customer receivable balances for the periods indicated were as follows (excluding

Thalhimers' data):

<TABLE>
<CAPTION>

FISCAL YEAR ENDED	CREDIT SALES		NET WRITE-OFFS		TOTAL CUSTOMER RECEIVABLES
	AMOUNT	% OF GROSS SALES(1)	AMOUNT	% OF CREDIT SALES	
	(DOLLAR AMOUNTS IN THOUSANDS)				
<S>	<C>	<C>	<C>	<C>	<C>
January 30, 1993	$1,222,205	52.3%	$36,687	3.0%	$ 580,542
February 1, 1992	1,252,843	53.8	38,503	3.1	598,562
February 2, 1991 (26 weeks ended)	812,424	56.3	17,719	2.2	673,478
August 4, 1990	1,497,508	56.7	35,186	2.3	589,705
July 29, 1989	1,527,104	58.6	20,809	1.4	596,364

</TABLE>

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(1) Proprietary credit card sales as a percent of total sales inclusive of related sales tax receipts.

The deterioration of general economic conditions in the Company's principal markets, including a significant increase in personal bankruptcies, has adversely affected the Company's net write-off experience during the last two years. Management expects that the Company may realize an improvement in net write-off experience as regional economic conditions improve.

In addition, the Company's proprietary credit cards are subject to federal and state regulation, including consumer protection laws, that impose restrictions on the making and collection of consumer loans and on other aspects of credit card operations. During 1991, several legislative initiatives were proposed to Congress which, had they been successful, would have had the effect of imposing a ceiling on the interest rate that could be charged on credit card accounts. There can be no assurance that the existing laws and regulations will not be amended, or that new laws or regulations will not be adopted, in a manner that could adversely affect the Company's proprietary credit card operations.

PROPERTY

As of January 30, 1993, 24 of the Company's stores were owned, 17 were owned subject to ground leases and 42 were leased. Three of these leased stores are subject to separate ground and improvement leases. As of January 30, 1993, the total annual base rent due under the store leases is approximately $28.0 million. In addition to the base monthly rent, the Company is obligated under many of the leases, or under related agreements discussed below, for a portion of common area maintenance charges and real property taxes. Further, the Company is lessee under eleven other leases relating to various offices, distribution facilities, and parking facilities. As of January 30, 1993, the total annual base rent due under these additional leases is approximately $2.0 million. Leases are generally for periods of up to 30 years, with renewal options for substantial periods. Such leases

are generally at fixed rental rates, except that certain leases provide for additional rental payments based on sales in excess of predetermined levels.

Since many of the Company's stores are located in regional shopping centers, the Company is also party to other agreements which are inextricably tied to the Company's ground or improvement leases or its ownership of the property. Anchor tenants such as the Company and shopping center developers commonly enter into reciprocal easement agreements which, among other things, establish certain operating covenants to which the anchor tenants are bound. In addition, individual anchor tenants often enter into separate agreements with the developers relating to, among other things, common area charges and operating covenants.

The Company operates distribution facilities in Los Angeles and Union City, California, and Tempe, Arizona. Information services and data processing support are centralized in a facility located in Anaheim, California. Credit card and accounts payable administrative functions are provided from an administrative center located in Tempe, Arizona. All other management, marketing and sales promotion, merchandising departments, and support functions are located at the Company's corporate offices in Los Angeles, California.

At January 30, 1993, the square footage used in the Company's operations was as follows:

<TABLE>
<CAPTION>

	OWNED

	OWNED	SUBJECT TO GROUND LEASE	LEASED	TOTAL
<S>	<C>	<C>	<C>	<C>
Stores	4,819,500	2,972,000	7,385,300	15,176,800
Distribution centers and other facilities	2,240,000	--	97,500	2,337,500

</TABLE>

Thirty-one of the Company's stores and the Company's corporate offices and distribution center are encumbered by deeds of trust in favor of the Company's largest secured creditor. An additional nine of the Company's stores are encumbered by deeds of trust in favor of certain banks under the Company's loan agreements with such banks. Two other stores and two non-store facilities are encumbered under individual mortgage agreements with other lenders.

COMPETITION

The retail industry, in general, and the retail department store business, in particular, are intensely competitive with respect to the purchase and sale of merchandise and the acquisition of desirable store locations. Significant competitors of the Company include Robinsons-May, Bullock's, Macy's, Nordstrom, Mervyn's, J.C. Penney, Dillard's and Gottschalks, though not all of these other competitors have stores in each market in which the Company competes. Each store competes not only with other traditional department stores, but also with specialty stores, discount stores, off-price retailers and numerous other types of local retail outlets selling apparel and accessories, electronics, furniture, and home furnishings. The Company also competes with various retailers that offer merchandise by mail order. Additionally, in the future, companies that offer merchandise to consumers via television may become more significant competitors of the Company. Many factors enter into the competition for consumers' patronage, including service, price, quality, style, product mix, convenience and credit availability. Each of the Company's stores has at least one department store competitor nearby. Some of the retailers with which the Company competes have substantially greater financial resources than the Company.

EMPLOYEES

As of January 30, 1993, the Company employed approximately 23,000 associates, of whom approximately 12,000 were then employed on a full-time basis, subject to seasonal increases in the number of sales associates during the holiday season. The Company has union contracts covering approximately three and one-half percent of the associates of the Company, primarily in two

Emporium stores located in San Francisco. The Company believes that it has good relations with its associates.

SERVICE MARKS

The service marks "The Broadway," "Emporium," and "Weinstocks" have been registered with the United States Patent and Trademark Office. The Company also has rights to several other marks. The Company also uses several trademarks and service marks in connection with certain of its private-label brand merchandise. Except for the aforementioned service marks as applied to the retail merchandising of goods and services, the Company does not believe that there are any patents, licenses, trademarks and service marks that are material to its business.

RECAPITALIZATION

On February 11, 1991, the Company filed a voluntary petition for relief under chapter 11 of the United States Bankruptcy Code (the "Bankruptcy Code") in the United States Bankruptcy Court for the Central District of California (the "Bankruptcy Court"). During the bankruptcy proceedings, the Company managed its affairs and operated its business as debtor in possession under the supervision of the Bankruptcy Court while it developed a reorganization plan to restructure the Company. On the Emergence Date, the Company emerged from bankruptcy under the POR. Since the Emergence Date, the Company has operated independently, although the Bankruptcy Court has retained jurisdiction over certain claims and other matters relating to the POR. See "Business -- Legal Proceedings -- Chapter 11 Proceedings; Unresolved Claims."

Pursuant to the POR, as of the Emergence Date, the Company's largest secured creditors and certain other secured creditors agreed to extend the maturities and adjust the prospective interest and payment terms for loans totaling $451.8 million and capitalize $66.1 million of interest accrued thereon during the chapter 11 proceedings. See "Indebtedness of the Company." In addition, the Company negotiated significant reductions in lease payments and common area charges under its equipment and real property leases. See

"Business -- Property." While the bankruptcy proceedings were pending, Zell/Chilmark acquired via tender offer approximately $461.0 of the $600.0 million in unsecured claims against the Company, making Zell/Chilmark the Company's largest unsecured creditor. Pursuant to the POR, these unsecured claims were converted into equity. In addition, Zell/Chilmark and First Plaza were each issued 2,500,000 shares of Common Stock in exchange for a cash equity infusion totaling $50.0 million. As a result, Zell/Chilmark held approximately 70% of the shares of Common Stock outstanding as of the Emergence Date.

Pursuant to the POR, holders of the Company's common stock, $.01 par value, outstanding prior to the Emergence Date ("Old Common Stock") received .081 shares of Common Stock and .084 Warrants (or, in the case of participants in the profit sharing plan in effect prior to the Emergence Date with respect to shares of Old Common Stock held by such plan and other holders of Old Common Stock who so elected, .081 shares of Common Stock and .084 shares of Preferred Stock). See "Description of Capital Stock."

As of the Emergence Date, the existing debtor-in-possession working capital facility and the receivables based financing arrangement were replaced with new three-year facilities, the Credit Facility and the Receivables Facility. Subject to collateral limitations, the new facilities provide for up to $225.0 million under the Credit Facility and up to $575.0 million to finance the Company's proprietary credit card receivables portfolio. See "Indebtedness of the Company."

For additional information related to the financial obligations of the Company and the financial impact of the bankruptcy proceedings on the operations of the Company's business, see "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Indebtedness of the Company" herein.

The Company does not, as a matter of policy, publish projections covering future performance. However, in connection with the consummation of the POR, the Company was required by law to include certain projections in its disclosure statement to establish the viability of the POR. Those projections were prepared in early 1992. With the Company's management transition and the implementation of its business strategy, among other factors, the Company does not believe that such projections are necessarily indicative of future performance.

LEGAL PROCEEDINGS

Chapter 11 Proceedings; Unresolved Claims. A discussion of the events surrounding the Company's bankruptcy filing and an explanation of the material terms of the Company's reorganization under the POR is set forth in the section entitled "Business -- Recapitalization." None of the Company's subsidiaries filed petitions for relief under the Bankruptcy Code. Notwithstanding the confirmation and effectiveness of the POR, the Court continues to have jurisdiction to, among other things, resolve disputed prepetition claims against the Company and to resolve other matters that may arise in connection with or relate to the POR.

Pursuant to the POR, the Company is required to distribute .046 shares of Common Stock for each $1.00 of allowed general unsecured claims. The POR estimated the total amount of such claims to be approximately $600.0 million, against which the Company reserved 27.6 million shares of Common Stock. As of January 1, 1994, approximately $52.9 million of disputed claims remained outstanding. Management believes such claims will ultimately be allowed upon settlement or litigation for approximately $19.0 million, for which the Company has reserved approximately 1.0 million shares. Management believes that reserved shares of Common Stock will be sufficient to meet the Company's obligations to such claim holders. If all disputed claims were allowed in full, such claim holders would be entitled to a total of 2.4 million shares of Common Stock, compared to the 1.0 million shares reserved, resulting in a dilution to holders of outstanding Common Stock of approximately 3%. Management regularly evaluates the status of remaining disputed claims and claim settlement experience and accordingly adjusts its estimate of the number of shares to be reserved for issuance with respect to such claims. In addition, the Company has reserved approximately 0.2 million shares for preconfirmation stockholders of the Company who have not yet claimed the distribution of Common Stock to which they were entitled under the POR. The total of 1.2 million shares is included in the Company's calculation of its outstanding Common Stock. In addition, 0.2 million Warrants will remain issuable to certain preconfirmation stockholders pursuant to the POR. There are no contractual restrictions on the resale of these securities. Such securities may be sold into a public market without restriction at any time, potentially resulting in an adverse effect on the market for, or the market price of, the Common Stock.

The Company is engaged in an ongoing effort to resolve these remaining disputed claims. Because of the disputed nature of these claims and the delays associated with litigation generally, Management anticipates that the settlement of these claims is likely to occur over an extended period of time.

Other Legal Proceedings. The Company is involved in various other legal proceedings incidental to the normal course of business. Management does not expect that any of such other proceedings will have a material adverse effect on the Company's financial position or results of operations.

MANAGEMENT

The following is a list of names and ages of all of the current executive officers of the Company indicating all positions and offices with the Company held by each such person, each such person's principal occupations or employment during the past five years, and the expiration of each such person's term of office.

<TABLE>
<CAPTION>

NAME	AGE	OFFICE	TERM EXPIRATION(1)
<S>	<C>	<C>	<C>
David L. Dworkin.....	50	President, Chief Executive Officer and Director	March 23, 1996
Gerald J. Mathews.....	53	Executive Vice President, Stores	April 30, 1996
Elayne M. Garofolo....	47	Executive Vice President, Marketing and Sales Promotion	May 23, 1996
Patricia A. Warren....	46	Executive Vice President, Merchandising, Women's Apparel	May 23, 1996
William J. Podany.....	47	Executive Vice President, Merchandising, Home, Men's and Cosmetics	July 20, 1995
Robert J. Lambert.....	40	Executive Vice President, Human Resources	December 1, 1996
Robert M. Menar.....	56	Executive Vice President, Logistics and Information Services	July 20, 1995
Brian L. Fleming.....	49	Senior Vice President, Accounting and Taxes	July 20, 1995
Marc E. Bercoon.....	33	General Counsel and Corporate Secretary	(2)

</TABLE>

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(1) The Company has entered into employment contracts with those individuals with term expirations indicated, except with respect to Mr. Mathews, Ms. Garofolo and Ms. Warren, with whom the Company has entered into agreements in principle with expiration terms as noted.

(2) Marc E. Bercoon serves at the pleasure of the Board of Directors.

David L. Dworkin joined the Company as its President and Chief Executive Officer on March 24, 1993. He also became a Director at that time. Prior to joining the Company, he served as Chairman and Chief Executive Officer of London-based retailer BhS, a division of Storehouse, from November 1989 until July 1992, and as Group Chief Executive of Storehouse from July 1992 until joining the Company in March of 1993. He has in excess of 25 years experience in the retail industry, including service as President and Chief Executive Officer of Bonwit Teller, Inc. from 1988 through 1989, and President and Chief Operating Officer of Neiman Marcus from 1984 through 1988, then a division of the Company.

Gerald J. Mathews was appointed Executive Vice President, Stores in May 1993. From 1976 through 1992, he served as Executive Vice President, Stores of Saks Fifth Avenue.

Elayne M. Garofolo was appointed Executive Vice President, Marketing and Sales Promotion in May 1993. From 1991 to 1993, she served as Senior Vice President, Communications and Image of GFT USA. From 1981 to 1990, she served as Senior Vice President of Marketing and Sales Promotion of Bonwit Teller, Inc.

Patricia A. Warren was appointed Executive Vice President, Merchandising, Women's Apparel in May 1993. From 1989 to 1993, she served as Senior Vice President, General Merchandising Manager of The Bon Marche. From 1986 to 1989, she served as Executive Vice President of the Broadway Southwest.

William J. Podany was appointed Executive Vice President, Merchandising, Home, Men's and Cosmetics in April 1993. From February 1992 to April 1993, he served as Vice Chairman -- Merchandise. He served as Senior Vice President, General Merchandise Manager -- Home of Thalhimers from 1989 to 1992. He served as Senior Vice President, General Merchandise Manager of Sibley from 1987 to 1989.

Robert J. Lambert was appointed Executive Vice President, Human Resources in January 1994. From 1990 to 1993 Mr. Lambert served as chief human resources officer at The Stride Rite Corporation and from 1981 to 1990 he was with

Pepsico, Inc. most recently as director of personnel resources -- Pepsi-Cola West.

Robert M. Menar was promoted to Executive Vice President, Logistics and Information Services in October, 1993. Prior to that Mr. Menar served in various positions since joining the Company in 1978, most recently serving as Senior Vice President, Information Services.

Brian L. Fleming was appointed Senior Vice President, Accounting and Taxes of the Company in October 1987. Prior to that time, he served as Vice President, Accounting.

Marc E. Bercoon has served as General Counsel and Corporate Secretary of the Company since February 9, 1993. He served as Legal Counsel and Assistant to the Vice Chairman of the Company from October 1992 to February 1993. From January 1990 to October 1992, he was Vice President and General Counsel of Equity Properties and Development Company, a division of Equity Property Management Corp. From July 1987 to January 1990, he was in private practice as a corporate and real estate attorney at the firm of Rosenberg and Liebentritt, P.C., a Chicago-based law firm.

The Company is currently seeking to fill the position of the Chief Financial Officer.

EMPLOYMENT AGREEMENTS

In February of 1993, David Dworkin entered into an agreement with the Company whereby he agreed to serve as the Company's President and Chief Executive Officer for a term of three years and received a $1,000,000 bonus upon commencing his duties and will receive an annual base salary of $1,000,000, and subject to Board approval of a new annual incentive plan, a guaranteed bonus of at least $400,000 for his first year of employment and at least $300,000 for his second year. Mr. Dworkin also received $375,000 as compensation for the loss of his bonus from his prior employer and was afforded the opportunity to invest $250,000 in Zell/Chilmark on the same terms as its general partners at any time on or before August 15, 1993. This agreement closely aligns David Dworkin's interest with that of the Company's stockholders by providing Mr. Dworkin with options to purchase 1,000,000 shares of Common Stock under the Company's 1992 Stock Incentive Plan, as amended. Options with respect to 333,333 shares of Common Stock became vested on March 24, 1993. The remaining options will vest in increments of 333,333 and 333,334 on March 24, 1994 and March 24, 1995, respectively. The exercise price of all options granted is $10.22 per share with an expiration date of March 24, 2003. If David Dworkin is involuntarily terminated without cause, these options will become immediately exercisable. A "change in control" may be deemed by Mr. Dworkin to constitute such an involuntary termination. A "change in control" occurs if (i) the nominees or designees of Zell/Chilmark cease to compose a majority of the Board of Directors, (ii) changes in the Company's senior management occur by action of Zell/Chilmark or the Board of Directors that are not approved by Mr. Dworkin, (iii) Zell/Chilmark ceases to own that percentage of the outstanding shares of the Company's voting stock which Zell/Chilmark owned immediately after the Original Offering assuming all outstanding securities of the Company which are exchangeable or convertible to Common Stock were so converted or exchanged and all Common Stock currently reserved for issuance, pursuant to the POR was issued, or (iv) some other person or entity, including affiliates thereof, acquires as much as or more than the number of outstanding voting shares of the Company then held by Zell/Chilmark. If Mr. Dworkin serves as President and Chief Executive Officer of the Company for at least one year, upon retirement he is guaranteed retirement benefits under the Company's retirement plans. The amount to which he would be entitled is determined based on the number of years that he actually serves. If he is involuntarily terminated during his first year of employ, Mr. Dworkin would receive the balance of three years' salary as a termination benefit. If such an event occurred at any time after his first year of employ, he would receive two years' salary as a termination benefit. This two years' salary termination benefit continues beyond the term of the agreement except to the extent the Company provides two years'

notice of termination. The Company's obligations under Mr. Dworkin's agreement in principle are guaranteed by Zell/Chilmark.

Several other key senior executives of the Company have entered three-year employment agreements with the Company and have received option grants under the Company's 1992 Stock Incentive Plan, as amended.

SECURITY OWNERSHIP OF CERTAIN PERSONS

During the bankruptcy proceedings, Zell/Chilmark acquired an aggregate of $461 million of unsecured claims against the Company, for which it paid $216,963,174. Pursuant to the POR, Zell/Chilmark's unsecured claims against the Company were converted into 21,204,840 shares of Common Stock. Also pursuant to the POR and a Postpetition Store Modernization Facility Conversion Agreement

dated as of August 18, 1992 between the Company and Zell/Chilmark (the "Conversion Agreement"), Zell/Chilmark purchased 2,500,000 shares of Common Stock from the Company on the Emergence Date at a price of $10.00 per share. As of January 1, 1994, Zell/Chilmark had acquired 24,800,866 shares of Common Stock, or approximately 54.5% of the then outstanding Common Stock, at a total cost of $256,268,891. All funds used in acquiring such shares were obtained from partnership capital contributions from the general and limited partners of Zell/Chilmark.

The Conversion Agreement provided for the purchase, in connection with the consummation of the POR, of 5,000,000 shares of Common Stock from the Company at a price of $10.00 per share. On October 8, 1992, Zell/Chilmark assigned to First Plaza, a limited partner of Zell/Chilmark, Zell/Chilmark's rights and obligations under the Conversion Agreement with respect to the acquisition of 2,500,000 shares of Common Stock. First Plaza thus acquired its 2,500,000 shares of Common Stock from the Company at a price of $10.00 per share.

The Company and First Plaza entered into a Stockholder's Agreement, dated as of January 25, 1993, under which the Company granted First Plaza certain registration rights with respect to First Plaza's shares of Common Stock in exchange for First Plaza's agreement not to engage in any proxy solicitation, acquire any additional shares of Common Stock or seek to control or influence the Board of Directors, Management or policies of the Company. First Plaza has agreed not to exercise its registration rights in connection with the Original Offering.

Zell/Chilmark has agreed with First Plaza that in the event it agrees to sell all or a portion of its shares of Common Stock (other than to an affiliate of Zell/Chilmark or in a market transaction permitted by Rule 144 promulgated under the Securities Act), if so requested by First Plaza, Zell/Chilmark shall cause such prospective purchaser to purchase an equal proportion of First Plaza's shares of Common Stock.

In accordance with the Securities Act, Zell/Chilmark, if deemed an affiliate of the Company, may sell its Common Stock pursuant to a registration statement filed with the Commission or pursuant to an exemption from registration under the Securities Act. Accordingly, after the expiration of the 90-day lock-up period, Zell/Chilmark will be eligible to sell its shares in compliance with Rule 144.

In general, under Rule 144, an affiliate of the Company that has satisfied any required holding period may sell in any three-month period a number of shares that does not exceed the greater of (i) one percent of the then outstanding shares of the Company's Common Stock, or (ii) the average weekly trading volume during the four calendar weeks immediately preceding the date on which notice of the sale is filed with the Commission. Sales pursuant to Rule 144 are also subject to certain requirements relating to manner of sale, notice and availability of current public information about the Company. A person (or persons whose shares are aggregated) who is not deemed to have been an affiliate of the Company at any time during the 90 days preceding the sale and who has beneficially owned restricted shares for at least three years is entitled to sell such shares pursuant to Rule 144(k) without regard to the limitations described above. Shares of Common Stock distributed pursuant to the POR are not restricted securities and do not have any required

holding period under Rule 144, although sales of such Common Stock by affiliates of the Company are subject to the limitations described in the first sentence of this paragraph.

The table below reflects the security ownership of Zell/Chilmark and First Plaza as of January 1, 1994.

<TABLE>
<CAPTION>

NAME AND ADDRESS OF BENEFICIAL OWNER	AMOUNT AND NATURE OF BENEFICIAL OWNERSHIP	PERCENT OF CLASS
<S>	<C>	<C>
Zell/Chilmark Fund, L.P. Two North Riverside Plaza, Suite 1500 Chicago, IL 60606.....	24,800,866(1)	54.5%
Mellon Bank, N.A., as Trustee for First Plaza Group Trust One Mellon Center Pittsburgh, PA 15258.....	2,500,000(2)	5.5%

</TABLE>

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(1) The sole general partner of Zell/Chilmark is ZC Limited Partnership, an Illinois limited partnership ("ZC Limited"). The sole general partner of ZC

Limited is ZC Partnership, a Delaware general partnership ("ZC"). The general partners of ZC are ZC, Inc., an Illinois corporation ("ZCI"), and CZ Inc., a Delaware corporation ("CZI"). The Samuel Zell Revocable Trust dated January 17, 1990 (the "SZ Trust") is the sole stockholder of ZCI. Mr. Samuel Zell is trustee and the beneficiary of the SZ Trust. Mr. David M. Schulte is the sole stockholder of CZI. One of the limited partners of ZC Limited is COP General Partnership, an Illinois general partnership ("COP"). One of the general partners of COP is COP Seniors General Partnership, an Illinois general partnership ("COP Seniors"). One of the general partners of COP Seniors is Sanford Shkolnik. Messrs. Zell, Schulte and Shkolnik, each of whom are directors of the Company, may each be deemed to share beneficial ownership of the shares referenced, but each disclaims beneficial ownership of such shares.

(2) Mellon Bank, N.A., acts as the trustee (the "Trustee") of First Plaza, a trust under and for the benefit of certain employee benefit plans of General Motors Corporation ("GM") and its subsidiaries. First Plaza may be deemed to beneficially own the shares referenced. Additionally, General Motors Investment Management Corporation, a Delaware corporation and a wholly-owned subsidiary of GM, may be deemed to beneficially own these shares because it serves as investment manager for First Plaza with respect to such shares and has the power to direct the Trustee as to voting and disposition of such shares. The Pension Investment Committee of GM may also be deemed to beneficially own such shares by virtue of its authority to select the investment manager of such shares.

INDEBTEDNESS OF THE COMPANY

The following summaries of certain provisions of certain indebtedness of the Company are generalized, do not purport to be complete, and are qualified in their entirety by reference to the provisions of the various agreements related thereto, which may be obtained from the Company upon request.

GENERAL

As of January 1, 1994, the Company's principal indebtedness (other than the Notes) consisted of (i) $411.5 million in loans secured by deeds of trust and other documents with respect to 31 of the Company's stores and its Los Angeles distribution center (the "Group One Loans"), (ii) $89.7 million of loans secured by deeds of trust and other documents with respect to nine of the Company's stores (the "Group Two Loans"), (iii) advances under the Receivables Facility, which are secured by the Company's accounts receivable, and (iv) advances under the Credit Facility, which are secured by the Company's remaining personal property. This indebtedness is described

below. In addition, the Company has $15.7 million of other indebtedness outstanding secured by deeds of trust and certain other documents on certain other properties of the Company. Substantially all of the Company's assets are encumbered to secure the Company's indebtedness. The Receivables Facility and the Credit Facility are both provided through a commercial lending institution, as agent for itself and other commercial lending institutions (the "Lender").

CREDIT FACILITY

Borrowing Availability and Termination Date. The Credit Facility is a revolving credit and letter of credit facility. Borrowings under the Credit Facility are repayable on or before October 31, 1995. The aggregate amount of advances available under the Credit Facility, including the aggregate face amount of all letters of credit issuable under the Credit Facility ("LCs"), is limited to an amount equal to the Borrowing Base. The term "Borrowing Base" means the lesser of (i) $225,000,000, or (ii) up to 50-55%, depending on the time of year, of the value of the Company's inventory and other merchandise and personal property ("Eligible Inventory") less certain reserves for the Receivables Securitization Agreement and as required by the Lender. The aggregate face amount of LCs available under the Credit Facility shall not exceed the lesser of (i) $65,000,000 and (ii) the Borrowing Base less outstanding advances. As of January 1, 1994, no advances and $45.4 million in letters of credit were outstanding under the Credit Facility.

Interest and Fees. Amounts outstanding under the Credit Facility bear interest at a floating rate equal to the Index Rate (as defined below) plus 1.50% per annum, payable monthly in arrears. The term "Index Rate" means the higher of (a) the highest of the prime rates as announced by certain banks, or (b) the latest annualized yield (or midpoint if more than one yield is published) on 90-day directly-placed commercial paper. The weighted average annual interest rate on borrowings under the Credit Facility was 7.5% in 1992 (not including certain additional fees payable by the Company as described below). Upon the occurrence of and during the continuation of an Event of Default (as defined below), the interest rate otherwise applicable will be increased by 2% per annum and interest will be payable upon demand. The Company pays certain fees and commissions to the Lender, including a fee for non-use of

the facility of 1/2 of 1% per annum of the average unused daily balance of the maximum amount of the facility (or a lesser amount if the Borrowing Base is less than $200 million), a quarterly administrative fee of $62,499 and an obligation fee equal to 2.375% per annum of the actual daily face amount of outstanding LCs for the actual number of days during which such LCs are outstanding.

Collateral. Advances under the Credit Facility are secured on a first priority basis by security interests in and liens on substantially all of the Company's tangible and intangible personal property, including the Company's accounts, equipment and inventory, other than certain interests subject to deeds of trust in favor of the lenders under the Group One Loan and the Group Two Loan and certain others. In addition, the Company's obligations under the Credit Facility are secured by a pledge of the shares of each subsidiary of the Company.

Other Provisions. The Company may prepay the loans under and terminate the Credit Facility at any time without premium or penalty, provided (i) no LCs are outstanding (or, if outstanding, have been cash collateralized), and (ii) the Receivables Facility has been or is simultaneously terminated. Financial reporting requirements include delivery of unaudited financial statements on a monthly and quarterly basis and audited consolidated financial statements on a yearly basis. Affirmative covenants include the obligation to maintain corporate existence and the timely payment of obligations, fees and certain expenses as provided in the Credit Facility.

Restrictive Covenants. In general, the Credit Facility prohibits the Company and its subsidiaries from, among other things: (i) merging or consolidating or otherwise combining with, or acquiring substantially all of the capital stock or assets of, any person or entity (except for mergers or liquidations between the Company and its subsidiaries); (ii) making investments in, or loans or advances to, any person or entity, except as expressly permitted and except for investments not

exceeding $5.0 million in the aggregate in short-term government securities, commercial paper having the highest rating obtainable, and certificates of deposit, time deposits and demand deposits issued by or placed with commercial banks, (iii) making any material change in its capital structure, except for the issuance of shares in connection with the POR, certain employee stock and option plans, the Warrants, Common Stock of the Company that is by its terms not redeemable prior to December 31, 1995 and warrants to purchase stock or instruments convertible into stock; (iv) as to the Company, engaging in any line of business other than its current line of business and as to subsidiaries of the Company, owning assets in excess of applicable requirements or conducting any business (except for CHH Receivables, in connection with Receivables Facility); (v) except for transactions in the ordinary course of business with officers and directors and transactions pursuant to the Receivables Facility, entering into transactions with affiliates on other than an arm's length basis; (vi) creating or permitting any lien on their respective assets or properties, other than (x) liens that are expressly permitted, (y) liens granted pursuant to the Receivables Facility, and (z) liens which do not encumber or adversely affect collateral securing obligations under the Credit Facility and which secure aggregate indebtedness of the Company not in excess of $7.5 million; (vii) making use of any "hazardous materials" (as defined under applicable environmental laws) in a manner that would violate any such environmental laws; (viii) selling, transferring, conveying or otherwise disposing of any assets or properties, except as expressly permitted; (ix) cancelling any claim or debt owing to it, except for reasonable consideration and in the ordinary course of business; (x) taking or omitting to take any action, which act or omission would constitute (1) a default or event of default under (A) the Credit Facility or the Receivables Facility or other documents and instruments entered into with respect to each, or (2) a default or event of default under any other contract where such defaults in the aggregate would exceed $7.5 million or have a material adverse effect; (xi) engaging in any interest rate hedging or similar transaction, except with respect to advances under the Credit Facility or, to the extent permitted by the terms of the Receivables Facility, certain other unsecured interest rate hedging transactions; (xii) (a) declaring any dividend or incurring any liability to make any other payment or distribution in respect of its capital stock (other than stock splits or dividends payable solely in additional shares of stock) (b) making any payment on account of the purchase, redemption or other retirement of its capital stock or any other payment or distribution made in respect thereof, or except as scheduled, any payment, loan, contribution or other transfer of funds or other property to any of its respective stockholders or subsidiaries; (xiii) creating, incurring, assuming or permitting to exist or otherwise become or be liable in respect of any indebtedness, other than indebtedness as specified in the Credit Facility and other indebtedness not in excess of $7.5 million outstanding at one time; (xiv) incurring certain liabilities or obligations in respect of pension plans established under the Employee Retirement and Income Security Act of 1974, as amended ("ERISA"); and (xv) consenting to any amendment, supplement or other modification of any of the terms or provisions contained in, or applicable to, (a) the POR or the Receivables Facility or (b) certain settlement agreements

entered into with other secured creditors in connection with the implementation of the POR, if such amendment, supplement or modification would (1) increase the principal amount of, or the rate or amount of interest payable on such obligation, (2) accelerate any date fixed for any payment of principal of, or interest on such obligation, or (3) otherwise materially increase any such obligation.

Financial Covenants. The Credit Facility contains financial covenants that require the Company to maintain its Consolidated EBITDA, Consolidated Net Cash Flow, Capital Expenditures, Minimum Receivables Effective Advance Rate, consolidated net inventory ratio and consolidated inventory balance (as such initially capitalized terms are defined below) within certain parameters set forth in the Credit Facility.

For purposes of the description of financial covenants set forth below, the following terms shall have the indicated meanings:

"Capital Expenditures" means all payments for any fixed assets or improvements or for replacements, substitutions or additions thereto, that have a useful life of more than one year and

which are required to be capitalized under generally accepted accounting principles ("GAAP"), other than capital lease obligations.

"Consolidated EBITDA" means for any period the sum of consolidated net income of the Company and its subsidiaries for such period plus consolidated interest charges (including any capitalized interest payable to certain lenders) plus consolidated taxes deducted in arriving at consolidated net income plus consolidated non-cash charges (including depreciation, amortization and LIFO reserve charges) plus extraordinary losses less extraordinary gains.

"Consolidated Net Cash Flow" means for any period the sum of consolidated earnings before taxes of the Company and its subsidiaries for such period plus consolidated non-cash charges (including depreciation, amortization and LIFO reserve charges) less principal payments in respect of capital lease obligations less reductions in the restructuring reserve liability account less consolidated taxes actually paid less extraordinary losses plus extraordinary gains.

"Effective Advance Rate" means, at any time, the ratio (expressed as a percentage) determined by dividing the Borrowing Base by the aggregate amount owed by the obligors with respect to the accounts receivable purchased from the Company by the Receivables Borrower (as defined below under the heading "Receivables Facility").

"Fiscal Month" means each of the three four-week or five-week accounting periods comprising a quarterly accounting period within a Fiscal Year.

"Fiscal Year" means a fiscal year of the Company ending on the Saturday closest to January 31, unless subsequently changed by the Company with the Lender's consent.

The Company has covenanted in the Credit Facility that it will not permit aggregated Consolidated EBITDA during any period of three consecutive Fiscal Months ending on the last day of any Fiscal Month set forth below to be less than the amount set forth below opposite such Fiscal Month (except that any amount set forth below in parentheses shall be the maximum amount of permitted

Consolidated EBITDA deficit for the period of three consecutive Fiscal Months ending on the last day of the Fiscal Month set forth opposite such amount):

<TABLE>
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FISCAL MONTH	AMOUNT
<S>	<C>
February 1994	$ 22,370,000
March 1994	$(15,480,000)
April 1994	$ 1,700,000
May 1994	$ 13,800,000
June 1994	$ 19,500,000
July 1994	$ 16,800,000
August 1994	$ 11,600,000
September 1994	$ 6,400,000
October 1994	$ 9,300,000
November 1994	$ 16,700,000
December 1994	$ 68,500,000
January 1995	$ 60,400,000

February 1995	$ 49,400,000
March 1995	$ 300,000
April 1995	$ 11,800,000
May 1995	$ 23,800,000
June 1995	$ 30,100,000
July 1995	$ 27,800,000
August 1995	$ 23,300,000
September 1995	$ 17,800,000
October 1995	$ 20,000,000

provided, however, that Consolidated EBITDA (i) for the period from the February 1994 through and including the January 1995 Fiscal Months shall in no event be less than $88.2 million, and (ii) for the period from the February 1995 through and including October 1995 Fiscal Months shall in no event be less than $59.6 million.

The Company has covenanted in the Credit Facility that it will not permit Consolidated Net Cash Flow for any period of three consecutive Fiscal Months ending on the last day of any Fiscal Month set forth below to be less than the amount set forth below opposite such Fiscal Month (except that any amount set forth below in parentheses shall be the maximum amount of permitted Consolidated

Net Cash Flow deficit for the period of three consecutive Fiscal Months ending on the last day of the Fiscal Month set forth opposite such amount):

FISCAL MONTH	AMOUNT
February 1994	$ (1,900,000)
March 1994	$(38,900,000)
April 1994	$(21,200,000)
May 1994	$ (8,000,000)
June 1994	$ (1,600,000)
July 1994	$ (4,200,000)
August 1994	$ (9,200,000)
September 1994	$(14,400,000)
October 1994	$(11,000,000)
November 1994	$ (3,500,000)
December 1994	$ 48,600,000
January 1995	$ 40,600,000
February 1995	$ 29,200,000
March 1995	$(20,500,000)
April 1995	$ (9,500,000)
May 1995	$ 15,000,000
June 1995	$ 34,200,000
July 1995	$ 44,700,000
August 1995	$ 40,400,000
September 1995	$ 22,200,000
October 1995	$ 11,800,000

The Company has covenanted in the Credit Facility that it will not permit the aggregate amount of all Capital Expenditures of the Company and its subsidiaries to exceed, during any period set forth below, the amount set forth below opposite such period:

PERIOD (FISCAL MONTHS)		
FROM	THROUGH (AND INCLUDING)	AMOUNT
Feb. 1994	June 1994	$ 42,200,000
July 1994	June 1995	$110,000,000
July 1995	October 1995	$ 59,500,000

provided, however, that (i) the aggregate amount of Capital Expenditures otherwise permitted during the period from the July 1994 through and including the June 1995 Fiscal Months shall be increased by an amount equal to the lesser of $20,000,000 or 75% of the excess, if any, of Consolidated EBITDA for the period from the December 1993 through and including the June 1994 Fiscal Months over $45,670,000, and (ii) the aggregate amount of Capital Expenditures otherwise permitted during the period from the July 1995 through and including the October 1995 Fiscal Months shall be increased by an amount equal to the lesser of $25,000,000 or 75% of the excess, if any, of Consolidated EBITDA for

the period from the July 1994 through and including the June 1995 Fiscal Months over $105,300,000. In no event may the aggregate amount of Capital Expenditures of the Company and its subsidiaries exceed $25,000,000 during any Fiscal Month.

The Company has also covenanted in the Credit Facility that it will not permit its net inventory ratio on the last day of any two consecutive Fiscal Months to exceed percentages specified in the Credit Facility for each month during the term of the Credit Facility. In addition, the Credit Facility requires the Company to maintain the aggregate amount of all inventory of the Company and its subsidiaries (determined on the lower of a first-in, first-out or market basis) on the last day of any two consecutive Fiscal Months within certain minimum and maximum amounts specified in the Credit Facility for each month during the term of the Credit Facility. As is the case with the Consolidated EBITDA and Net Cash Flow covenants, the monthly thresholds specified in the Credit Facility for the inventory ratio and inventory balance covenants vary during the term of the Credit Facility to coincide with seasonal fluctuations in the Company's business.

Events of Default. The Credit Facility provides for various events of default (the "Events of Default"), including, in general, the following events: (i) the Company shall fail to make any payment of principal of, interest on, or any other amount owing in respect of any obligation when due and payable or declared due and payable, except with respect to interest and fees such failure shall have remained unremedied for two business days; (ii) the Company shall fail or neglect to perform, keep or observe certain reporting covenants or any of the restrictive covenants contained in the Credit Facility (except with respect to defaults under the Credit Facility); (iii) the Company shall fail or neglect to perform, keep or observe any other provision of the Credit Facility (including defaults under the Credit Facility) or of any of the other loan documents (subject to the Company's right to cure); (iv) a default shall occur under any other agreement, document or instrument to which the Company or any of its subsidiaries is a party or by which their respective properties are bound, or under any agreement, document or instrument evidencing or applicable to any indebtedness secured in whole or in part by any shares of Common Stock owned by Zell/Chilmark ("Z/C Indebtedness"), and such default continues beyond any applicable grace period provided in the instrument governing such indebtedness and (i) is (a) in respect of any indebtedness of the Company or any of its subsidiaries in excess of $7,500,000, or (b) in respect of any Z/C Indebtedness or (ii) causes or permits the acceleration of any such indebtedness; (v) any event of default shall occur under the Receivables Facility or related documents, or the Receivables Facility shall for any reason cease to be in full force and effect; (vi) any representation or warranty in the Credit Facility, in any related loan document or in any written statement, report or other document delivered thereto shall be untrue or incorrect in any material respect; (vii) certain events of bankruptcy or insolvency (including the attachment of any assets of the Company or its subsidiaries and any similar proceeding); (viii) the modification, issuance, repeal or rescission of any order of the bankruptcy court in the POR which adversely affects the Credit Facility and the rights of the Lender; (ix) final judgments against the Company and its subsidiaries aggregating in excess of $7,500,000 (to the extent not covered by insurance) that are not discharged or stayed within 10 days of entry of such judgment; (x) any provision of any document evidencing rights in the collateral or the confirmation order shall for any reason cease to be valid or enforceable in accordance with its terms or any lien created under any collateral document shall cease to be a valid and perfected first priority lien; (xi) any "Changes in Control" (as defined below) shall occur; (xii) any other event shall have occurred which has a material adverse effect of which the Company receives at least ten days' notice; and (xiii) certain events relating to pension plans under ERISA. As used in the Credit Facility, the term "Change in Control" means (a) individuals who are nominees or designees of Zell/Chilmark shall for any reason cease to constitute a majority of the
members of the Company's Board of Directors; (b) any change in the senior management of the Company which is not acceptable to a majority of the lenders; (c) the failure of Zell/Chilmark to continue to own, directly or indirectly, at least the percentage of outstanding shares of voting stock of the Company on a fully diluted basis that Zell/Chilmark owned immediately after giving effect to the issuance of the Notes and any stock options issued by the Company under its existing stock option plan; or (d) any "Acquiring Person", as such term is defined in the Indenture for the Notes, shall become the beneficial owner of shares of Common Stock of the Company having more than 45% of the total number of votes that may be cast for the election of directors of the Company; or

(e) the failure of the Company to own, directly and free and clear of all liens or other encumbrances (other than the lien imposed pursuant to the Credit Facility), all of the outstanding shares of stock of CHH Receivables, Inc.

RECEIVABLES FACILITY

Structure of Financing. The Receivables Facility is an accounts receivable revolving credit facility. The Receivables Facility is provided through a special purpose corporation not affiliated with the Company (although its accounts are stated on a consolidated basis with the Company's accounts) (the "SPC"). The SPC raises money through the issuance and sale of commercial paper or through liquidity loans from the Lender and lends such funds to CHH Receivables, Inc., a wholly-owned subsidiary of the Company (the "Receivables Borrower"). The Receivables Borrower in turn purchases and holds accounts receivable originated by the Company. The Lender provides the structure, credit support and liquidity support for and provides for the administration of the SPC, which is an A-1/P-1 rated entity. The liquidity line is a revolving credit provided by the Lender to the SPC to provide funding when the SPC is unable to issue sufficient commercial paper to meet its obligations.

Borrowing Availability and Termination Date. Advances under the Receivables Facility are limited to an amount equal to the lesser of (i) $575,000,000, and (ii) the Base Advance Rate, as described below, of the Company's eligible accounts receivable (i.e., accounts receivable that meet certain criteria specified in the Receivables Facility Credit Agreement) less certain amounts purchased from the Company by the Receivables Borrower. The Company may permanently reduce in part the unused portion of the Receivables Facility, but in no event may it reduce such amount below $425 million. The "Base Advance Rate" is 84.5% of eligible accounts receivable subject to certain adjustments upward or downward as set forth in the definitive documentation for the Receivables Facility (but in no event shall such adjustments result in an advance rate in excess of 88% of eligible accounts receivable). All amounts under the Receivables Facility are due on October 8, 1995. As of January 1, 1994, borrowings of $337.1 million of commercial paper, $182.7 million less than the maximum available under the Receivables Facility based on the level of customers receivables, were outstanding under the Receivables Facility.

Interest. Amounts outstanding under the Receivables Facility will bear interest in an amount equal to the interest expense attributable to the SPC's borrowings in the commercial paper market and/or under its liquidity line. Amounts provided by the Lender under its liquidity line to the SPC will bear interest at an annual rate equal to the Base Rate. The term "Base Rate" means the higher of (a) the highest prime rate as announced by certain banks, and (b) the rate for certain commercial paper having a maturity of one month as published by the Federal Reserve System. Interest is payable monthly in arrears. Following the maturity of loans under the liquidity line, all outstanding principal and interest will bear interest at an annual rate equal to 2% plus the Base Rate, and interest shall be payable on demand. At January 1, 1994, the interest rate under the Receivables Facility was 4.5%.

Collateral. The Receivables Facility is secured by a first priority security interest in all of the existing and after-acquired accounts receivable sold by the Company to the Receivables Borrower and certain other property of the Receivables Borrower. Certain repurchase obligations of the Company in connection with accounts receivable sold to the Receivables Borrower are secured by a second priority security interest of up to $15,000,000 in the collateral securing advances under the Credit Facility (excluding the outstanding capital stock of the Receivables Borrower and indebtedness of the Receivables Borrower to the Company).

Financial Covenants. In addition to other restrictive covenants, the Receivables Facility requires the Receivables Borrower to maintain a minimum interest coverage ratio, amount of capitalization and a minimum receivables advance rate.

Events of Default. The Receivables Facility provides for various events of default, including, among other events, the occurrence of an Event of Default under the Credit Facility and a failure by the Receivables Borrower or the Company to pay any principal of or premium or interest on any debt when due if such failure continues after any applicable grace period.

Fees. Ongoing fees payable in connection with the Receivables Facility include (i) an administration fee during the term of each facility equal to $28,125 per fiscal quarter, (ii) a program fee equal to 1.10% per annum of the average daily aggregate outstanding amount, and (iii) a non-use fee equal to 1/2 of 1% per annum of the average unused daily balance of the maximum amount of the facility. All costs and expenses incurred in connection with the facility, including all out-of-pocket costs and expenses of the Lender and the SPC, are borne by the Receivables Borrower.

GROUP ONE MORTGAGE LOAN

Pursuant to a settlement agreement with the Group One Loan lender (the "Group One Settlement Agreement") and in connection with the implementation of the POR, the Company restructured indebtedness of $344.0 million to defer maturity from August 26, 1997 until October 7, 2002 (the "Existing Notes"). The

blended interest rate payable on the Existing Notes is 10.67% per annum. In addition, previously accrued and unpaid interest and other charges were capitalized into an accrued interest note in the principal amount of $53.4 million (the "Accrued Interest Note" and the Existing Notes are collectively referred to as the "Group One Notes") bearing interest at a rate of 9% per annum. The Company is required to pay interest on the Group One Notes at the rate of 7.5% during the two year period following the Emergence Date. The difference between the lower rate and the blended contract rate, amounting to $23.8 million (the "Deferral Amount"), will be capitalized into the principal amount of the Accrued Interest Note. The Existing Notes will be amortized on the basis of a 276-month period commencing October 1, 1997. The entire outstanding balance will be due and payable under the Existing Notes on December 7, 2002. The principal amount of the Accrued Interest Note (as increased by the Deferral Amount, as provided above) will be amortized on the basis of a 60-month period commencing October 1, 1997 and mature on October 7, 2002. No principal payments are required to be made on the Existing Notes or the Accrued Interest Note until October 1, 1997.

The Group One Notes are secured by first mortgages (the "Group One Mortgages") on 31 of the Company's stores and its corporate offices and distribution facility (collectively, the "Group One Stores"). The Group One Notes and the Group One Mortgages are cross-defaulted and cross-collateralized (with the exception of one store that is not cross-collateralized). The Company may obtain the release of a Group One Mortgage from one or more of the stores by prepaying the loan amount allocated to such Group One Store (each, an "Allocation Amount"), together with any applicable prepayment premium. Certain of the Existing Notes may be prepaid in full by the Company by prepaying the aggregate Allocation Amount for Group One Stores in a division of the Company (each, a "Division") that have been allocated to such Existing Note. In certain cases the prepayment of Allocable Amounts for Group One Stores will trigger the obligation to prepay the Allocation Amount for all stores in a Division. In the event that the Company sells one or more of the Group One Stores (other than certain specified stores), and the sale generates "Excess Net Proceeds" (defined as gross proceeds received by the Company, less transfer taxes, the cost of acquiring certain interests in connection with the sale, and other incidental expenses), the Company is required to use such Excess Net Proceeds to renovate, expand or improve one or more of the remaining Group One Stores within 12 months of its receipt thereof. The loan document with respect to the Group One Notes provides for a yield maintenance fee.

On the occurrence of certain events (including the cessation of operations at any Group One Store, sale of an interest in any Group One Store or granting a lien thereon), the Company may be required to provide additional security acceptable to the Group One Loan Lender or prepay the entire Allocation Amount applicable to the affected Group One Store or prepay the Allocation Amount for all stores in a division if the event affects certain stores within a division. In the event that

any person or group other than Zell/Chilmark acquires more than 49% of the outstanding voting stock of the Company, or the Company is merged or consolidated into another corporation and such merger effects a change in control, the Company may be required to prepay the Group One Notes in full, together with any applicable prepayment premium. The loans evidenced by the Group One Notes are without recourse to the Company, except in the event of intentional misrepresentation or an intentional omission of a material fact by the Company concerning the loan documents, or a misapplication of rents or insurance or condemnation proceeds, in which event the loans will become full recourse to the Company. In addition, certain covenants made by the Company concerning hazardous materials at the Group One Stores are with full recourse to the Company. Upon the occurrence of certain Events of Default, including the failure to make a payment under the Group One Notes within three business days from the due date, the failure to perform any monetary obligation under any of the documents securing the Group One Notes which failure is not remedied for three days after notice, or the failure to perform certain other obligations within thirty days, the Group One lender would be permitted to accelerate amounts due under the Group One Notes and exercise its remedies under the Group One Mortgages.

GROUP TWO MORTGAGE LOAN

Pursuant to a settlement agreement with the Group Two Loan lender (the "Group Two Settlement Agreement") and in connection with the implementation of the POR, the Company restructured $89.7 million of indebtedness with a syndicate of certain financial institutions (the "Group Two Lenders"). The Group Two Settlement Agreement extended the maturities of the $89.7 million principal amount outstanding under an existing note (the "Master Principal Note") for approximately four years. The maturity date of the Master Principal Note is June 30, 1999. The Master Principal Note accrues interest at the rate of LIBOR plus .625% for the period from the Emergence Date until June 30, 1995, and thereafter until maturity at the rate of LIBOR plus 1.25%. As of January 1, 1994, interest had accrued on the Master Principal Note at the rate of 3.875%. The Master

Principal Note is amortized on the basis of a 276-month period commencing July 1, 1995; prior to such date no principal payments are due. In addition, previously accrued and unpaid interest on the original note, together with related charges totalling $2.0 million, were capitalized into the Master Capitalized Interest Note in the principal amount of approximately $10.75 million, (the Master Principal Note and the Master Capitalized Interest Note are referred to as the "Group Two Notes"). Interest is payable on the Master Capitalized Interest Note at the rate of 9% per annum from the Emergence Date, and is amortized based on a 36-month period commencing November 2, 1992. Principal is payable in equal monthly installments from such date until the maturity date of October 30, 1995. Subject to certain restrictions, the Company may prepay in whole or in part the outstanding principal balance without paying a prepayment premium.

The Group Two Notes are secured by first mortgages on nine stores of the Company (the "Group Two Stores"), and the Group Two Lenders hold certain other interests relating to the Group Two Stores. With the exception of certain indemnities among the Company and the Group Two Lenders relating to potential environmental hazards and structural improvements at the Group Two Stores, the loans evidenced by the Group Two Notes are non-recourse to the Company. The Company may obtain the release of mortgages on one or more of the Group Two Stores by prepayment of specified amounts established for each of the stores (together with incidental costs and unpaid loan amounts), subject in certain cases to obtaining the Group Two Lenders' consent. Covenants of the Company include (a) the obligation to make capital expenditures or make payments under the Credit Facility, with the proceeds of the issuance of any additional preferred stock for cash, excluding Preferred Stock under the POR (the "Additional Preferred"); (b) restriction on the payment of any dividends or other distributions to any stockholder, other than the holders of Additional Preferred, who may be paid dividends subject to certain limits; and (c) the requirement to make capital improvements to five Group Two Stores within three years of the Emergence Date, including capital expenditures for the Group Two Stores of at least $700,000 by April 1, 1994. The loans evidenced by the Group Two Notes are cross-defaulted in the event of

breach of covenants in the Group Two Notes (including financial covenants contained in the Group One Settlement Agreement and any other documents evidencing subordinated indebtedness of the Company hereinafter entered into). Events of default under the Group Two Notes include events of default under the Credit Facility, Receivables Facility and the Group One Settlement Agreement. A default will occur if any group or person other than Zell/Chilmark acquires more than 48% of the voting stock of the Company, or the Company merges or consolidates in a manner that effects a change in control. In connection with the administration of the loans evidenced by the Group Two Notes, the Group Two Lenders are entitled to receive an annual fee of $20,000.

DESCRIPTION OF CAPITAL STOCK

The authorized capital stock of the Company consists of 100 million shares of Common Stock, par value $0.01 per share and 25 million shares of preferred stock, par value $.01 per share. As of January 1, 1994, there were 45,548,917 shares of Common Stock and 880,783 shares of Preferred Stock outstanding.

COMMON STOCK

General. The holders of the Common Stock are entitled to one vote for each share held of record, voting together with holders of Preferred Stock as one class, on all matters submitted to a vote of stockholders. The Common Stock does not have cumulative voting rights. Holders of Common Stock are entitled to receive ratably such dividends as may be declared by the Board out of funds legally available therefor. See "Dividend Policy." In the event of a liquidation, dissolution or winding up of the Company, holders of Common Stock will be entitled to share ratably in any assets remaining after satisfaction in full of the prior rights of creditors of the Company and the aggregate liquidation preference of any preferred stock of the Company. Holders of Common Stock have no preemptive rights and have no rights to convert their Common Stock into any other securities and there are no redemption provisions with respect to such shares. There generally exist no restrictions on alienability of shares of Common Stock other than those imposed by law on certain holders. See "Security Ownership of Certain Persons."

Trading Market. The Common Stock is listed on the New York Stock Exchange and the Pacific Stock Exchange under the trading symbol "CHH."

PREFERRED STOCK

The Company's Board of Directors has the authority to issue various classes or series of preferred stock having such voting powers, and such preferences and relative, participating, optional or other special rights and such qualifications, limitations or restrictions thereof, as shall be determined by the Board of Directors, all in accordance with the laws of the State of

Delaware. Each presently outstanding share of Preferred Stock entitles each holder thereof to one vote per share, voting together with holders of Common Stock as one class, and a liquidation preference (together with shares of preferred stock which are entitled to a preference in liquidation but subsequent to the satisfaction of liquidation preferences ranking senior thereto, if any) of $0.25 per share in any assets remaining after the satisfaction in full of the prior rights of creditors of the Company. Holders of presently outstanding Preferred Stock will be entitled to a dividend of $0.05 per share per year on a non-cumulative basis when, as and if declared by the Company Board of Directors out of assets legally available therefor. The Company does not ever expect to pay a dividend with respect to the Preferred Stock. In addition, restrictions on the Company's ability to pay dividends are imposed pursuant to the terms of the Credit Facility and the Group Two Loan documents and additional restrictions may be imposed by the terms of any preferred stock which may be issued in the future by the Company. The Preferred Stock will be redeemable by the Company at the Company's option at $0.25 per share after the expiration of the Warrants as described below. Until October 8, 1999 (subject to earlier termination under certain circumstances), each share of Preferred Stock is

exchangeable at the option of the holder for one Warrant. See "Description of Capital Stock -- Warrants." The Preferred Stock is not listed for trading on any national securities exchange or other national automated quotation system.

WARRANTS

Each Warrant entitles the holder to purchase one share of Common Stock at any time during the period through and including 5:00 p.m. New York City time on October 8, 1999 (the "Exercise Period") at a purchase price (the "Warrant Price") equal to $17 per share, subject to adjustment from time to time. In the event the market price of the Common Stock equals or exceeds $25.50 for thirty consecutive trading days, the Board of Directors, after April 8, 1995, may, upon 75 days' notice, shorten the Exercise Period to end on a date earlier than October 8, 1999.

The Warrant Price is subject to adjustment upon the occurrence of certain events, including, among other things, the payment of a stock dividend with respect to Common Stock, the subdivision, combination or reclassification of Common Stock, the merger or consolidation of the Company and the issuance of rights, options, or warrants (other than rights to purchase Common Stock issued to stockholders generally) to acquire Common Stock. No adjustment need be made unless such adjustment would require an increase or decrease of at least 1% in the Warrant Price, provided that any such adjustment which is not made shall be carried forward and taken into account in computing the next Warrant Price adjustment. No holder of Warrants, as such, is entitled to any rights as a stockholder of the Company, including the right to vote or to receive dividends or other distributions with respect to the shares of Common Stock, until such holder has properly exercised the Warrants. The Warrants are listed for trading on the New York Stock Exchange and the Pacific Stock Exchange.

DESCRIPTION OF THE NOTES

The statements under this caption relating to the Notes, an indenture (the "Indenture") dated as of December 21, 1993, between the Company and Continental Bank, National Association, as trustee (the "Trustee") and a Registration Agreement dated as of December 21, 1993 between the Company and the Initial Purchaser for the benefit of holders of the Notes, are summaries and do not purport to be complete. Such summaries make use of certain terms defined in the Indenture or the Registration Agreement, as applicable and are qualified in their entirety by express reference to the Indenture or Registration Agreement, which are filed as Exhibits to the Registration Statement. As used under this caption, the term "Company" refers only to Carter Hawley Hale Stores, Inc. and not to its subsidiaries or affiliates.

GENERAL

The Notes were issued under the Indenture, and the terms of the Notes include those stated in the Indenture and those made part of the Indenture by reference to the Trust Indenture Act of 1939, as in effect on the date of the Indenture (the "Trust Indenture Act"). The Notes are subject to all such terms, and prospective investors are referred to the Indenture and the Trust Indenture Act for a statement of them.

The Notes bear interest from the date of original issuance at the rate of 6 1/4% per annum (unless such rate has been temporarily or permanently increased under the circumstances described in "Description of the Notes -- Registration Rights" below), payable semi-annually on December 31 and June 30 of each year, commencing June 30, 1994, to holders of record at the close of business on the 15th day of the month of such interest payment date (whether or not a business day). The Notes are due on December 31, 2000 and will be issued only in registered form, without coupons, in denominations of $1,000 and integral multiples thereof.

The Notes are unsecured obligations of the Company. The Indenture does not contain any financial covenants or restrictions.

REGISTRATION RIGHTS

In connection with the Original Offering, the Company entered into a Registration Agreement for the benefit of the holders of the Notes, which provided that (i) the Company would, at its cost, within 45 days after the closing of the sale of the Notes (the "Closing"), file a shelf registration statement (the "Shelf Registration Statement") with the Commission with respect to resales of the Notes and the Common Stock issuable upon conversion thereof, (ii) within 90 days after the Closing, such Shelf Registration Statement would be declared effective by the Commission and (iii) the Company would maintain such Shelf Registration Statement continuously effective under the Securities Act until the third anniversary of the date of the Closing or such earlier date as of which all the Notes or the Common Stock issuable upon conversion thereof have been sold pursuant to such Shelf Registration Statement. If the Company had failed to comply with clause (i) above then, at such time, the per annum interest rate on the Notes would have increased by 25 basis points. Such increase would have remained in effect until the date on which such Shelf Registration Statement was filed, on which date the interest rate on the Notes would have reverted to the interest rate originally borne by the Notes plus any increase in such interest rate pursuant to the following sentence. If the Shelf Registration Statement had not been declared effective as provided in clause (ii) above, then, at such time and on each date that would have been the successive 30th day following such time, the per annum interest rate on the Notes (which interest rate will be the original interest rate on the Notes plus any increase or increases in such interest rate pursuant to the preceding sentence and this sentence) would have increased by an additional 25 basis points; provided that the interest rate would not have increased by more than 50 basis points pursuant to this sentence. Such increase or increases would have remained in effect until the date on which such Shelf Registration Statement was declared effective, on which date the interest rate on the Notes would have reverted to the interest rate originally borne by the Notes. The Company has satisfied its obligations under clauses (i) and (ii) by filing, and causing the Commission to declare effective, the Registration Statement of which this Prospectus is a part within the specified time periods. Pursuant to clause (iii) above, however, if the Company fails to keep the Shelf Registration Statement continuously effective for the period specified above, then at such time as the Shelf Registration Statement is no longer effective and on each date thereafter that is the successive 30th day subsequent to such time and until the earlier of (i) the date that the Shelf Registration Statement is again deemed effective or (ii) the date that is the third anniversary of the Closing or (iii) the date as of which all of the Notes and/or the Common Stock issuable upon conversion thereof are sold pursuant to the Shelf Registration Statement, the per annum interest rate on the Notes will increase by an additional 25 basis points; provided, however, that the interest rate will not increase by more than 50 basis points pursuant to this sentence.

CONVERSION

The holder of any Note has the right, exercisable at any time after 90 days following the date of original issuance thereof and prior to maturity, to convert the principal amount thereof (or any portion thereof that is an integral multiple of $1,000) into shares of Common Stock at the conversion price set forth on the cover page of this Prospectus, subject to adjustment as described below (the "Conversion Price"), except that if a Note is called for redemption, the conversion right will terminate at the close of business on the tenth business day immediately preceding the date fixed for redemption. Upon conversion, no adjustment or payment will be made for interest or dividends, but if any holder surrenders a Note for conversion after the close of business on the record date for the payment of an installment of interest and prior to the opening of business on the next interest payment date, then, notwithstanding such conversion, the interest payable on such interest payment date will be paid to the registered holder of such Note on such record date. In such event, such Note, when surrendered for conversion, must be accompanied by payment of an amount equal to

the interest payable on such interest payment date on the portion so converted. No fractional shares will be issued upon conversion but a cash adjustment will be made for any fractional interest.

The Conversion Price is subject to adjustment upon the occurrence of certain events, including (i) the issuance of shares of Common Stock as a dividend or distribution on the Common Stock; (ii) the subdivision or combination of the outstanding Common Stock; (iii) the issuance to substantially

all holders of Common Stock of rights or warrants to subscribe for or purchase Common Stock (or securities convertible into Common Stock) at a price per share less than the then current market price per share, as defined; (iv) the distribution of shares of capital stock of the Company (other than Common Stock) to all holders of Common Stock, evidences of indebtedness or other assets (excluding dividends in cash); and (v) the distribution to substantially all holders of Common Stock of rights or warrants to subscribe for securities (other than those referred to in clause (iii) above). In the event of a distribution to substantially all holders of Common Stock of rights to subscribe for additional shares of the Company's capital stock (other than those referred to in clause (iii) above), the Company may, instead of making any adjustment in the Conversion Price, make proper provision so that each holder of a Note who converts such Note after the record date for such distribution and prior to the expiration or redemption of such rights shall be entitled to receive upon such conversion, in addition to shares of Common Stock, an appropriate number of such rights. No adjustment of the Conversion Price will be made until cumulative adjustments amount to one percent or more of the Conversion Price as last adjusted. No adjustment of the Conversion Price will be made for cash dividends.

If the Company reclassifies or changes its outstanding Common Stock, or consolidates with or merges into or transfers or leases all or substantially all its assets to any person, or is a party to a merger that reclassifies or changes its outstanding Common Stock, the Notes will become convertible into the kind and amount of securities, cash or other assets which the holders of the Notes would have owned immediately after the transaction if the holders had converted the Notes immediately before the effective date of the transaction.

OPTIONAL REDEMPTION

The Notes may be redeemed at the option of the Company, in whole or from time to time in part, on and after December 31, 1998, on not less than 15 nor more than 60 days' notice by first class mail, at a redemption price of 100% of the principal amount thereof together with accrued and unpaid interest. If less than all the Notes are to be redeemed, the Trustee will select Notes for redemption pro rata or by lot. If any Note is to be redeemed in part only, a new Note or Notes in principal amount equal to the unredeemed principal portion thereof will be issued.

CHANGE IN CONTROL

In the event of a Change in Control (as defined below), each holder of Notes will have the right, at the holder's option, subject to the terms and conditions of the Indenture, to require the Company to purchase all or any part (provided that the principal amount must be $1,000 or an integral multiple thereof) of the holder's Notes on the date that is the later of (i) 20 business days after the date of mailing of the notice referred to below, and (ii) 40 business days after the occurrence of such Change in Control (the "Purchase Date") for a purchase price equal to the principal amount thereof, plus accrued and unpaid interest to the Purchase Date.

Within 20 business days after the occurrence of the Change in Control, the Company shall mail to the Trustee and to each holder (and to beneficial owners as required by law) a notice of the occurrence of the Change in Control, setting forth, among other things, the terms and conditions of, and the procedures required for exercise of the holder's right to require the purchase of such holder's Notes. The Company shall cause a copy of such notice to be published in a daily newspaper of national circulation, which shall be The Wall Street Journal unless it is not then so circulated.

To exercise the purchase right, a holder must deliver written notice of such exercise to the Paying Agent prior to the close of business on the Purchase Date, specifying the Notes with respect to which the right of purchase is being exercised. Such notice of exercise may be withdrawn by the holder by a written notice of withdrawal delivered to the Paying Agent at any time prior to the close of business on the Purchase Date.

Under the Indenture, a "Change in Control" means any event by which (i) an Acquiring Person has become such or (ii) Continuing Directors cease to comprise a majority of the Board of Directors, provided that a Change in Control shall not be deemed to have occurred if either (i) the last sale price of the Common Stock for any five trading days during the ten trading days immediately preceding the Change in Control is at least equal to 105% of the Conversion Price in effect on such day or (ii) the consideration, in the transaction giving rise to such Change in Control, to the holders of Common Stock consists of cash, securities that are, or immediately upon issuance will be, listed on a national securities exchange or quoted on the NASDAQ National Market System, or a combination of cash and such securities, and the aggregate fair market value of such consideration (which, in the case of such securities, shall be equal to the average of the last sale prices of such securities during the ten consecutive trading days commencing with the sixth trading day following consummation of such transaction) is at least 105% of the Conversion Price in effect on the date

immediately preceding the closing date of such transaction.

For purposes of the Indenture, certain defined terms have the following meanings:

"Acquiring Person" means any Person or group (as defined in Section 13(d)(3) of the Exchange Act) who or which, together with all affiliates and associates (as defined in Rule 12b-2 under the Exchange Act), becomes the beneficial owner of shares of Common Stock of the Company having more than 50% of the total number of votes that may be cast for the election of directors of the Company; provided, however, that an Acquiring Person shall not include (i) the Company, (ii) any Subsidiary of the Company, (iii) any employee benefit plan of the Company or any Subsidiary of the Company or any entity holding Common Stock of the Company for or pursuant to the terms of any such plan; (iv) Zell/Chilmark Fund, L.P., or (v) any limited partner or Affiliate of Zell/Chilmark Fund, L.P. Notwithstanding the foregoing, no Person shall become an "Acquiring Person" as the result of an acquisition of Common Stock by the Company which, by reducing the number of shares outstanding, increases the proportionate number of shares beneficially owned by such Person to 50% or more of the Common Stock of the Company then outstanding; provided, however, that if a Person shall become the beneficial owner of 50% or more of the Common Stock of the Company then outstanding by reason of share purchases by the Company and shall, after such share purchases by the Company, become the beneficial owner of any additional shares of Common Stock of the Company, then such Person shall be deemed to be an "Acquiring Person."

"Affiliate of Zell/Chilmark Fund, L.P." means (i) any person which, directly or indirectly, is in control of, is controlled by or is under common control with Zell/Chilmark Fund, L.P. or (ii) any other person who is a director or officer (A) of Zell/Chilmark Fund, L.P., (B) of any subsidiary of Zell/Chilmark Fund, L.P., or (C) of any person described in clause (i) above. For purposes of this definition, control of a person means the power, direct or indirect, to direct or cause the direction of the management and policies of such person whether by contract or otherwise; and the terms "controlling" and "controlled" have meanings correlative to the foregoing.

"Continuing Director" means any member of the Board of Directors, while such person is a member of such Board of Directors, who is not an Acquiring Person, or an affiliate or associate of an Acquiring Person or a representative of an Acquiring Person or of any such affiliate or associate and who (a) was a member of the Board of Directors prior to the date of the Indenture, or (b) subsequently becomes a member of such Board of Directors and whose nomination for election or election to such Board of Directors is recommended or approved by resolution of a majority of the Continuing Directors or who is included as a nominee in a proxy statement of the Company distributed when a majority of such Board of Directors consists of Continuing Directors.

The Company will comply with the provisions of Rule 13e-4, Rule 14e-1 and any other tender offer rules under the Exchange Act which may then be applicable, and will file Schedule 13E-4 or any other schedule required thereunder in connection with any offer by the Company to purchase Notes at the option of the holders upon a Change in Control.

The Change in Control purchase feature of the Notes may in certain circumstances make more difficult or discourage a takeover of the Company and, thus, the removal of incumbent management. The Change in Control purchase feature, however, is not the result of Management's knowledge of any specific effort to accumulate shares of Common Stock or to obtain control of the Company by means of a merger, tender offer, solicitation or otherwise, or part of a plan by Management to adopt a series of anti-takeover provisions. Instead, the Change in Control purchase feature is a standard term contained in other similar debt offerings and the terms of such feature result from negotiations between the Company and the Initial Purchaser of the Notes. Change in control provisions are also contained in the Credit Facility.

If a Change in Control were to occur, there can be no assurance that the Company would have sufficient funds to pay the required purchase price for all Notes tendered by the holders thereof. The Company's ability to purchase Notes tendered upon a Change in Control may be limited by the terms of its then-existing borrowing and other agreements. No Notes may be purchased if there has occurred and is continuing an Event of Default described below under "Events of Default and Notice Thereof" (other than a default in the payment of the purchase price with respect to such Notes).

SUBORDINATION OF NOTES

The Notes are (i) subordinate in right of payment to all existing and future Senior Debt, including the indebtedness under the Credit Facility, the Group One Loans, the Group Two Loans, and advances under the Receivables Facility, and (ii) pari passu in right of payment to all existing and future Senior Subordinated Indebtedness. The Indenture does not restrict the amount of

Senior Debt or other indebtedness of the Company or any subsidiary of the Company. On January 1, 1994 the Company had approximately $901.7 million of Senior Debt outstanding. The Indenture prohibits the Company from incurring any debt subsequent to the date of the Indenture which is subordinate in right of payment to Senior Indebtedness of the Company and which is not expressly made by the terms of the instrument creating such Indebtedness pari passu with, or subordinate and junior in right of payment to, the Notes.

The payment of the principal of, interest on or any other amounts due on the Notes is subordinated in right of payment to the prior payment in full of all Senior Debt of the Company. No payment on account of principal of, redemption of, interest on or any other amounts due on the Notes and no redemption, purchase or other acquisition of the Notes may be made unless (i) full payment of amounts then due on all Senior Debt has been made or duly provided for pursuant to the terms of the instrument governing such Senior Debt, and (ii) at the time for, or immediately after giving effect to, any such payment, redemption, purchase or other acquisition, there shall not exist under any Senior Debt or any agreement pursuant to which any Senior Debt has been issued, any default which shall not have been cured or waived and which shall have resulted in the full amount of such Senior Debt being declared due and payable. In addition, the Indenture will provide that if the holders of any Senior Debt notify the Company and the Trustee that a default has occurred giving the holders of such Senior Debt the right to accelerate the maturity thereof, no payment on account of principal, redemption, interest or any other amounts due on the Notes and no purchase, redemption or other acquisition of the Notes will be made for the period (the "Payment Blockage Period") commencing on the date notice is received and ending on the earlier of (A) the date on which such event of default shall have been cured or waived or (B) 180 days from the date notice is received. Notwithstanding the foregoing, only one payment blockage notice with respect to the same event of default or any other events of default existing and known to the person giving such notice at the time of such notice on the same issue of Senior Debt may be given during any period of 360 consecutive days. No new Payment Blockage Period may be commenced by the holders of

Senior Debt during any period of 360 consecutive days unless all events of default which triggered the preceding Payment Blockage Period have been cured or waived. Upon any distribution of its assets in connection with any dissolution, winding-up, liquidation or reorganization of the Company or acceleration of the principal amount due on the Notes because of an Event of Default, all Senior Debt must be paid in full before the holders of the Notes are entitled to any payments whatsoever.

As a result of these subordination provisions, in the event of the Company's insolvency, holders of the Notes may recover ratably less than general creditors of the Company.

The payment of the principal of, interest on or any other amounts due on Junior Subordinated Indebtedness is subordinated in right of payment to the prior payment in full of the Notes.

For purposes of this Prospectus, certain defined terms have the following meanings:

"Senior Debt" means the principal of, interest on and other amounts due on (i) Indebtedness of the Company, whether outstanding on the date of the Indenture or thereafter created, incurred, assumed or guaranteed by the Company in compliance with the Indenture, for money borrowed from banks or other financial institutions, including, without limitation, money borrowed under the Credit Facility and any refinancings or refundings thereof; (ii) Indebtedness of the Company, whether outstanding on the date of the Indenture or thereafter created, incurred, assumed or guaranteed by the Company in compliance with the Indenture, which is not Senior Subordinated Indebtedness or Junior Subordinated Indebtedness; and (iii) Indebtedness of the Company under interest rate swaps, caps or similar hedging agreements and foreign exchange contracts, currency swaps or similar agreements. Notwithstanding anything to the contrary in the foregoing, Senior Debt shall not include: (a) Indebtedness of or amounts owed by the Company for compensation to employees, or for goods or materials purchased in the ordinary course of business, or for services; or (b) Indebtedness of the Company to a subsidiary of the Company.

"Indebtedness" means, with respect to any person, (i) any obligation of such person to pay the principal of, premium of, if any, interest on (including interest accruing on or after the filing of any petition in bankruptcy or for reorganization relating to the Company, whether or not a claim for such post-petition interest is allowed in such proceeding), penalties, reimbursement or indemnification amounts, fees, expenses or other amounts relating to any indebtedness and any other liability, contingent or otherwise, of such person (A) for borrowed money (including instances where the recourse of the lender is to the whole of the assets of such person or to a portion thereof), (B) evidenced by a note, debenture or similar instrument (including a purchase money

obligation), including securities, (C) for any letter of credit or performance bond in favor of such person, or (D) for the payment of money relating to a Capitalized Lease Obligation; (ii) any liability of others of the kind described in the preceding clause (i), which the person has guaranteed or which is otherwise its legal liability; (iii) any obligation secured by a Lien to which the property or assets of such person are subject, whether or not the obligations secured thereby shall have been assumed by or shall otherwise be such person's legal liability; and (iv) any and all deferrals, renewals, extensions and refunding of, or amendments, modifications or supplements to, any liability of the kind described in any of the preceding clauses (i), (ii) or (iii). The amount of Indebtedness of any person at any date shall be the outstanding balance at such date of all unconditional obligations as described above, plus the maximum amount of any contingent obligations as described above, in each case at such date.

"Senior Subordinated Indebtedness" means Indebtedness of the Company (whether outstanding on the date of the Indenture or thereafter created, incurred, assumed or guaranteed by the Company) which, pursuant to the terms of the instrument creating or evidencing the same, is subordinate to the Senior Debt and senior in right of payment to the Junior Subordinated Indebtedness in right of payment or in rights upon liquidation.

"Junior Subordinated Indebtedness" means Indebtedness of the Company (whether outstanding on the date of the Indenture or thereafter created, incurred, assumed or guaranteed by the

Company), which, pursuant to the terms of the instrument creating or evidencing the same, is subordinate to the Senior Debt and the Senior Subordinated Indebtedness in right of payment or in rights upon liquidation.

EVENTS OF DEFAULT AND NOTICE THEREOF

The term "Event of Default" when used in the Indenture means any one of the following: (i) failure of the Company to pay interest for 30 days or principal when due; (ii) failure of the Company to perform any other covenant in the Indenture for 60 days after notice; (iii) default by the Company with respect to its obligation to pay within any applicable grace period principal of or interest on certain other Indebtedness aggregating more than $10,000,000, or the acceleration of such Indebtedness under the terms of the instruments evidencing such Indebtedness; (iv) one or more judgements or decrees are entered against the Company invoking, individually or in the aggregate, a liability of $10,000,000 or more and such judgements or decrees are not vacated, discharged, satisfied or stayed pending appeal within 60 days so as to bring the aggregate liability in respect thereof below the $10,000,000 threshhold; and (v) certain events of bankruptcy or reorganization of the Company or any subsidiary.

The Indenture provides that the Trustee shall, within 90 days after the occurrence of any default (the term "default" to include the events specified above without grace or notice) known to it, give to the holders of Notes notice of such default; provided that, except in the case of a default in the payment of principal of or interest on any of the Notes, the Trustee shall be protected in withholding such notice if it in good faith determines that the withholding of such notice is in the interest of the holders of Notes. The Indenture requires the Company to certify to the Trustee annually as to whether any default occurred during such year.

In case an Event of Default (other than an Event of Default resulting from bankruptcy, insolvency or reorganization) shall occur and be continuing, the Trustee or the holders of at least 25% in aggregate principal amount of the Notes then outstanding, by notice in writing to the Company (and to the Trustee if given by the holders of the Notes), may, and the Trustee shall, upon the request of such holders, declare all unpaid principal and accrued interest on the Notes then outstanding to be due and payable immediately. In case an Event of Default resulting from certain events of bankruptcy, insolvency or reorganization shall occur, all unpaid principal of and accrued interest on the Notes then outstanding shall be due and payable immediately without declaration or other act on the part of the Trustee or the holders of Notes. Such acceleration may be annulled and past defaults (except, unless theretofore cured, a default in payment of principal of or interest on the Notes) may be waived by the holders of a majority in principal amount of the Notes then outstanding, upon the conditions provided in the Indenture.

The Indenture provides that no holder of a Note may pursue any remedy under the Indenture unless the Trustee shall have failed to act after notice of an Event of Default and request by holders of at least 25% in principal amount of the Notes and the offer to the Trustee of indemnity satisfactory to it; provided, however, that such provision does not affect the right to sue for enforcement of any overdue payment on the Notes.

MODIFICATION AND WAIVER

The Indenture (including the terms and conditions of the Notes) may be modified or amended by the Company and the Trustee, without the consent of the holder of any Notes, for the purposes of (i) adding to the covenants of the Company for the benefit of the holders of Notes; (ii) surrendering any right or power conferred upon the Company; (iii) providing for conversion rights of holders of Notes in the event of consolidation, merger or sale of all or substantially all of the assets of the Company; (iv) evidencing the succession of another corporation to the Company and the assumption by such successor of the covenants and obligations of the Company thereunder and in the Notes as permitted by the Indenture; (v) reducing the Conversion Price, provided that such

reduction will not adversely affect the interests of holders of Notes in any material respect; or (vi) curing any ambiguity or correcting or supplementing any defective provision contained in the Indenture, or making any other provisions which the Company and the Trustee may deem necessary or desirable and which will not adversely affect the interests of the holders of Notes in any material respect.

Modification and amendment of the Indenture may be made by the Company and the Trustee with the consent of the holders of not less than a majority in principal amount of the outstanding Notes, provided that no such modification or amendment may, without the consent of the holder of each Note affected thereby, (i) change the stated maturity of the principal of or any installment of interest on, or alter the redemption provisions with respect to, any Note, (ii) reduce the principal of, or rate of interest on, any Note, (iv) impair the right to institute suit for the enforcement of any payment on or with respect to any Note, (v) modify the conversion or subordination provisions of the Indenture in a manner adverse to the holders of the Notes, (vi) reduce the above-stated percentage of holders of Notes necessary to modify or amend the Indenture or (vii) modify any of the foregoing provisions or reduce the percentage of outstanding Notes necessary to waive any covenant or past default. Holders of not less than a majority in principal amount of the outstanding Notes may waive certain past defaults. See "Events of Default and Notice Thereof." An amendment to the Indenture may not adversely affect the rights under the subordination provisions of the holders of any issue of Senior Debt without the consent of such holders.

SATISFACTION AND DISCHARGE

The Indenture will be discharged and cancelled upon payment of all the Notes. The Company may terminate all of its obligations under the Indenture, other than its obligation to pay the principal of and interest on the Notes and certain other obligations (including its obligation to deliver shares of Common Stock upon conversion of Notes), at any time, by depositing with the Trustee or a paying agent other than the Company, money or noncallable U.S. Government Obligations (as defined in the Indenture) sufficient to pay all remaining indebtedness on the Notes.

MERGER AND CONSOLIDATION

The Company may consolidate or merge with any other corporation and the Company may transfer its property and assets substantially as an entirety to any person; provided that (i) the Company is the resulting or surviving corporation, or the successor corporation is a domestic corporation and it assumes, by supplemental indenture, payment of the principal of and interest on the Notes and performance and observance of every covenant of the Indenture, and (ii) immediately before and immediately after giving effect to such transaction, no default or Event of Default shall have occurred and be continuing. Thereafter, all obligations of the Company under the Indenture and the Notes will terminate.

BOOK-ENTRY PROCEDURES

The Notes may be represented by one or more fully registered notes in global form ("Global Notes") as well as Notes in definitive form registered in the name of individual purchasers or their nominees. Each such Global Note will be deposited with The Depository Trust Company, as Depositary (the "Depositary"), and registered in the name of Cede & Co., as nominee of the Depositary. The following are summaries of certain rules and operating procedures of the Depositary which affect the payment of principal and interest and transfers of interests in the Global Notes.

The interest of investors in the Notes they elect to hold through the Depositary will be represented through financial institutions acting on their behalf as direct or indirect participants ("Participants") in the Depositary.

Upon the issuance of a Global Note, the Depositary will credit, on its book-entry registration and transfer system, the respective principal amounts of the Notes represented by such Global Note to

the accounts of institutions that have accounts with such Depositary or its nominee. Ownership of interests in such Global Note will be shown on, and the transfer of those ownership interests will be only through, records maintained by the Depositary (with respect to Participants' interests) and such Participants (with respect to the owners of beneficial interests in such Global Note). The laws of some jurisdictions may require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer beneficial ownership in the Global Notes may be limited.

So long as the Depositary or its nominee is the registered holder of a Global Note, the Depositary or such nominee, as the case may be, will be considered the sole owner or holder of the Notes represented by such Global Note for all purposes under the Indenture. Except under certain circumstances, owners of beneficial interests in a Global Note will not be entitled to have Notes represented by such Global Note registered in their names, will not receive or be entitled to receive physical delivery of Notes in definitive form and will not be considered the owners or holders thereof under the Indenture.

Accordingly, each investor owning a beneficial interest in a Global Note must rely on the procedures of the Depositary and, if such investor is not a Participant, on the procedures of the Participant through which such investor owns its interest, to exercise any rights of a holder under the Indenture or such Global Note.

Payments of principal and interest on the Notes represented by a Global Note registered in the name of the Depositary or its nominee will be made to the Depositary or its nominee, as the case may be, as the registered owner of the Global Note representing such Notes.

Resales or other transfers between investors holding Notes through the Depositary will be conducted according to the Depositary's rules and procedures applicable to U.S. corporate debt obligations and will settle in next-day funds.

CONCERNING THE TRUSTEE

Continental Bank, National Association is the Trustee under the Indenture.

The Indenture contains certain limitations on the rights of the Trustee, should it become a creditor of the Company, to obtain payment of claims in certain cases, or to realize on certain property received in respect of any such claim as security or otherwise. The Trustee is permitted to engage in other transactions; provided, however, if it acquires any conflicting interest (as defined) and there exists a default with respect to the Notes, it must eliminate such conflict or resign.

The holders of a majority in principal amount of all outstanding Notes have the right to direct the time, method and place of conducting any proceeding for exercising any remedy or power available to the Trustee, provided that such direction does not conflict with any rule of law or with the Indenture.

In case an Event of Default shall occur (and shall not be cured) and holders have notified the Trustee, the Trustee will be required to exercise its powers with the degree of care and skill of a prudent person in the conduct of his own affairs. Subject to such provisions, the Trustee is under no obligation to exercise any of its rights or powers under the Indenture at the request of any of the holders of Notes, unless they shall have offered to the Trustee security and indemnity satisfactory to it.

CERTAIN FEDERAL INCOME TAX CONSIDERATIONS

The following discussion summarizes the principal United States federal income tax consequences, under the Internal Revenue Code of 1986, as amended (the "Code"), and the regulations, judicial decisions and administrative rulings promulgated thereunder, all as currently in effect, of the purchase, ownership and disposition of the Notes, but does not purport to be a complete analysis of all potential tax consequences thereof. There can be no assurance that future changes in applicable

law or administrative and judicial interpretations thereof would not alter the tax consequences described herein or that the Internal Revenue Service (the "IRS") would agree with the description of the tax consequences set forth herein. No ruling from the IRS has been or is currently intended to be sought by the Company concerning matters discussed herein. The following discussion is for general information only. The following discussion addresses tax considerations relevant to beneficial owners of Notes that will own Notes as capital assets, and does not address tax considerations relevant to persons or entities in special tax purposes, or any persons or entities subject to special tax rules such as foreign persons or entities, tax exempt entities, insurance companies and financial institutions. PERSONS CONSIDERING PURCHASING NOTES SHOULD CONSULT

THEIR OWN TAX ADVISORS CONCERNING THE PARTICULAR TAX CONSEQUENCES OF THEIR ACQUISITION, OWNERSHIP AND DISPOSITION OF THE NOTES, INCLUDING THE APPLICABILITY AND EFFECT OF ANY FEDERAL, STATE, LOCAL OR FOREIGN TAX LAWS AND ANY PROPOSED CHANGES IN APPLICABLE TAX LAWS.

For purposes of the discussion under "Certain Federal Income Tax Considerations," the term "Holder" refers to the beneficial owner of a Note.

GENERAL

Interest. Interest on a Note will be taxable to a Holder as ordinary interest income in accordance with the Holder's method of accounting for federal income tax purposes.

Sale, Exchange or Redemption. A Holder generally will recognize gain or loss on the sale, exchange, redemption or retirement of a Note in an amount equal to the difference between (i) the amount realized from such sale, exchange, redemption or retirement and (ii) the Holder's adjusted tax basis in such Note. To the extent the amount received from such sale, exchange, redemption or retirement is attributable to accrued interest not previously included in income, such amount will not be taken into account in computing the amount of gain or loss, but such amount will be taxable as interest income. Subject to the following discussion of market discount, gain or loss recognized on the sale, exchange, redemption or retirement of a Note will be a capital gain or loss, and will be long-term capital gain or loss if the Holder's holding period is more than one year.

Market Discount. If a Holder acquires a Note subsequent to its original issuance and the Note's stated redemption price at maturity (in general, its outstanding principal amount) exceeds by more than a de minimis amount the Holder's initial tax basis in the Note, the Holder will be treated as having acquired the Note at a "market discount" equal to such excess. In general, any gain recognized by a Holder upon the disposition of a Note having market discount will be treated as ordinary income to the extent of the market discount that accrued through the date of disposition. Market discount generally accrues on a straight-line basis over the remaining term of a Note except that, at the election of the Holder, market discount will accrue on a constant yield basis. A Holder may elect to include any market discount in income currently as it accrues (either on a straight-line basis or, if the Holder so elects, on a constant yield basis) rather than upon disposition of the Notes, and any amounts so included would increase the Holder's adjusted tax basis in the Note.

It is anticipated that U.S. Treasury regulations will be issued that will provide that, upon the conversion of a Note having market discount, a Holder will not be required to include any amount in income with respect to accrued market discount not previously included in income as of the date of conversion (except to the extent attributable to cash received in lieu of fractional shares, as described in "Conversion of the Notes" below) but such accrued market discount will carry over to the Common Stock received on conversion and will be treated as ordinary income to the Holder upon the subsequent disposition of the Common Stock.

A Holder who acquires a Note at a market discount may be required to defer the deduction of all or a portion of any interest paid or accrued on any indebtedness incurred or continued to purchase or carry the Note until the market discount is recognized upon a subsequent disposition of the Note.

Such deferral is not required, however, if the Holder elects to include accrued market discount in income currently (as described above).

Bond Premium. If a Holder's initial tax basis in a Note exceeds the stated redemption price at maturity of the Note, the Holder will be treated as having acquired the Note with "bond premium" equal to such excess. In no case, however, shall bond premium include any amount attributable to the conversion feature of a Note. In general, the Holder may elect to amortize any bond premium, using a constant yield method, over the remaining term of the Note. However, because the Notes may be redeemed at the option of the Company at a price in excess of their principal amount, a Holder may in certain cases be required to amortize any bond premium based on the earlier call date and the call price payable at that time and thus defer a portion of the amortization.

The amount of bond premium amortized by an electing Holder during a year will generally reduce the amount required to be included in the Holder's income during that year with respect to interest on the Note and will reduce the Holder's adjusted tax basis in the Note. An election to amortize bond premium will apply to all bonds (other than bonds the interest on which is excludable from gross income) held by the Holder at the beginning of the first taxable year to which the election applies or thereafter acquired by the Holder, and is irrevocable without the consent of the IRS.

Conversion of the Notes. Generally, no gain or loss will be recognized by a

Holder on the conversion of a Note into Common Stock, except to the extent of cash received in lieu of fractional shares of Common Stock. Cash received in lieu of a fractional share of Common Stock should generally be treated as payment in exchange for such fractional share, and should result in capital gain or loss measured by the difference between the cash received and the Holder's tax basis in the fractional share. A Holder's adjusted tax basis in shares of Common Stock received upon conversion will be the same as the basis of the Notes exchanged at the time of conversion (reduced by the adjusted tax basis of any fractional share for which the Holder receives a cash payment from the Company), and the holding period of the Common Stock received in the conversion will include the holding period of the Notes converted.

Adjustments to Conversion Price. Adjustments in the conversion price of the Notes made pursuant to the provisions thereof may result in constructive distributions to Holders of Notes that could be taxable to such Holders as dividends pursuant to Section 305 of the Code.

BACKUP WITHHOLDING AND INFORMATION REPORTING

Under current federal income tax laws, "backup" withholding and information reporting requirements may apply to payments of principal, premium, if any, and interest on the Notes and dividends on the Common Stock and to payments of proceeds of the sale or redemption of the Notes and Common Stock. The Company, its agent, a broker or any paying agent, as the case may be, will be required to withhold from any payment that is subject to backup withholding a tax equal to 31% of such payment if the Holder (i) fails to furnish his or her taxpayer identification number ("TIN"), which, for an individual, is his or her social security number; (ii) furnishes an incorrect TIN; (iii) under certain circumstances, is notified by the IRS that such Holder has failed to properly report payments of interest or dividends; or (iv) under certain circumstances, fails to certify, under penalty of perjury, that such Holder has furnished a correct TIN and has not been notified by the IRS that such Holder is subject to backup withholding for failure to report interest and dividend payments. Furthermore, a Holder that does not provide the Company, its agent, a broker or any paying agent, as the case may be, with the Holder's current TIN may be subject to penalties imposed by the IRS. Certain Holders (including, among others, corporations, tax-exempt organizations and individual retirement accounts) are not subject to the backup withholding and information reporting requirements. Any amount withheld from a payment to a Holder pursuant to the backup withholding rules is allowable as a credit against such Holder's federal income tax liability provided that the required information is provided to the IRS.

HOLDERS SHOULD CONSULT THEIR TAX ADVISORS REGARDING THEIR QUALIFICATION FOR EXEMPTION FROM BACKUP WITHHOLDING AND THE PROCEDURE FOR OBTAINING SUCH AN EXEMPTION IF APPLICABLE.

SELLING HOLDERS

The Notes were originally issued and sold by the initial purchaser thereof, in a transaction exempt from the registration requirements of the Securities Act, to persons reasonably believed by such initial purchaser to be "qualified institutional buyers" (as defined in Rule 144A under the Securities Act), other institutional "accredited investors" (as defined in Rule 501(a)(1), (2), (3) or (7) under the Securities Act) or in transactions complying with the provisions of Regulation S under the Securities Act. The Selling Holders (which term includes the original holders of the Notes and their transferees, pledgees, donees or their successors) may from time to time offer and sell pursuant to this Prospectus any or all of the Notes and Common Stock issued upon conversion of the Notes.

The Company has been informed that the following table sets forth, as of the original issuance of the Notes, the Selling Holders and the respective principal amounts of Notes beneficially owned by each Selling Holder that may be offered pursuant to this Prospectus. None of the Selling Holders has, or within the past three years has had, any position, office or other material relationship with the Company or any of its predecessors or affiliates, except as noted below. Because the Selling Holders may offer all or some portion of the Notes or the Common Stock issuable upon conversion thereof pursuant to this Prospectus, no estimate can be given as to the amount of the Notes or the Common Stock issuable upon conversion thereof that will be held by the Selling Holders upon termination of any such sales. In addition, the Selling Holders identified below may have sold, transferred or otherwise disposed of all or a portion of their Notes since the original issuance of the Notes in transactions exempt from the registration requirements of the Securities Act.

<TABLE>
<CAPTION>

SELLING HOLDER	PRINCIPAL AMOUNT OF THE NOTES

<S>	<C>
Fidelity Management & Research	$ 21,950
Franklin Family of Funds	19,250
Trust Co. of the West	11,100
Capital Guardian Trust	9,000
Massachusetts Financial Services	7,500
Oppenheimer Management Corp	7,000
The President & Fellows of Harvard	7,000
IDS	6,000
RAS Trading	5,500
Keystone Company of Boston	5,000
Magten Asset Management Corp.	5,000
Froley, Revy Inv. Co	4,000
Strong Capital Management Inc	3,500
Jem Capital Management	3,500
Dean Witter Reynolds	3,000
Cargill Financial Markets PLC	2,500
McGlinn Capital Management Inc	2,250
Bankers Trust Portfolio	2,000
AON Advisors Inc	2,000
Glickenhaus & Co	1,750
Delaware Management Company	1,500
JP Morgan Management Co.	1,500

</TABLE>

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<TABLE>
<CAPTION>

SELLING HOLDER	PRINCIPAL AMOUNT OF THE NOTES
<S>	<C>
Highbridge Capital	$ 1,500
Cambridge Capital Fund	1,000
Columbia Management Company	1,000
Harris Bank Investment Management Inc.	1,000
Pacific Mutual Life Insurance	1,000
Wellington/Thorndike	1,000
Hamilton Partners	1,000
Conseco Inc	1,000
Longfellow Investment Management	500
Alexander Group Inc	500
First Boston Asset Management	500
Palladin Group LP	500
Zazove Associates Inc.	500
Lord Abbett & Co	250
Firebird Limited Partners	150
Salomon Brothers Inc.	150
Nichido Fire and Marine	100
Paresco Pari Capital	100
South Port Associates	100
S.C. Investments	50
RGP Holdings	50
Total	$143,750,000

</TABLE>

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PLAN OF DISTRIBUTION

The Notes and Common Stock offered hereby may be sold from time to time to purchasers directly by the Selling Holders. Alternatively, the Selling Holders may from time to time offer the Notes and Common Stock to or through underwriters, broker/dealers or agents, who may receive compensation in the form of underwriting discounts, concessions or commissions from the Selling Holders or the purchasers of Notes and Common Stock for whom they may act as agent. The Selling Holders and any underwriters, broker/dealers or agents that participate in the distribution of Notes and Common Stock may be deemed to be "underwriters" within the meaning of the Securities Act and any profit on the sale of Notes and Common Stock by them and any discounts, commissions, concessions or other compensation received by any such underwriter, broker/dealer or agent may be deemed to be underwriting discounts and commissions under the Securities Act.

The Notes and Common Stock offered hereby may be sold from time to time in one or more transactions at fixed prices, at prevailing market prices at the time of sale, at varying prices determined at the time of sale or at negotiated prices. The sale of the Notes and the Common Stock issuable upon conversion

thereof may be effected in transactions (which may involve crosses or block transactions) (i) on any national securities exchange or quotation service on which the Notes or the Common Stock may be listed or quoted at the time of sale, (ii) in the over-the-counter market, (iii) in transactions otherwise than on such exchanges or in the over-the-counter market or (iv) through the writing of options. At the time a particular offering of the Notes and the Common Stock is made, a Prospectus Supplement, if required, will be distributed which will set forth the aggregate amount and type of Notes and Common Stock being offered and the terms of the offering, including the name or names of any underwriters, broker/dealers or agents, any discounts, commissions and other terms constituting compensation from the Selling Holders and any discounts, commissions or concessions allowed or reallowed or paid to broker/dealers.

To comply with the securities laws of certain jurisdictions, if applicable, the Notes and Common Stock will be offered or sold in such jurisdictions only through registered or licensed brokers or dealers. In addition, in certain jurisdictions the Notes and Common Stock may not be offered or sold unless they have been registered or qualified for sale in such jurisdictions or any exemption from registration or qualification is available and is complied with.

The Selling Holders will be subject to applicable provisions of the Exchange Act and the rules and regulations thereunder, which provisions may limit the timing of purchases and sales of any of the Notes and Common Stock by the Selling Holders. The foregoing may affect the marketability of the Notes and the Common Stock.

Pursuant to the Registration Agreement, all expenses of the registration of the Notes and Common Stock will be paid by the Company, including, without limitation, Commission filing fees and expenses of compliance with state securities or "blue sky" laws; provided, however, that the Selling Holders will pay all underwriting discounts and selling commissions, if any. The Selling Holders will be indemnified by the Company against certain civil liabilities, including certain liabilities under the Securities Act, or will be entitled to contribution in connection therewith.

LEGAL MATTERS

The validity of the Notes and the shares of Common Stock issuable upon conversion thereof will be passed upon for the Company by Milbank, Tweed, Hadley & McCloy, Los Angeles, California, counsel to the Company.

EXPERTS

The financial statements incorporated in this Prospectus by reference to the Annual Report on Form 10-K for the fifty-two week period ended January 30, 1993, have been so incorporated in reliance on the reports of Price Waterhouse, independent accountants, given on the authority of said firm as experts in auditing and accounting.

NO DEALER, SALESMAN OR ANY OTHER PERSON HAS BEEN AUTHORIZED TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATIONS OTHER THAN THOSE CONTAINED IN THIS PROSPECTUS IN CONNECTION WITH THE OFFER MADE BY THIS PROSPECTUS AND, IF GIVEN OR MADE, SUCH INFORMATION OR REPRESENTATIONS MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY THE COMPANY OR ANY OF ITS AGENTS. NEITHER THE DELIVERY OF THIS PROSPECTUS NOR ANY SALE MADE HEREUNDER SHALL UNDER ANY CIRCUMSTANCES CREATE ANY IMPLICATION THAT THERE HAS BEEN NO CHANGE IN THE AFFAIRS OF THE COMPANY SINCE THE DATE HEREOF. THIS PROSPECTUS DOES NOT CONSTITUTE AN OFFER OR SOLICITATION BY ANYONE IN ANY JURISDICTION IN WHICH SUCH OFFER OR SOLICITATION IS NOT AUTHORIZED OR IN WHICH THE PERSON MAKING SUCH OFFER OR SOLICITATION IS NOT QUALIFIED TO DO SO OR TO ANYONE TO WHOM IT IS UNLAWFUL TO MAKE SUCH SOLICITATION.

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</TABLE>

$143,750,000

CARTER HAWLEY HALE
STORES, INC.

6 1/4% CONVERTIBLE SENIOR
SUBORDINATED NOTES
DUE 2000

[LOGO]

PROSPECTUS

DATED , 1994

[LOGO] PRINTED ON RECYCLED PAPER

PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

ITEM 14. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION

The following is an itemization of all expenses (subject to future contingencies) incurred or expected to be incurred by the Company in connection with the Offering.

<TABLE>

<S>	<C>
SEC registration fee	$ 49,569
Legal fees and expenses	300,000
Accounting fees and expenses	175,000
NYSE filing fee	42,000
Blue Sky fees and expenses (including counsel fees)	10,000
Printing and engraving fees	200,000
Miscellaneous expenses	23,431
Total	$800,000

</TABLE>

ITEM 15. INDEMNIFICATION OF DIRECTORS AND OFFICERS

As permitted by Section 102 of the Delaware General Corporation Law (the "DGCL"), the Company's certificate of incorporation eliminates a director's personal liability for monetary damages to the Company and its stockholders arising from a breach or alleged breach of a director's fiduciary duty except for liability under Section 174 of the DGCL or liability for any breach of the director's duty of loyalty to the Company or its stockholders, for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law or for any transaction in which the director derived an improper personal benefit. The effect of this provision in the certificate of incorporation is to eliminate the rights of the Company and its stockholders (through stockholders' derivative suits on behalf of the Company) to recover monetary damages against a director for breach of fiduciary duty as a director (including breaches resulting from negligent or grossly negligent behavior) except in the situations described above.

As permitted by Section 145 of the DGCL, the Company's bylaws provide for indemnification of officers and directors and the Company has entered into an indemnification agreement ("Indemnification Agreement") with each officer and director of the Company (an "Indemnitee"). Under the bylaws and these Indemnification Agreements, the Company must indemnify an Indemnitee to the fullest extent permitted by Delaware Law for losses and expenses incurred in connection with actions in which the Indemnitee is involved by reason of having been a director or officer of the Company. The Company is also obligated to

advance expenses an Indemnitee may incur in connection with such actions before any resolution of the action, and the Indemnitee may sue to enforce his or her right to indemnification or advancement of expenses.

The Company also maintains insurance for its officers and directors against certain liabilities under the Securities Act under an insurance policy, the premiums for which are paid by the Company.

ITEM 16. EXHIBITS

A list of exhibits included as part of this Registration Statement is set forth in the Exhibit Index which immediately precedes such exhibits and is hereby incorporated by reference herein.

ITEM 17. UNDERTAKINGS

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

(B) Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

(C) The undersigned registrant hereby undertakes that:

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

(2) For the purposes of determining any liability under the Securities Act of 1933, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(D) The undersigned registrant hereby undertakes that:

(1) To file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement;

(i) To include any prospectus required by Section 10(A)(3) of the Securities Act of 1933;

(ii) To reflect in the prospectus any facts or events arising after the effective date of the registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the registration statement;

(iii) To include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the registration statement;

provided, however, that paragraphs (a)(1)(i) and (a)(1)(ii) do not apply if the information required to be included in a post-effective amendment by those

paragraphs is contained in periodic reports filed by the registrant pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 that are incorporated by reference in the registration statement.

(2) That, for the purpose of determining any liability under the Securities Act of 1933, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

(4) If the registrant is a foreign private issuer, to file a post-effective amendment to the registration statement to include any financial statements required by Rule 3-19 of Regulation S-X at the start of any delayed offering or throughout a continuous offering.

(E) The undersigned registrant hereby undertakes to file an application for the purpose of determining the eligibility of the trustee to act under subsection (a) of section 310 of the Trust Indenture Act in accordance with the rules and regulations prescribed by the Commission under section 305(b)(2) of the Trust Indenture Act.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, as amended, the Registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form S-3 and has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized in the City of Los Angeles, State of California, on this 7th day of January, 1994.

CARTER HAWLEY HALE STORES, INC.

By: /s/ DAVID L. DWORKIN

Name: David L. Dworkin
Title: President and Chief Executive Officer

POWER OF ATTORNEY

Each person whose signature appears below hereby authorizes David L. Dworkin, Brian L. Fleming and Marc E. Bercoon Esq., and each and any of them, as attorneys-in-fact and agents, with full powers of substitution, to sign on his or her behalf, individually and in the capacities stated below, and to file any and all amendments (including post-effective amendments) to this Registration Statement on Form S-3 with the Securities and Exchange Commission, granting to said attorneys-in-fact and agents full power and authority to perform any other act on behalf of the undersigned required to be done in the premises.

Pursuant to the requirements of the Securities Act of 1933, as amended, this Registration Statement has been signed by the following persons in the capacities and on the dates indicated.

<TABLE>
<CAPTION>

SIGNATURE	TITLE	DATE
<S>	<C>	<C>
/s/ SAMUEL ZELL Samuel Zell	Chairman of the Board and Director	January 7, 1994
/s/ DAVID L. DWORKIN David L. Dworkin	President, Chief Executive Officer and Director (Principal Executive Officer)	January 7, 1994
/s/ BRIAN L. FLEMING Brian L. Fleming	Senior Vice President, Accounting and Taxes (Principal Accounting Officer and Principal Financial Officer)	January 7, 1994
Dr. Leobardo F. Estrada	Director	
/s/ SIDNEY R. PETERSEN Sidney R. Petersen	Director	January 7, 1994

/s/ DENNIS C. STANFILL Dennis C. Stanfill	Director	January 7, 1994

</TABLE>

<TABLE>
<CAPTION>

SIGNATURE	TITLE	DATE
<S>	<C>	<C>
/s/ TERRY SAVAGE Terry Savage	Director	January 7, 1994
/s/ DAVID M. SCHULTE David M. Schulte	Director	January 7, 1994
/s/ SANFORD SHKOLNIK Sanford Shkolnik	Director	January 7, 1994
/s/ Dr. ROBERT M. SOLOW Dr. Robert M. Solow	Director	January 7, 1994
/s/ JAMES D. WOODS James D. Woods	Director	January 7, 1994

</TABLE>

EXHIBIT INDEX

<TABLE>
<CAPTION>

EXHIBIT NO.	DESCRIPTION	SEQUENTIALLY NUMBERED PAGE
<C>	<S>	<C>
1.1	Purchase Agreement, dated as of December 14, 1993, between Carter Hawley Hale Stores, Inc. and Salomon Brothers Inc.....	
4.1	Indenture dated as of December 21, 1993, between Carter Hawley Hale Stores, Inc. and Continental Bank, National Association, as Trustee, relating to Carter Hawley Hale Stores, Inc.'s 6 1/4% Convertible Senior Subordinated Notes due 2000.....	
4.2	Form of Convertible Senior Subordinated Notes (included in Exhibit 4.1 to this Registration Statement.).....	
4.3	Registration Agreement, dated December 21, 1993, between Carter Hawley Hale Stores, Inc. and Salomon Brothers Inc.....	
4.4	Amended and Restated Certificate of Incorporation of Carter Hawley Hale Stores, Inc.; incorporated by reference to Exhibit 4.2 to Form S-8 filed February 17, 1993.....	
4.5	Bylaws of Carter Hawley Hale Stores, Inc.; incorporated by reference to Exhibit 3.2 to Form 10-K for the year ended January 30, 1993.....	
5.1	Opinion of Milbank, Tweed, Hadley & McCloy.....	
23.1	Consent of Price Waterhouse.....	
23.2	Consent of Milbank, Tweed, Hadley & McCloy (included in Exhibit 5.1).....	
25.2	Statement of Eligibility and Qualification under the Trust Indenture Act of 1939 of Continental Bank, National Association, as Trustee...	
28.1	Waiver Agreement, dated as of December 8, 1993 by and between Carter Hawley Hale Stores, Inc. and First Plaza Group Trust, by its trustee Mellon Bank, N.A.	

</TABLE>

CARTER HAWLEY HALE STORES, INC.

$125,000,000 Principal Amount of(1)
6-1/4% Convertible Senior Subordinated Notes due 2000

PURCHASE AGREEMENT

New York, New York
December 14, 1993

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(1) Plus an option to purchase up to $18,750,000 principal amount of 6-1/4% Convertible Senior Subordinated Notes from Carter Hawley Hale Stores, Inc. to cover over-allotments.

Salomon Brothers Inc
The Initial Purchaser
Seven World Trade Center
New York, New York 10048

Ladies and Gentlemen:

Carter Hawley Hale Stores, Inc., a Delaware corporation (the "Company"), proposes to issue and sell to Salomon Brothers Inc (the "Initial Purchaser"), $125,000,000 principal amount of 6-1/4% Convertible Senior Subordinated Notes due 2000 ("Notes"), of the Company (the "Firm Securities"). The Company also proposes to grant to the Initial Purchaser an option to purchase up to $18,750,000 aggregate principal amount of additional Notes to cover over-allotments, if any (the "Option Securities" and, together with the Firm Securities, the "Securities").

The Securities are to be issued pursuant to an indenture dated as of

December 21, 1993 between the Company and Continental Bank National Association, as trustee (the "Trustee"), which shall contain the terms described in the Final Memorandum (as defined below), including certain matters relating to the registration of the Securities pursuant to the Registration Agreement described in the Final Memorandum (the "Registration Rights Agreement"). The Securities are convertible into shares of common stock of the Company ("Common Stock") at the conversion rate and in the manner specified in the Indenture.

The sale of the Securities to the Initial Purchaser will be made without registration of the Securities under the Securities Act of 1933, as amended (the "Securities Act"), in reliance upon exemptions from the registration requirements of the Securities Act. The Initial Purchaser has advised the Company that it will offer and sell the Securities purchased by it hereunder in accordance with Section 4 hereof as soon as it deems advisable.

In connection with the sale of the Securities, the Company has prepared a preliminary offering memorandum, dated December 9, 1993 (including any and all exhibits thereto and any information incorporated by reference therein, the "Preliminary Memorandum"), and a final offering memorandum, dated December 21, 1993 (including all exhibits thereto and any information incorporated by reference therein, the "Final Memorandum"). Each of the Preliminary Memorandum and the Final Memorandum sets forth certain information concerning the Company and the Securities. The Company hereby confirms that it has authorized the use of the Preliminary Memorandum and the Final Memorandum, and any amendment or supplement thereto, in connection with the offer and sale of the Securities by the Initial Purchaser. Unless stated to the contrary, all references herein to the Final Memorandum are to the Final Memorandum at the Execution Time (as defined below) and are not meant to include any amendment or supplement, or any information incorporated by reference therein, subsequent to the Execution Time. Any references herein to the Final Memorandum "as amended or supplemented" at or as of a certain date shall be deemed to refer to and include any information filed under the

Securities Exchange Act of 1934, as amended (the "Exchange Act"), which is incorporated by reference therein.

1. Representations and Warranties. The Company represents and warrants to the Initial Purchaser as set forth below in this Section 1.

(a) The Preliminary Memorandum, at the date thereof, did not contain any untrue statement of a material fact or omit to state any material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading. The Final Memorandum, at the

date hereof, does not, and at the Closing Date will not (and any amendment or supplement thereto, at the date thereof and at the Closing Date, will not), contain any untrue statement of a material fact or omit to state any material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; provided, however, that the Company makes no representation or warranty as to the information contained in or omitted from the Preliminary Memorandum or the Final Memorandum, or any amendment or supplement thereto, in reliance upon and in conformity with information furnished in writing to the Company by or on behalf of the Initial Purchaser specifically for inclusion therein.

(b) Neither the Company, nor any of its Affiliates (as defined in Rule 501(b) of Regulation D under the Securities Act ("Regulation D")), nor any person acting on its or their behalf has, directly or indirectly, made offers or sales of any security, or solicited offers to buy any security, under circumstances that would require the registration of the Securities under the Securities Act.

(c) Neither the Company, nor any of its Affiliates, nor any person acting on its or their behalf has engaged in any form of general solicitation or general advertising (within the meaning of Regulation D) in connection with any offer or sale of the Securities in the United States.

(d) The Securities satisfy the eligibility requirements of Rule 144A(d)(3) under the Securities Act.

(e) Neither the Company, nor any of its Affiliates, nor any person acting on its or their behalf has engaged in any directed selling efforts with respect to the Securities, and each of them has complied with the offering restrictions requirement of Regulation S ("Regulation S") under the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S.

(f) The Company is not an "investment company" within the meaning of the Investment Company Act of 1940, as amended (the "Investment Company Act") without taking account of any exemption arising out of the number of holders of the Company's securities.

(g) The Company is subject to and in full compliance with the reporting requirement of Section 13 or Section 15(d) of the Exchange Act.

(h) The Company has not paid or agreed to pay to any person any compensation for soliciting another to purchase any securities of the Company (except as contemplated by this Agreement).

(i) Each of the Company and CHH Receivables, Inc., a Delaware corporation (the "Subsidiary") is a Delaware corporation validly existing in good standing under the laws of the State of Delaware, with full corporate power and authority to own its properties and conduct its business as presently conducted and as described in the Preliminary Memorandum and Final Memorandum, and is duly qualified to do business as a foreign corporation and is in good standing under the laws of each jurisdiction which requires such qualification wherein it owns or leases properties or conducts business.

(j) The Company's authorized equity capitalization is as set forth in the Preliminary Memorandum and Final Memorandum. The capital stock and indebtedness of the Company conforms to the description thereof contained in the Preliminary Memorandum and Final Memorandum. The outstanding shares of the Company's Common Stock, par value $.01 per share, have been duly and validly authorized and issued and are fully paid and nonassessable. The Securities being sold hereunder have been duly and validly authorized and, when validly authenticated, issued and delivered in accordance with the Indenture and paid for by the Initial Purchaser pursuant to this Agreement, will be validly issued and outstanding obligations enforceable in accordance with their terms and entitled to the benefits of the Indenture. Upon delivery of the Securities pursuant to this Agreement and payment therefore as contemplated herein, the Initial Purchaser will acquire good and marketable title to the Securities, free and clear of any liens, claims, encumbrances, and security interests ("Liens"), restriction on transfer (other than those imposed by state or Federal securities laws) or other defect in title. The appropriate number of shares of Common Stock issuable upon conversion of the Securities has been duly reserved for issuance, and such shares have been duly and validly authorized, and will when issued upon conversion of the Securities against delivery thereof, be validly issued, fully paid and non-assessable.

(k) All the outstanding shares of capital stock of the Subsidiary have been duly and validly authorized and issued and are fully paid and nonassessable, and are owned of record and beneficially by the Company free and clear of any Liens other than those described in the Preliminary Memorandum and Final Memorandum. Other than as disclosed in the Preliminary Memorandum and Final Memorandum, there are no outstanding rights, warrants, or options to acquire or instruments convertible into or exchangeable for, any shares of capital stock or equity interest in the Subsidiary. The Company's only subsidiaries (other than the Subsidiary) are

those listed on Exhibit 22 to the Company's Annual Report on Form 10-K for

the fifty-two week period ended January 30, 1993, and individually or in the aggregate do not constitute a "significant subsidiary" as defined in Regulation S-X under the Act.

(l) Each of the Company and the Subsidiary have good and marketable title to their respective properties, free and clear of all Liens other than those referred to in the Preliminary Memorandum and Final Memorandum and for such Liens as do not materially affect the aggregate value of such property taken as a whole and that do not materially interfere with the uses or proposed uses of such properties. The properties of the Company and the Subsidiary necessary to the conduct of their businesses (as presently conducted and as described in the Preliminary Memorandum and Final Memorandum) are in good repair (reasonable wear and tear excepted), insured in accordance with industry practice and suitable for their uses. The real properties referred to in the Preliminary Memorandum and Final Memorandum as held under lease by the Company are held by it under valid, subsisting and enforceable leases with such exceptions as are not, separately or in the aggregate, material and do not interfere with the conduct of the business of the Company, and no defaults are existing under any such leases that, separately or in the aggregate, would have a material adverse effect on the business or financial condition of the Company.

(m) There is no pending or, to the Company's knowledge, threatened action, suit or proceeding before any court or governmental agency, authority or body or any arbitrator involving the Company or the Subsidiary or to which the business or property of either of them is or may be subject of a character required to be disclosed in the Preliminary Memorandum and Final Memorandum which is not adequately disclosed in the Preliminary Memorandum and Final Memorandum, and there is no statute, regulation, franchise, contract or other document of a character required to be described in the Preliminary Memorandum and Final Memorandum, or required to be filed under the Exchange Act, which is not described or filed as required. The statements in the Preliminary Memorandum and Final Memorandum under the captions "Business - Recapitalization" and "Business - Legal Proceedings - Chapter 11 Proceedings; Unresolved Claims" fairly summarize the matters therein described.

(n) The consolidated financial statements of the Company and the related notes and schedules included and incorporated by reference in the Preliminary Memorandum and Final Memorandum comply as to form with the requirements of the Act and the Exchange Act and the respective rules thereunder, and present fairly the consolidated financial position, consolidated results of operations, consolidated cash flows, and consolidated shareholders' equity of the Company for the periods or at the dates therein specified. Such consolidated financial statements and the related notes and schedules have been prepared in conformity with generally accepted accounting principles,

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consistently applied throughout the periods therein specified except as otherwise set forth in the Preliminary Memorandum and Final Memorandum. Price Waterhouse are independent accountants within the meaning of the Act and the Exchange Act and the respective rules thereunder. The financial information of the Company set forth in the Preliminary Memorandum and Final Memorandum under the headings "Offering Memorandum Summary", "Capitalization," "Selected Consolidated Financial Data" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" has been fairly stated in all material respects in relation to the relevant consolidated financial statements of the Company from which it has been derived.

(o) Subsequent to July 1, 1993, the Company and the Subsidiary have not sustained any material loss or interference with their respective businesses or properties from fire, flood, earthquake, accident or other calamity, whether or not covered by insurance, or from any labor dispute or court or governmental action, order or decree; and subsequent to the dates as of which information is given in the Preliminary Memorandum and Final Memorandum, except as set forth therein, neither the Company nor the Subsidiary has incurred any liabilities or obligations, direct or contingent, or entered into any transactions, not in the ordinary course of business and material, separately or in the aggregate, to the business of the Company or the Subsidiary, and there has not been any material change in the working capital, receivables based financing, long-term debt and capitalized lease obligations, or capital stock of the Company or the Subsidiary, or the issuance of any options, warrants or rights to purchase the capital stock of the Company, or any payment or declaration of any dividend or other distribution with respect to the Company's capital stock, or any material adverse change, or any development involving a prospective material adverse change, in the business, financial position, net worth or results of operations of the Company or the Subsidiary.

(p) Neither the Company nor the Subsidiary is in violation of any term or provision of its certificate of incorporation or bylaws, or any franchise, license, certificate, permit, judgment, authorization, approval, decree, order, statute, rule or regulation which violation is reasonably expected to have a material adverse effect on the business of the Company or the Subsidiary. No default exists, and no event has occurred which, with notice or lapse of time, or both, would constitute a default, in the due performance and observance of any term, covenant or condition of any indenture, note, mortgage, deed of trust, bank loan or other credit agreement, or any other agreement or instrument to which the Company or the Subsidiary is a party or by which either of them or any of their property is or may be bound or affected, which default would, separately or in the aggregate, have a material adverse effect on the business or financial condition of the Company or the Subsidiary.

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(q) Neither the Company nor the Subsidiary is involved in any labor dispute with any union or group of employees nor, to the knowledge of the Company, is any dispute threatened which dispute or disputes would, separately or in the aggregate, have a material adverse effect on the business or financial condition of the Company or the Subsidiary.

(r) There has not been any generation, use, handling, transportation, treatment, storage, release or disposal of any Hazardous Substance (as defined herein) in connection with the conduct of the business of the Company or its subsidiaries or the use of any property or facility of the Company or any of its subsidiaries which has created any liability under any Environmental Laws that is or could reasonably be expected to be material to the business or financial condition of the Company and its subsidiaries, taken as a whole. Neither the Company nor any subsidiary has received (1) any notice or claim to the effect that it is or may be liable to any person as a result of the release or threatened release of any Hazardous Substance which liability is or could reasonably be expected to be material to the business or financial condition of the Company and its subsidiaries, taken as a whole or (2) any letter or request for information under Section 104 of the Comprehensive Environmental Response, Compensation and Liability Act (42 U.S.C. Section 9604) or comparable state laws, and to the best of the Company's knowledge, none of the operations of the Company or any Subsidiary is the subject of any federal or state investigation evaluating whether any remedial action is needed to respond to a release or threatened release of any Hazardous Substance at any facility of the Company or any Subsidiary or at any other location.

The term "Hazardous Substance" shall mean any (1) substance that is defined or listed in, or otherwise classified pursuant to any applicable laws or regulations as a "hazardous substance," "hazardous material," "hazardous waste," "toxic substance," or any other formulation intended to define, list or classify substances by reason of deleterious properties such as ignitability, corrosivity, reactivity, carcinogenicity, reproductive toxicity, "TCLP toxicity" or "EP toxicity," (2) oil, petroleum or petroleum-derived substances and drilling fluid, produced water, and other waste associated with the exploration, development, or production of crude oil, natural gas or geothermal resources, or (3) any flammable substance or explosive, any radioactive material, any hazardous waste or substance, any toxic waste or substance or any other material or pollutant which poses a hazard to any property of the Company or to persons on or about such property.

(s) The Company and its subsidiaries have filed all federal, state, local and foreign tax returns which are required to be filed or have requested

extensions thereof and have paid all taxes shown on such returns and all assessments received by them to the extent that the same have become due, other than assessments being contested in good faith.

(t) This Agreement, the Indenture and the Registration Agreement have been duly authorized, executed and delivered by the Company and are the valid and binding agreements of the Company enforceable against the Company in accordance with their terms. Neither the issue and sale of the Securities, nor the execution and delivery of this Agreement, the Indenture or the Registration Agreement, nor the consummation of the transactions contemplated herein or therein, nor the fulfillment of the terms hereof or thereof will conflict with, result in a breach or violation of, or constitute a default under any applicable law or the charter or bylaws of the Company or the terms of any indenture or other agreement or instrument to which the Company or the Subsidiary is a party or bound or any judgment, order or decree applicable to the Company or the Subsidiary of any court, regulatory body, administrative agency, governmental body or arbitrator having jurisdiction over the Company or the Subsidiary. No consent, approval, authorization or order of any court or governmental agency or body is required for the consummation of the transactions contemplated herein, except such as have been obtained or such as may be required under the Act or securities or blue sky laws of any jurisdiction in connection with the purchase and distribution of the Securities by you.

(u) The Company owns, or is licensed or otherwise has the full exclusive right to use, all trademarks, trade names, and service marks which are used in or necessary for the conduct of its business as described in the Preliminary Memorandum and Final Memorandum. No claims have been asserted by any person to the use of any such trademarks, trade names, or service marks or challenging or questioning the validity or effectiveness of any such trademark, trade name, or service mark. The use, in connection with the business and operations of the Company, of such trademarks, trade names, and service marks does not, to the Company's knowledge, infringe on the rights of any person.

(v) The Company and the Subsidiary possess such certificates, authorities or permits issued by the appropriate local, state, federal or foreign regulatory agencies or bodies necessary to conduct the business now operated by them, and neither the Company nor the Subsidiary has received any notice of proceedings relating to the revocation or modification of any such certificate, authority or permit which, separately or in the aggregate, if the subject of any unfavorable decision, ruling or finding, would have a material adverse effect upon the business or financial condition of the Company or the Subsidiary.

(w) The Company maintains a system of internal accounting controls sufficient to provide reasonable assurance that: (i) transactions are executed in accordance with management's general or specific authorizations; (ii) transactions are recorded as necessary to permit preparation of financial statements in conformity with generally accepted accounting principles and to maintain accountability for assets; (iii) access to assets is permitted only in accordance with management's general or specific authorizations; and (iv) the

recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

(x) Except for registration rights held by First Plaza Group Trust ("First Plaza") pursuant to that certain Stockholder's Agreement dated as of January 25, 1993 (the "First Plaza Stockholder's Agreement"), which rights have been waived by First Plaza with respect to the Shelf Registration Statement for a period of 90 days after the date of the Final Memorandum, provided such Final Memorandum is dated no later than January 30, 1994, no holders of securities of the Company have rights to the registration of such securities under the Shelf Registration Statement.

(y) The Company's plan of reorganization (the "Plan of Reorganization") was confirmed by order (the "Confirmation Order") of the United States Bankruptcy Court for the Central District of California (the "Bankruptcy Court") on September 14, 1992 after adequate notice and a hearing, both in compliance with the United States Bankruptcy Code, 11 U.S.C. Section 101 et. seq. (the "Code"), and applicable national and local bankruptcy rules (the "Bankruptcy Rules"). Notice in compliance with the Code, the Bankruptcy Rules and the Confirmation Order was given of the time fixed for filing proofs of claims by the order of the Bankruptcy Court entered September 6, 1991 (Dkt. No. 1367). Each of the Plan of Reorganization and the Confirmation Order remains in force and effect, without amendment, and the Plan of Reorganization has been substantially consummated (within the meaning of 11 U.S.C. Section 1101(2)) in accordance with its terms. The Company is not in violation of, and no default by the Company exists with respect to, any term or provision of the Plan of Reorganization or the Confirmation Order. There is no condition specified in the Plan of Reorganization the occurrence of which would result in the termination of the Plan of Reorganization. No appeal of the Confirmation Order has been filed, and no request for revocation of the Confirmation Order under 11 U.S.C. Section 1144 has been made; and there is no other legal or governmental proceeding pending or, to the Company's knowledge, threatened

challenging or questioning the Plan of Reorganization, the Confirmation Order, or the implementation of either of them.

2. Purchase and Sale.

(a) Subject to the terms and conditions and in reliance upon the representations and warranties herein set forth, the Company agrees to sell to the Initial Purchaser, and the Initial Purchaser agrees to purchase from the Company, at a purchase price of 96.5% of the principal amount thereof, the Firm Securities. The initial conversion price is $12.19 per share.

(b) Subject to the terms and conditions and in reliance upon the representations and warranties herein set forth, the Company hereby grants an option (the "Option") to the Initial Purchaser to purchase the Option

Securities at the same purchase price per share as the Initial Purchaser shall pay for the Firm Securities. The Option may be exercised only to cover over-allotments in the sale of the Firm Securities by the Initial Purchaser. The Option may be exercised in whole or in part at any time (but not more than once) on or before the 30th day after the date of the Final Memorandum upon written or telegraphic notice by the Initial Purchaser to the Company setting forth the number of Option Securities as to which the Initial Purchaser is exercising the Option and the settlement date therefor. Delivery of certificates for the Option Securities, and payment therefor, shall be made as provided in Section 3 hereof.

3. Delivery and Payment. Delivery of and payment for the Firm Securities and the Option Securities (if the Option provided for in Section 2(b) hereof shall have been exercised on or before the third business day prior to the Closing Date) shall be made at 10:00 AM, New York City time, on December 21, 1993, or such later date (not later than December 28, 1993) as the Initial Purchaser shall designate, which date and time may be postponed by agreement between the Initial Purchaser and the Company or as provided in Section 9 hereof (such date and time of delivery and payment for the Securities being herein called the "Closing Date"). Delivery of the Securities shall be made to the Initial Purchaser against payment by the Initial Purchaser of the purchase price thereof to or upon the order of the Company by certified or official bank check or checks drawn on or by a New York Clearing House bank and payable in next day funds or such other manner of payment as may be agreed by the Company and the Initial Purchaser. Delivery of the Securities shall be made at such location as the Initial Purchaser shall reasonably designate at least one business day in advance of the Closing Date and payment for the Securities shall be made at the office of Millbank, Tweed, Hadley & McCloy ("Counsel for the Company"), 601 South Figueroa Street, Los Angeles, California.

Certificates for the Securities shall be registered in such names and in such denominations as the Initial Purchaser may request not less than three full business days in advance of the Closing Date.

The Company agrees to have the Securities available for inspection, checking and packaging by the Initial Purchaser in New York, New York, not later that 1:00 PM on the business day prior to the Closing Date.

If the Option is exercised after the third business day prior to the Closing Date, the Company will deliver (at the expense of the Company) to the Initial Purchaser, at Seven World Trade Center, New York, New York, on the date specified by the Initial Purchaser (which shall be within three business days after exercise of the Option), certificates for the Option Securities in such names and denominations as the Initial Purchaser shall have requested against payment of the purchase price thereof to or upon order of the Company by certified or official bank check or checks drawn on or by a New York Clearing House bank and payable in next day funds or such other manner of payment as may be agreed by the Company and the Initial Purchaser. If settlement for the Option Securities occurs after the Closing Date, the Company will deliver to the Initial Purchaser on the settlement date for the Option Securities, and the obligation of the Initial Purchaser to purchase the Option Securities shall be conditioned upon receipt of, supplemental opinions, certificates and letters confirming as of such date the opinions, certificates and letters delivered on the Closing Date pursuant to Section 6 hereof.

4. Offering of Securities. The Initial Purchaser represents and warrants to and agrees with the Company that:

(a) It is a qualified institutional buyer as defined in Rule 144A under the Act (a "QIB"). The Initial Purchaser agrees with the Company that (i) it has not and will not solicit offers for, or offer or sell, the Securities by any form of general solicitation or general advertising (as those terms are used in Regulation D under the Act) or in any manner involving a public offering within the meaning of Section 4(2) of the Act; and (ii) it has and will solicit offers for the Securities only from, and will offer the Securities only to, persons that it reasonably believes to be (A) in the case of offers inside the United States, (x) QIBs or (y) other accredited investors (as defined in Rule 501(a)(1), (2), (3), (4) or (7) under the Securities Act ("Accredited Investors") that, prior to their purchase of the the Securities, deliver to the Initial Purchaser a letter containing representations and agreements set forth in Exhibit A to the Final Memorandum and (B) in the case of offers outside the United States, to persons other than U.S. persons ("foreign purchasers," which term shall include dealers or other professional fiduciaries in the United States

acting on a discretionary basis for foreign beneficial owners (other than an estate or trust)) that, in each case, in purchasing such Securities are deemed to have represented and agreed as provided in the Final Memorandum (or, if the Final Memorandum is not in existence, in the most recent Offering Memorandum).

(b) With respect to offers and sales outside the United States as set forth in Exhibit B.

5. Agreements. The Company agrees with the Initial Purchaser that:

(a) The Company will furnish to the Initial Purchaser and to Counsel for the Initial Purchaser, without charge, during the period referred to in paragraph (c) below, as many copies of the Final Memorandum and any amendments and supplements thereto as it may reasonably request. The Company will pay the expenses of printing or other production of all documents relating to the offering.

(b) The Company will not amend or supplement the Final Memorandum, other than by filing documents under the Exchange Act which are incorporated by reference therein, without the prior written consent of the Initial Purchaser; provided, however, that, prior to the completion of the distribution of the Securities by the Initial Purchaser (as determined by the Initial Purchaser), the Company will not file any document under the Exchange Act which is incorporated by reference in the Final Memorandum unless, prior to such proposed filing, the Company has furnished the Initial Purchaser with a copy of such document for their review and the Initial Purchaser has not reasonably objected to the filing of such document. The Company will promptly advise the Initial Purchaser when any document filed under the Exchange Act which is incorporated by reference in the Final

Memorandum shall have been filed with the Securities and Exchange Commission (the "Commission").

(c) If at any time prior to the completion of the sale of the Securities by the Initial Purchaser, any event occurs as a result of which the Final Memorandum, as then amended or supplemented, would include any untrue statement of a material fact or omit to state any material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, or if it should be necessary to amend or supplement the Final Memorandum to comply with applicable law, the Company will promptly notify the Initial Purchaser of the same and, subject to the prior written consent of the Initial Purchaser as provided by paragraph (b) of this Section 5, will prepare and provide to the Initial Purchaser

pursuant to paragraph (a) of this Section 5 an amendment or supplement which will correct such statement or omission or effect such compliance.

(d) The Company will arrange for the qualification of the Securities for sale by the Initial Purchaser under the laws of such jurisdictions as the Initial Purchaser may designate and will maintain such qualifications in effect so long as required for the sale of the Securities. The Company will promptly advise the Initial Purchaser of the receipt by the Company of any notification with respect to the suspension of the qualification of the Securities for sale in any jurisdiction or the initiation or threatening of any proceeding for such purpose. The Company will use its best efforts to have the Securities designated for trading on PORTAL.

(e) Neither the Company, nor any of its Affiliates, nor any person acting on its or their behalf will, directly or indirectly, make offers or sales of any security, or solicit offers to buy any security, under circumstances that would require the registration of the Securities under the Securities Act.

(f) Neither the Company, nor any of its Affiliates, nor any person acting on its or their behalf will engage in any form of general solicitation or general advertising (within the meaning of Regulation D) in connection with any offer or sale of the Securities in the United States.

(g) So long as any of the Securities are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act, the Company will, during any period in which it is not subject to and in compliance with Section 13 or 15(d) of the Exchange Act, provide to each holder of such restricted securities and to each prospective purchaser (as designated by such holder) of such restricted securities, upon the request of such holder or prospective purchaser, any information required to be provided by Rule 144A(d)(4) under the Securities Act. This covenant is intended to be for the benefit of the holders, and the prospective purchasers designated by such holders, from time to time of such restricted securities.

(h) Neither the Company, nor any of its Affiliates, nor any person acting on its or their behalf will engage in any directed selling efforts with respect to the Securities, and each of them will comply with the offering restrictions requirement of Regulation S. Terms used in this paragraph have the meanings given to them by Regulation S.

(i) The Company will cooperate with the Initial Purchaser and use its best efforts to permit the Securities to be eligible for clearance and settlement through The Depository Trust Company.

(j) The Company will not, until 90 days following the Closing Date, without the prior written consent of the Initial Purchaser, offer, sell or contract to sell, or otherwise dispose of, directly or indirectly, or announce the offering of, any other shares of Common Stock or any securities convertible into, or exchangeable for, shares of Common Stock; provided, however, that the Company may issue and sell Common Stock pursuant to any employee stock option plan, stock ownership plan or dividend reinvestment plan of the Company described in the Final Memorandum and in effect on the date hereof, and the Company may issue Common Stock issuable upon the conversion of securities or the exercise of warrants outstanding on the date hereof and described in the Final Memorandum or contemplated by the Plan of Reorganization as it is in effect as of the Execution Time.

6. Conditions to the Obligations of the Initial Purchaser. The obligations of the Initial Purchaser to purchase the Firm Securities and the Option Securities, as the case may be, shall be subject to the accuracy of the representations and warranties on the part of the Company contained herein at the date and time that this Agreement is executed and delivered by the parties hereto (the "Execution Time"), and, the Closing Date and any settlement date pursuant to Section 3 hereof, to the accuracy of the statements of the Company made in any certificates pursuant to the provisions hereof, to the performance by the Company of its obligations hereunder and to the following additional conditions:

(a) The Company shall have furnished to the Initial Purchaser the opinions of the following:

(i) Marc E. Bercoon, General Counsel of the Company, in form and substance satisfactory to the Initial Purchaser, dated the Closing Date, to the effect set forth in Exhibit 6A hereto. In rendering such opinion, such counsel may rely (A) as to matters involving the application of laws of any jurisdiction other than the States of California, Delaware, or New York or the United States, to the extent he deems proper and as specified in such opinion, upon the opinion of other counsel of good standing whom he believes to be reliable and who are satisfactory to counsel to the Initial Purchaser and (B) as to matters of fact, to the extent proper, on certificates of responsible officers of the Company and public officials.

(ii) Millbank, Tweed, Hadley & McCloy, Counsel for the Company, dated the Closing Date, in form and substance satisfactory to the Initial Purchaser, to the effect set forth in Exhibit 6B hereto. In rendering such opinion, such counsel may rely (A) as to matters involving the application of laws of any jurisdiction other than the State of New York,

the General Corporate Law of Delaware or the Federal laws of the United States, to the extent they deem proper and as specified in such opinion, upon the opinion of other counsel of good standing whom they believe to be reliable and who are satisfactory to Counsel for the Initial Purchaser and (B) as to matters of fact, to the extent they deem proper, on certificates of responsible officers of the Company and public officials.

(b) The Initial Purchaser shall have received from Munger, Tolles & Olson, counsel for the Initial Purchaser, such opinion or opinions, dated the Closing Date, with respect to the issuance and sale of the Securities, the Final Memorandum (as amended or supplemented at the Closing Date) and other related matters as the Initial Purchaser may reasonably require, and the Company shall have furnished to such counsel such documents as they request for the purpose of enabling them to pass upon such matters.

(c) The Company shall have furnished to the Initial Purchaser a certificate of the Company, signed by the Chairman of the Board or the President and the principal financial or accounting officer of the Company, dated the Closing Date, to the effect that the signers of such certificate have carefully examined the Final Memorandum, any amendment or supplement to the Final Memorandum and this Agreement, and that:

(i) to the best of their knowledge, the representations and warranties of the Company in this Agreement are true and correct in all material respects on and as of the Closing Date with the same effect as if made on the Closing Date, and the Company has complied with all the agreements and satisfied all the conditions on its part to be performed or satisfied hereunder at or prior to the Closing Date; and

(ii) to the best of their knowledge, since the date of the most recent financial statements included in the Final Memorandum, there has been no material adverse change in the condition (financial or other), earnings, business or properties of the Company and its subsidiaries, whether or not arising from transactions in the ordinary course of business, except as set forth in or contemplated by the Final Memorandum (exclusive of any amendment or supplement thereto).

(d) At the Execution time and at the Closing Date, Price Waterhouse shall have furnished to the Initial Purchaser a letter or letters, dated respectively as of the Execution Time and as of the Closing Date, in form and substance satisfactory to the Initial Purchaser, confirming that they are independent accountants within the meaning of the Securities Act and the Exchange Act and the applicable rules and regulations thereunder and Rule 101 of the Code of Professional Conduct of the

American Institute of Certified Public Accountants (the "AICPA") and stating in effect that:

(i) in their opinion the consolidated financial statements and financial statement schedules included or incorporated in the Final Memorandum and audited by them comply in form in all material respects with the applicable accounting requirements of the Act and the Exchange Act and the related published rules and regulations thereunder;

(ii) on the basis of a reading of the latest unaudited financial statements made available by the Company and its subsidiaries; their limited review in accordance with the standards established by the AICPA of the unaudited interim financial information as indicated in their reports included or incorporated in the Final Memorandum; carrying out certain specified procedures (but not an examination in accordance with generally accepted auditing standards) which would not necessarily reveal matters of significance with respect to the comments set forth in such letter; a reading of the minutes of the meetings of the stockholders, directors and Audit, Compensation and Other Special committees of the Company and the Subsidiaries; and inquiries of certain officials of the Company who have responsibility for financial and accounting matters of the Company and its subsidiaries as to transactions and events subsequent to January 30, 1993, nothing came to their attention which caused them to believe that:

(1) any unaudited financial statements included or incorporated in the Final Memorandum do not comply in form in all material respects with applicable accounting requirements and with the published rules and regulations of the Commission with respect to financial statements included or incorporated in quarterly reports on Form 10-Q under the Exchange Act; and said unaudited financial statements are not, in all material respects, in conformity with generally accepted accounting principles applied on a basis substantially consistent with that of the audited financial statements included or incorporated in the Final Memorandum; or

(2) with respect to the period subsequent to January 30, 1993, there were any changes, at a specified date not more than five business days prior to the date of the letter, in the working capital, receivables based financing, long-term debt and capitalized lease obligations or capital stock of the Company or decreases in total shareholders' equity of the Company as compared with the amounts shown on the January 30, 1993 consolidated balance sheet included or incorporated in the Final Memorandum, or for the period from January 31, 1993 to such specified date there were any decreases, as compared with the corresponding period in the preceding year in sales, in earnings from operations before interest expense, reorganization items, and income taxes, or in total or per share amounts of net earnings of the Company, except in all instances for changes or decreases set forth in

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such letter, in which case the letter shall be accompanied by an explanation by the Company as to the significance thereof unless said explanation is not deemed necessary by the Initial Purchaser; or

(3) the information included under the headings "Summary of Consolidated Financial Data and Certain Operating Data" and "Selected Consolidated Financial Data" is not in conformity with the disclosure requirements of Regulation S-K; or

(iii) they have performed certain other specified procedures as a result of which they determined that certain information of an accounting, financial or statistical nature (which is limited to accounting, financial or statistical information derived from the general accounting records of the Company and its subsidiaries) set forth in the Final Memorandum, including the information set forth under the captions "Selected Consolidated Financial Information" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Final Memorandum, the information included or incorporated in Items 1, 2, 6, 7, 11, 13 and 14 of the Company's Annual Report on Form 10-K, incorporated in the Final Memorandum, and the information included in the "Management's Discussion and Analysis of Financial Condition and Results of Operations" included or incorporated in the Company's Quarterly Reports on Form 10-Q, incorporated in the Final Memorandum, agree with the accounting records of the Company and its subsidiaries, excluding any questions of legal interpretation.

All references in this Section 6(d) to the Final Memorandum shall be deemed to include any amendment or supplement thereto at the date of the letter.

(e) Subsequent to the Execution Time or, if earlier, the dates as of which information is given in the Final Memorandum, there shall not have been (i) any change or decrease specified in the letter or letters referred to in paragraph (d) of this Section 6 or (ii) any change, or any development involving a prospective change, in or affecting the business or properties of the Company and its subsidiaries the effect of which, in any case referred to in clause (i) or (ii) above, is, in the judgment of the Initial Purchaser, so material and adverse as to make it impractical or inadvisable to market the Securities as contemplated by the Final Memorandum.

(f) Prior to the Closing Date, the Company shall have furnished to the Initial Purchaser a letter substantially in the form of Exhibit 6C hereto from each of Zell/Chilmark Fund, L.P., each director of the Company and certain executive officers of the Company addressed to the Initial Purchaser, in which each such person agrees not to offer, sell or contract to sell or otherwise dispose of, directly or indirectly, or announce an offering of, any

shares of Common Stock or any securities convertible into, or exchangeable for, shares of Common Stock for a period of 90 days following the Execution Time without the prior written consent of the Initial Purchaser.

(g) Prior to the Closing Date, the Company shall have furnished to the Initial Purchaser a copy of that certain agreement, dated as of December 8, 1993 by and between First Plaza and the Company.

(h) The Common Stock issuable upon conversion of the Securities shall have been duly authorized for listing on the New York Stock Exchange subject only to official notice of issuance.

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

If any of the conditions specified in this Section 6 shall not have been fulfilled in all material respects when and as provided in this Agreement, or if any of the opinions and certificates mentioned above or elsewhere in this Agreement shall not be in all material respects reasonably satisfactory in form and substance to the Initial Purchaser and Counsel for the Initial Purchaser, this Agreement and all obligations of the Initial Purchaser hereunder may be cancelled at, or at any time prior to, the Closing Date by the Initial Purchaser. Notice of such cancellation shall be given to the Company in writing or by telephone or telegraph confirmed in writing.

The documents required to be delivered by this Section 6 will be delivered at the Office of Counsel for the Initial Purchaser, at One Liberty Plaza, New York, New York, on the Closing Date.

7. Reimbursement of Expenses. If the sale of the Securities provided for herein is not consummated because any condition to the obligations of the Initial Purchaser set forth in Section 6 hereof is not satisfied, because of any termination pursuant to Section 9 hereof or because of any refusal, inability or failure on the part of the Company to perform any agreement herein or comply with any provision hereof other than by reason of a default by the Initial Purchaser, the Company will reimburse the Initial Purchaser upon demand for all out-of-pocket expenses (including fees and disbursements of counsel) that shall have been incurred by them in connection with the proposed purchase and sale of the Securities.

8. Indemnification and Contribution. (a) The Company agrees to indemnify and hold harmless the Initial Purchaser, the directors, officers, employees and agents of each Initial Purchaser and each person who controls the Initial

Purchaser within the meaning of either the Securities Act or the Exchange Act against any and all losses, claims, damages or liabilities, joint or several, to which it may become subject under the Securities Act, the Exchange Act or other Federal or state statutory law or regulation, at common law or otherwise, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon any untrue statement or alleged untrue statement of a material fact contained in the Preliminary Memorandum, the Final Memorandum or any information provided by the Company to any holder or prospective purchaser of Securities pursuant to Section 5(h), or in any amendment thereof or supplement thereto, or arise out of or are based upon the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the

statements therein not misleading, and agrees to reimburse each such indemnified party, as incurred, for any legal or other expenses reasonably incurred by them in connection with investigating or defending any such loss, claim, damage, liability or action; provided, however, that the Company will not be liable in any such case to the extent that any such loss, claim, damage or liability arises out of or is based upon any such untrue statement or alleged untrue statement or omission or alleged omission made in the Preliminary Memorandum or the Final Memorandum, or in any amendment thereof or supplement thereto, in reliance upon and in conformity with written information furnished to the Company by or on behalf of any Initial Purchaser specifically for inclusion therein, provided, further, that the indemnity agreement contained in this subsection (a) with respect to any Preliminary Memorandum shall not inure to the benefit of any Initial Purchaser (or to the benefit of any person employed by or controlling such Initial Purchaser) from whom the person asserting any such loss, expense, liability or claim purchased the Securities which is the subject thereof if the Final Memorandum corrected any such alleged untrue statement or omission and if such Initial Purchaser failed to send or give a copy of the Final Memorandum to such person at or prior to the written confirmation of the sale of such Securities to such person. This indemnity agreement will be in addition to any liability which the Company may otherwise have.

(b) The Initial Purchaser agrees to indemnify and hold harmless the Company, each of its directors, each of its officers, and each person who controls the Company within the meaning of either the Securities Act or the Exchange Act, to the same extent as the foregoing indemnity from the Company to the Initial Purchaser, but only with reference to written information relating to the Initial Purchaser furnished to the Company by or on behalf of the Initial Purchaser specifically for inclusion in the Preliminary Memorandum or the Final Memorandum (or in any amendment or supplement thereto). This indemnity agreement will be in addition to any liability which the Initial

Purchaser may otherwise have. The Company acknowledges that the statements set forth in the last paragraph of the cover page and under the heading "Plan of Distribution" in the Preliminary Memorandum and the Final Memorandum constitute the only information furnished in writing by or behalf of the Initial Purchaser for inclusion in the Preliminary Memorandum or the Final Memorandum (or in any amendment or supplement thereto).

(c) Promptly after receipt by an indemnified party under this Section 8 of notice of the commencement of any action, such indemnified party will, if a claim in respect thereof is to be made against the indemnifying party under this Section 8, notify the indemnifying party in writing of the commencement thereof; but the failure so to notify the indemnifying party (i) will not relieve it from liability under paragraph (a) or (b) above unless and to the extent it did not otherwise learn of such action and such failure results in the forfeiture by the indemnifying party of substantial rights and defenses and (ii) will not, in any event, relieve the indemnifying party from any obligations to any indemnified party other than the indemnification obligation provided in paragraph (a) or (b) above. The indemnifying party shall be entitled to appoint counsel of the indemnifying party's choice at the indemnifying party's expense to represent the indemnified party in any action for which indemnification is sought (in which case the indemnifying party shall not thereafter be responsible for the fees and expenses of any separate counsel retained by the indemnified party or parties except as set forth below); provided, however, that such counsel shall be

satisfactory to the indemnified party. Notwithstanding the indemnifying party's election to appoint counsel to represent the indemnified party in an action, the indemnified party shall have the right to employ separate counsel (including local counsel), and the indemnifying party shall bear the reasonable fees, costs and expenses of such separate counsel if (i) the use of counsel chosen by the indemnifying party to represent the indemnified party would present such counsel with a conflict of interest, (ii) the actual or potential defendants in, or targets of, any such action include both the indemnified party and the indemnifying party and the indemnified party shall have reasonably concluded that there may be legal defenses available to it and/or other indemnified parties which are different from or additional to those available to the indemnifying party, (iii) the indemnifying party shall not have employed counsel satisfactory to the indemnified party to represent the indemnified party within a reasonable time after notice of the institution of such action or (iv) the indemnifying party shall authorize the indemnified party to employ separate counsel at the expense of the indemnifying party. An indemnifying party will not, without the prior written consent of the indemnified parties, settle or compromise or consent to the entry of any judgment with respect to any pending or threatened claim, action, suit or

proceeding in respect of which indemnification or contribution may be sought hereunder (whether or not the indemnified parties are actual or potential parties to such claim or action) unless such settlement, compromise or consent includes an unconditional release of each indemnified party from all liability arising out of such claim, action, suit or proceeding.

(d) In the event that the indemnity provided in paragraph (a) or (b) of this Section 8 is unavailable to or insufficient to hold harmless an indemnified party for any reason, the Company and the Initial Purchaser agree to contribute to the aggregate losses, claims, damages and liabilities (including legal or other expenses reasonably incurred in connection with investigating or defending same) (collectively "Losses") to which the Company and the Initial Purchaser may be subject in such proportion as is appropriate to reflect the relative benefits received by the Company and by the Initial Purchaser from the offering of the Securities; provided, however, that in no case shall the Initial Purchaser be responsible for any amount in excess of the purchase discount or commission applicable to the Securities purchased by such Initial Purchaser hereunder. If the allocation provided by the immediately preceding sentence is unavailable for any reason, the Company and the Initial Purchaser shall contribute in such proportion as is appropriate to reflect not only such relative benefits but also the relative fault of the Company and of the Initial Purchaser in connection with the statements or omissions which resulted in such Losses as well as any other relevant equitable considerations. Benefits received by the Company shall be deemed to be equal to the total net proceeds from the offering (before deducting expenses) and benefits received by the Initial Purchaser shall be deemed to be equal to the total purchase discounts and commissions received by the Initial Purchaser from the Company in connection with the purchase of the Securities hereunder. Relative fault shall be determined by reference to whether any alleged untrue statement or omission relates to information provided by the Company or the Initial Purchaser. The Company and the Initial Purchaser agree that it would not be just and equitable if contribution were determined by pro rata allocation or any other method of allocation which does not take account of the equitable considerations referred to above. Notwithstanding the provisions of this paragraph (d), no person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. For purposes of this Section 8, each person who controls the

Initial Purchaser within the meaning of either the Securities Act or the Exchange Act and each director, officer, employee and agent of an Initial Purchaser shall have the same rights to contribution as such Initial Purchaser, and each person who controls the Company within the meaning of either the Securities Act or the Exchange Act and each officer and director of the Company

shall have the same rights to contribution as the Company, subject in each case to the applicable terms and conditions of this paragraph (d).

9. Termination. This Agreement shall be subject to termination in the absolute discretion of the Initial Purchaser, by notice given to the Company prior to delivery of and payment for the Securities, if prior to such time (i) trading in the Common Stock shall have been suspended by the Commission or the New York Stock Exchange or trading generally on the New York Stock Exchange shall have been suspended or limited or minimum prices shall have been established on such exchange, (ii) a banking moratorium shall have been declared either by Federal or New York State authorities or (iii) there shall have occurred any outbreak or escalation of hostilities, declaration by the United States of a national emergency or war or other calamity or crisis the effect of which on financial markets is such as to make it, in the judgment of the Initial Purchaser, impractical or inadvisable to proceed with the offering or delivery of the Securities as contemplated by the Final Memorandum.

10. Representations and Indemnities to Survive. The respective agreements, representations, warranties, indemnities and other statements of the Company or its officers and of the Initial Purchaser set forth in or made pursuant to this Agreement will remain in full force and effect, regardless of any investigation made by or on behalf of the Initial Purchaser or the Company or any of the officers, directors or controlling persons referred to in Section 8 hereof, and will survive delivery of and payment for the Securities. The provisions of Sections 7 and 8 hereof shall survive the termination or cancellation of this Agreement.

11. Notices. All communications hereunder will be in writing and effective only on receipt, and, if sent to the Initial Purchaser, will be mailed, delivered or telegraphed and confirmed to them, care of Salomon Brothers Inc, at Seven World Trade Center, New York, New York 10048; or, if sent to the Company, will be mailed, delivered or telegraphed and confirmed to it at 3880 North Mission Road, Los Angeles, California 90031, attention: Legal Department.

12. Successors. This Agreement will inure to the benefit of and be binding upon the parties hereto and their respective successors and the officers and directors and controlling persons referred to in Section 8 hereof, and, except as expressly set forth in Section 5(h) hereof, no other person will have any right or obligation hereunder.

13. Applicable Law. This Agreement will be governed by and construed in accordance with the laws of the State of New York.

14. Business Day. For purposes of this Agreement, "business day" means each Monday, Tuesday, Wednesday, Thursday and Friday that is not a day on which

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banking institutions in The City of New York, New York are authorized or obligated by law, executive order or regulation to close.

15. Counterparts. This Agreement may be executed in one or more counterparts, each of which will be deemed to be an original, but all such counterparts will together constitute one and the same instrument.

If the foregoing is in accordance with your understanding of our agreement, please sign and return to us the enclosed duplicate hereof, whereupon this Agreement and your acceptance shall represent a binding agreement between the Company and the Initial Purchaser.

Very truly yours,

Carter Hawley Hale Stores, Inc.

By_____
Name:
Title:

The foregoing Agreement is hereby
confirmed and accepted as of
the date first above written

Salomon Brothers Inc

By_____
Name:
Title:

As the Initial Purchaser

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EXHIBIT A

EXHIBIT B

Selling Restrictions for Offers and
Sales Outside the United States

(1) (a) The Securities have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in accordance with Regulation S under the Securities Act or pursuant to an exemption from the registration requirements of the Securities Act. The Initial Purchaser represents and agrees that, except as otherwise permitted by Section 4(a)(i) or (ii) of the Agreement to which this is an exhibit, it has offered and sold the Securities, and will offer and sell the Securities, (i) as part of its distribution at any time and (ii) otherwise until 40 days after the later of the commencement of the Offering and the Closing Date, only in accordance with Rule 903 of Regulation S under the Securities Act. Accordingly, the Initial Purchaser represents and agrees that neither it, nor any of its affiliates nor any person acting on its or their behalf has engaged or will engage in any directed selling efforts with respect to the Securities and that it and they have complied and will comply with the offering restrictions requirement of Regulation S. Each Initial Purchaser agrees that, at or prior to the confirmation of sale of Securities (other than a sale of Securities pursuant to Section 4(a)(i) or (ii) of the Agreement to which this is an exhibit), it shall have sent to each distributor, dealer or person receiving a selling concession, fee or other remuneration that purchases Securities from it during the restricted period a confirmation or notice to substantially the following effect:

> "The Securities covered hereby have not been registered under the U.S. Securities Act of 1933 (the "Securities Act") and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering and [specify closing date of the offering], except in either case in accordance with Regulation S or Rule 144A under the Securities Act. Terms used above have the meanings given to them by Regulation S."

(b) The Initial Purchaser also represents and agrees that it has not entered and will not enter into any contractual arrangement with any distributor (as that term is defined by Regulation S) with respect to the distribution of the Securities, except with its affiliates or with the prior written consent of the Company.

(c) Terms used in this paragraph have the meanings given

to them by Regulation S.

(2) The Initial Purchaser represents and agrees that (i) it has not offered or sold, and will not offer or sell, in the United Kingdom, by means of any document, any Securities other than to persons whose ordinary business it is to buy or sell shares or debentures, whether as principal or as agent (except in circumstances which do not constitute an offer to the public within the meaning of the Companies Act 1985 of Great

Britain), (ii) it has complied and will comply with all applicable provisions of the Financial Services Act 1986 of the United Kingdom with respect to anything done by it in relation to the Securities in, from or otherwise involving the United Kingdom, and (iii) it has only issued or passed on and will only issue or pass on in the United Kingdom any document received by it in connection with the issue of the Securities to a person who is of a kind described in Article 9(3) of the Financial Services Act 1986 (Investment Advertisements) (Exemptions) Order 1988 or is a person to whom the document may otherwise lawfully be issued or passed on.

EXHIBIT C

SALOMON BROTHERS INC
Seven World Trade Center
New York, New York 10048

December 14, 1993

Price Waterhouse

400 South Hope Street
Los Angeles, California 90071

Dear Sirs:

Salomon Brothers Inc, as principal or agent, in the placement of 6-1/4% Convertible Senior Subordinated Notes due 2000 (the "Securities") to be issued by Carter Hawley Hale Stores, Inc. will be reviewing certain information relating to Carter Hawley Hale Stores, Inc. that will be included in the Offering Memorandum which may be delivered to investors and utilized by them as a basis for their investment decision. This review process, applied to the information relating to the issuer, will be substantially consistent* with the due diligence review process that we would perform if this placement of Securities were being registered pursuant to the Securities Act of 1933, as amended (the "Act). We are knowledgeable with respect to the due diligence review process that would be performed if this placement of Securities were being registered pursuant to the Act. We hereby request that you deliver to us a "comfort letter" concerning the financial statements of the issuer and certain statistical and other data included in the Offering Memorandum. We will contact you to identify the procedures we wish you to follow and the form we wish the comfort letter to take.

Very truly yours,

SALOMON BROTHERS INC

By:_____
Name:
Title:

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* It is recognized that what is "substantially consistent" may vary from situation to situation and may not necessarily be the same as that done in a registered offering of the same securities for the same issuer; whether the procedures being, or to be, followed will be "substantially consistent" will be determined by us on a case-by-case basis.

CARTER HAWLEY HALE STORES, INC.

AND

CONTINENTAL BANK,
NATIONAL ASSOCIATION,
TRUSTEE

_____

INDENTURE

Dated as of December 21, 1993

_____

6-1/4% Convertible Senior Subordinated Notes
due 2000

CROSS-REFERENCE TABLE

<TABLE>
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TIA Section		Indenture Section
<S>	<C>	<C>
Section 310	(a)(1)	9.10
	(a)(2)	9.10
	(a)(3)	N.A.
	(1)(4)	N.A.
	(b)	9.08; 9.10
	(c)	N.A.
Section 311	(a)	9.11
	(b)	9.11
	(c)	N.A.
Section 312	(a)	2.05
	(b)	12.03
	(c)	12.03
Section 313	(a)	9.06
	(b)(1)	N.A.
	(b)(2)	9.06
	(c)	9.06; 11.02
	(d)	9.06
Section 314	(a)	6.02; 11.02

	(b)	N.A.
	(c)(1)	12.04(a)
	(c)(2)	12.04(a)
	(c)(3)	N.A.
	(d)	N.A.
	(e)	12.04(b)
	(f)	N.A.
Section 315	(a)	9.01(b)
	(b)	9.05; 11.02
	(c)	9.01(a)
	(d)	9.01(c)
	(e)	8.11
Section 316	(a)(last sentence)	2.09
	(a)(1)(A)	8.05
	(A)(1)(B)	8.04
	(a)(2)	N.A.
	(b)	8.07
	(c)	12.05
Section 317	(a)(1)	8.08
	(a)(2)	8.09
	(b)	2.04
Section 318	(a)	12.01

N.A. means Not Applicable
Note: This Cross-Reference Table shall not, for any purpose, be deemed to be a part of this Indenture.

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<S> <C> <C>

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INDENTURE dated as of December 21, 1993 between CARTER HAWLEY HALE STORES, INC., a Delaware corporation (the "Company"), and Continental Bank, National Association, as Trustee (the "Trustee").

Both parties agree as follows for the benefit of the other and for the equal and ratable benefit of the Holders of the Company's 6-1/4% Convertible Senior Subordinated Notes due 2000.

ARTICLE 1

DEFINITIONS AND INCORPORATION BY REFERENCE

SECTION 1.01 Definitions.

"Acquiring Person" means any person or group (as defined in Section 13(d)(3) of the Exchange Act) who or which, together with all affiliates and associates (as defined in Rule 12b-2 under the Exchange Act), becomes the beneficial owner of shares of Common Stock having more than 50% of the total number of votes that may be cast for the election of directors of the Company; provided, however, that an Acquiring Person shall not include (i) the Company, (ii) any Subsidiary of the Company, (iii) any employee benefit plan of the Company or any Subsidiary of the Company or any entity holding Common Stock for or pursuant to the terms of any such plan, (iv) Zell/Chilmark Fund, L.P., or (v) any limited partner or Affiliate of Zell/Chilmark Fund, L.P. Notwithstanding the foregoing, no person shall become an "Acquiring Person" as the result of an acquisition of Common Stock by the Company which, by reducing the number of shares outstanding, increases the proportionate number of shares beneficially owned by such person to 50% or more of the Common Stock then outstanding; provided, however, that if a person shall become the beneficial owner of 50% or more of the Common Stock then outstanding by reason of share purchases by the Company and shall, after such share purchases by the Company, become the beneficial owner of any additional shares of Common Stock, then such person shall be deemed to be an "Acquiring Person."

"Affiliate" of any specified person means any other person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified person. For the purposes of this definition, "control" when used with respect to any person means the power to direct the management and policies of such person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms "controlling" and "controlled" have meanings correlative to the foregoing.

"Affiliate of Zell/Chilmark Fund, L.P." means (i) any person which, directly or indirectly, is in control of, is controlled by or is under common control with Zell/Chilmark Fund, L.P., (ii) any other person who is a director or

officer (A) of Zell/Chilmark Fund, L.P., (B) of any subsidiary of Zell/Chilmark Fund, L.P., or (C) of any person described in clause (i) above.

For purposes of this definition, control of a person means the power, direct or indirect, to direct or cause the direction of the management and policies of such person whether by contract or otherwise; and the terms "controlling" and "controlled" have meanings correlative to the foregoing.

"Agent" means any Registrar, Paying Agent or Conversion Agent.

"Associate" shall have the meaning ascribed to such term in Rule 12b-2 of the General Rules and Regulations under the Exchange Act, as such Rule is in effect on the date of this Indenture.

"Board of Directors" means the Board of Directors of the Company or any authorized committee of the Board.

"Business Day" means a day that is not a Legal Holiday.

"Capitalized Lease Obligation" means indebtedness represented by obligations under a lease that is required to be capitalized for financial reporting purposes in accordance with generally accepted accounting principles and the amount of such indebtedness shall be the capitalized amount of such obligations determined in accordance with such principles.

"Change in Control" means any event by which (i) an Acquiring Person has become such or (ii) Continuing Directors cease to comprise a majority of the members of the Board of Directors; provided that a Change in Control shall not be deemed to have occurred if either (i) the last sale price of the Common Stock for any five trading days during the ten trading days immediately preceding the Change in Control is at least equal to 105% of the Conversion Price in effect on such day or (ii) the consideration, in the transaction giving rise to such Change in Control, to the holders of Common Stock consists of cash, securities that are, or immediately upon issuance will be, listed on a national securities exchange or quoted on the NASDAQ National Market System, or a combination of cash and such securities, and the aggregate fair market value of such consideration (which, in the case of such securities, shall be equal to the average of the last sale prices of such securities during the ten consecutive trading days commencing with the sixth trading day following consummation of such transaction) is at least 105% of the Conversion Price in effect on the date immediately preceding the closing date of such transaction.

"Common Stock" means the common stock, par value $.01 per share, of the Company as it exists on the date of this Indenture or as it may be constituted from time to time.

"Company" means the party named as such in this Indenture until a successor replaces it pursuant to this Indenture and thereafter means the successor.

"Continuing Director" means any member of the Board of Directors, while such person is a member of such Board of Directors, who is not an Acquiring Person, or an affiliate or associate of an Acquiring Person or a representative of an Acquiring Person or of any such affiliate or associate and who (a) was a member of the Board of Directors prior to the date of this Indenture, or (b) subsequently becomes a member of such Board of Directors and whose nomination for election or election to such Board of Directors is recommended or approved by resolution of a majority of the Continuing Directors or who is included as a nominee in a proxy statement of the Company distributed when a majority of such Board of Directors consists of Continuing Directors.

"Credit Facility" means the Credit Agreement dated October 8, 1992 among the Company and certain commercial lending institutions and General Electric Capital Corporation, as agent for the lenders, and all modifications, amendments, replacements and extensions thereto.

"default" means any event which is, or after notice or passage of time, or both, would be, an Event of Default.

"Holder" or "Securityholder" means the person in whose name a Security is registered on the Registrar's books.

"Indebtedness" means, with respect to any person, (i) any obligation of such person to pay the principal of, premium of, if any, interest on (including interest accruing on or after the filing of any petition in bankruptcy or for reorganization relating to the Company, whether or not a claim for such post-petition interest is allowed in such proceeding), penalties, reimbursement or indemnification amounts, fees, expenses or other amounts relating to any indebtedness, and any other liability, contingent or otherwise, of such person (A) for borrowed money (including instances where the recourse of the lender is to the whole of the assets of such person or to a portion thereof), (B) evidenced by a note, debenture or similar instrument (including a purchase money obligation) including securities, (C) for any letter of credit or performance bond in favor of such person, or (D) for the payment of money relating to a Capitalized Lease Obligation; (ii) any liability of others of the kind described in the preceding clause (i), which the person has guaranteed or which is otherwise its legal liability; (iii) any obligation secured by a Lien to which the property or assets of such person are subject, whether or not the obligations secured thereby shall have been assumed by or shall otherwise be such person's legal liability; and (iv) any and all deferrals, renewals, extensions and refunding of, or amendments, modifications or supplements to, any liability of the kind described in any of the preceding clauses (i), (ii) or (iii).

"Indenture" means this Indenture as amended or supplemented from time to time.

"Junior Subordinated Indebtedness" means Indebtedness of the Company (whether outstanding on the date of this Indenture or thereafter created, incurred, assumed or guaranteed by the Company) which, pursuant to the terms of the instrument creating or evidencing the same, is subordinate to the Senior Debt and Securities in right of payment or in rights upon liquidation.

"Lien" means any mortgage, pledge, security interest, adverse claim (as defined in Section 8.302(2) of the New York Uniform Commercial Code), encumbrance, lien or charge of any kind (including any conditional sale or other title retention agreement or lease in the nature thereof, any filing or agreement to file a financing statement as debtor under the Uniform Commercial Code or any similar statute other than to reflect ownership by a third party of property leased to the Company or any of its Subsidiaries under a lease which is not in the nature of a conditional sale or title retention agreement).

"Officer" means the Chairman of the Board, the President, any Vice President, the Chief Financial Officer, the Treasurer, the Secretary or the Controller of the Company.

"Officers' Certificate" means a certificate signed by two Officers or by an Officer and an Assistant Treasurer or Assistant Secretary of the Company. See Section 12.04.

"Opinion of Counsel" means a written opinion from legal counsel who is reasonably acceptable to the Trustee. See Section 12.04.

"Over-Allotment Option" means the option to purchase up to an additional $15,000,000 principal amount of Securities granted to the initial purchaser pursuant to Section 2(b) of the Purchase Agreement dated December 15, 1993 between the Company and the initial purchaser named therein.

"person" means any individual, corporation, partnership, joint venture, association, joint-stock company, trust, unincorporated organization or government or other agency or political subdivision thereof.

"principal" of a debt security, including the Securities, means the principal of the Security plus, when appropriate, the premium, if any, on the security.

"redemption date," when used with respect to any Security to be redeemed, means the date fixed for such redemption pursuant to this Indenture, as set forth in the form of Security annexed as Exhibit A hereto.

"redemption price," when used with respect to any Security to be redeemed, means the price fixed for such redemption pursuant to this Indenture, as set forth in the form of Security annexed as Exhibit A hereto.

"SEC" means the Securities and Exchange Commission.

"Securities" mean the 6-1/4% Convertible Senior Subordinated Notes due 2000, or any of them, that are issued and authenticated under this Indenture.

"Securities Act" means the Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder.

"Senior Debt" means the principal of, interest on and other amounts due on and other amounts due on (i) Indebtedness of the Company, whether outstanding on the date of this Indenture or hereafter created, incurred, assumed or guaranteed by the Company in compliance with Section 6.16 hereof, for money borrowed from banks or other financial institutions, including, without limitation, money borrowed under the Credit Facility and any refinancings or refundings thereof; (ii) Indebtedness of the Company, whether outstanding on the date of this Indenture or hereafter created, incurred, assumed or guaranteed by the Company in compliance with Section 6.16 hereof, which is not Senior Subordinated Indebtedness or Junior Subordinated Indebtedness; and (iii) Indebtedness of the Company under interest rate swaps, caps or similar hedging agreements and foreign exchange contracts, currency swaps or similar agreements. Notwithstanding anything to the contrary in the foregoing, Senior Debt shall not include: (a) Indebtedness of or amounts owed by the Company for compensation to employees, or for goods or materials purchased in the ordinary course of business, or for services, or (b) Indebtedness of the Company to a Subsidiary of the Company. For purposes of this definition, Indebtedness shall be deemed to have been incurred in compliance with Section 6.16 hereof if the initial holder of such Indebtedness relied in good faith upon an Officers' Certificate of the Company to the effect that the incurrence of such Indebtedness did not violate the provisions of Section 6.16 hereof.

"Senior Subordinated Indebtedness" means Indebtedness of the Company (whether outstanding on the date of the Indenture or thereafter created, incurred, assumed or guaranteed by the Company) which, pursuant to the terms of the instrument creating or evidencing the same, is subordinate in right of payment to the Senior Debt and senior in right of payment to the Junior Subordinated Indebtedness.

"Subsidiary" means any corporation of which at least a majority of the outstanding capital stock having voting power under ordinary circumstances to elect directors of such corporation shall at the time be held, directly or indirectly, by the Company, by the Company and one or more Subsidiaries or by one or more Subsidiaries.

"TIA" means the Trust Indenture Act of 1939, as amended by the Trust Indenture Reform Act of 1990 and as in effect on the date of this Indenture, except as provided in Section 11.03 hereof.

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"trading day" means any day on which the New York Stock Exchange is open for trading.

"Trustee" means the party named as such in this Indenture until a successor replaces it in accordance with the provisions of this Indenture and thereafter means the successor.

"Trust Officer" means the Chairman of the Board, any Vice President or any other officer or assistant officer of the Trustee assigned by the Trustee to administer its corporate trust matters.

SECTION 1.02 Other Definitions.

<TABLE>
<CAPTION>

Term	Defined in Section
<S>	<C>
"Bankruptcy Law"	8.01
"Change in Control Purchase Date"	6.10
"Change in Control Purchase Notice"	6.10
"Change in Control Purchase Price"	6.10
"Conversion Agent"	2.03
"Conversion Price"	4.06
"Custodian"	8.01
"Event of Default"	8.01
"Exchange Act"	6.02
"Global Securities"	2.15
"Legal Holiday"	12.07
"Paying Agent"	2.03
"Payment Blockage Notice"	5.02
"Payment Blockage Period"	5.02
"Qualified Institutional Buyer"	2.06(b)
"Registrar"	2.03
"Registration Agreement"	6.17
"Regulation S"	2.06(b)
"Rights"	4.06(c)
"Shelf Registration Statement"	6.17
"U.S. Government Obligations"	10.01

</TABLE>

SECTION 1.03 Incorporation by Reference of Trust Indenture Act.

Whenever this Indenture refers to a provision of the TIA, the provision is incorporated by reference in and made a part of this Indenture. The following TIA terms used in this Indenture have the following meanings:

"Commission" means the SEC.

"indenture securities" means the Securities.

"indenture security holder" means a Securityholder.

"indenture to be qualified" means this Indenture.

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"indenture trustee" or "institutional trustee" means the Trustee.

"obligor" on the indenture securities means the Company or any other obligor on the Securities.

All other terms used in this Indenture that are defined in the TIA, defined by TIA reference to another statute or defined by SEC rule and not otherwise

defined herein have the meanings assigned to them therein.

SECTION 1.04 Rules of Construction.

Unless the context otherwise requires:

(1) a term has the meaning assigned to it;

(2) an accounting term not otherwise defined has the meaning assigned to it in accordance with generally accepted accounting principles in effect on the date hereof, and any other reference in this Indenture to "generally accepted accounting principles" refers to generally accepted accounting principles in effect on the date hereof;

(3) "or" is not exclusive;

(4) words in the singular include the plural, and words in the plural include the singular;

(5) provisions apply to successive events and transactions; and

(6) "herein", "hereof" and other words of similar import refer to this Indenture as a whole and not to any particular Article, section or other subdivision.

ARTICLE 2

THE SECURITIES

SECTION 2.01 Form and Dating.

The Securities and the Trustee's certificate of authentication shall be substantially in the form of Exhibit A, which is incorporated in and made part of this Indenture, with such appropriate insertions, omissions, substitutions and other variations as are required or permitted by this Indenture. The Securities may have notations, legends or endorsements as may be required by law, stock exchange rule, agreements to which the Company is subject or usage. The Company shall approve the form of the Securities and any notation, legend or endorsement on them. Each Security shall be dated the date of its authentication.

SECTION 2.02 Execution and Authentication.

Two Officers shall sign the Securities for the Company by manual or facsimile signature. The Company's seal shall be reproduced on the Securities.

If an Officer whose signature is on a Security no longer holds that office at the time the Trustee authenticates the Security, the Security shall be valid nevertheless.

A security shall not be valid until the Trustee manually signs the certificate of authentication on the Security. The signature shall be conclusive evidence that the Security has been authenticated under this Indenture.

The Trustee shall authenticate Securities for original issue in the aggregate principal amount of $125,000,000, upon a written order or orders of the Company signed by two Officers or by an Officer and an Assistant Treasurer or Assistant Secretary of the Company; provided, however, that in the event that the Company sells any Securities pursuant to the Over-Allotment Option, then the Trustee shall authenticate Securities for original issue in an aggregate principal amount of up to $125,000,000 plus up to $18,750,000 aggregate principal amount of Securities sold pursuant to the Over-Allotment Option upon a written order of the Company signed by two Officers or by an Officer and an Assistant Treasurer or Assistant Secretary of the Company. The aggregate principal amount of Securities outstanding at any time may not exceed the amount set forth in the preceding sentence, except as provided in Section

2.07.

The Trustee may appoint an authenticating agent acceptable to the Company to authenticate Securities. An authenticating agent may authenticate Securities whenever the Trustee may do so. Each reference in this Indenture to authentication by the Trustee includes authentication by such agent. An authenticating agent has the same rights as an Agent to deal with the Company or an Affiliate of the Company.

The Securities shall be issuable only in registered form without coupons and only in denominations of $1,000 and any integral multiple thereof.

SECTION 2.03 Registrar, Paying Agent and Conversion Agent.

The Company shall maintain an office or agency where Securities may be presented for registration of transfer or for exchange ("Registrar"), an office or agency where Securities may be presented for payment ("Paying Agent"), an office or agency where Securities may be presented for conversion ("Conversion Agent") and an office or agency where notices and demands to or upon the Company in respect of the Securities and this Indenture may be served. The Registrar shall keep a register of the Securities and of their transfer and exchange. The Company may

have one or more additional Conversion Agents. The term "Registrar" includes any co-Registrar, the term "Paying Agent" includes any additional Paying Agent and the term "Conversion Agent" includes any additional Conversion Agent. Except for purposes of Article 10, the Company or any Affiliate of the Company may act as Paying Agent.

The Company shall enter into an appropriate agency agreement with any Agent not a party to this Indenture. The agreement shall implement the provisions of this Indenture that relate to such Agent. The Company shall promptly notify the Trustee of the name and address of any Agent not a party to this Indenture. If the Company fails to maintain a Registrar, Paying Agent, Conversion Agent or agent for service of notices and demands, or fails to give the foregoing notice, the Trustee shall act as such.

The Company initially appoints the Trustee as Registrar, Paying Agent, Conversion Agent and agent for service of notices and demands.

SECTION 2.04 Paying Agent to Hold Money in Trust.

On or prior to each due date of the principal of or interest on any Securities, the Company shall promptly deposit with the Paying Agent a sum sufficient to pay such principal or interest so becoming due. Subject to Section 5.07, the Paying Agent shall hold in trust for the benefit of Securityholders or the Trustee all money held by the Paying Agent for the payment of principal of or interest on the Securities and shall notify the Trustee of any default by the Company (or any other obligor on the Securities) in making any such payment. If the Company or an Affiliate of the Company acts as Paying Agent, it shall on or before each due date of the principal of or interest on any Securities segregate the money and hold it as a separate trust fund. The Company at any time may require a Paying Agent to pay all money held by it to the Trustee and the Trustee may at any time during the continuance of any default, upon written request to a Paying Agent, require such Paying Agent to forthwith pay to the Trustee all sums so held in trust by such Paying Agent. Upon doing so, the Paying Agent (other than the Company) shall have no further liability for the money.

SECTION 2.05 Securityholder Lists.

The Trustee shall preserve in as current a form as is reasonably practicable the most recent list available to it of the names and addresses of Securityholders. If the Trustee is not the Registrar, the Company shall promptly furnish to the Trustee on or before each semi-annual interest payment date and at such other times as the Trustee may request in writing a list in such form and as of such date as the Trustee may reasonably require of the

names and addresses of Securityholders.

SECTION 2.06 Transfer and Exchange.

(a) Subject to the provisions of subsection (b) below, when a Security is presented to the Registrar with a request to register a transfer thereof, the Registrar shall register the transfer as requested and when Securities are presented to the Registrar with a request to exchange them for an equal principal amount of Securities of other authorized denominations, the Registrar shall make the exchange as requested; provided that every Security presented or surrendered for registration of transfer or exchange shall be duly endorsed or be accompanied by a written instrument of transfer in form satisfactory to the Company and the Registrar duly executed by the Holder thereof or his attorney duly authorized in writing. To permit registration of transfer and exchanges, the Company shall execute and the Trustee shall authenticate Securities at the Registrar's request. Any exchange or transfer shall be without charge, except that the Company may require payment of a sum sufficient to cover any tax or other governmental charge that my be imposed in relation thereto, but this provision shall not apply to any exchange pursuant to Section 2.10, 3.06 or 11.05.

(b) The following procedures and restrictions shall apply with respect to the registration of any transfer (but shall not apply to the initial issuance of any Security) of any Security other than a Global Security prior to the date that is three years after the original issue date of the Securities; provided, however, that such procedures and restrictions shall not apply with respect to the registration of any transfer of any Security that has been registered under a Shelf Registration Statement that has been declared effective by the SEC and continues to be deemed effective at the time of such transfer pursuant to the Registration Agreement or otherwise pursuant to an effective registration statement under the Securities Act, or any subsequent transfer of such registered Security:

The Registrar shall register the transfer of any Security, if the requested transferee (i) is the Company or any Subsidiary thereof, (ii) is a qualified institutional buyer (as defined in Rule 144A under the Securities Act) ("Qualified Institutional Buyer"), (iii) is acquiring such Security in a transaction exempt from the registration provisions of the Securities Act provided by Regulation S thereunder ("Regulation S"), (iv) is an institutional "accredited investor" (as defined in Rule 501(a)(1), (2), (3) or (7) under the Securities Act) who has delivered to the Company and the Trustee a letter in the form of Exhibit B hereto and such other certificates and other information, if any, as the Company or the Trustee shall have specified with respect to such transfer, or (v) is acquiring the Security pursuant to Rule 144 under the Securities Act and has delivered to the Company and the Trustee such other certificates and other information, if any, as the Company or the Trustee shall have specified with respect to such transfer.

(c) Each Security shall bear the following legend on the face thereof until the date that is three years from the original issue date of the Securities unless otherwise agreed by the Issuer and Holder thereof, provided, however, that such legend need not appear with respect to any Security that has been registered under a shelf registration statement that has been declared effective by the SEC and continues to be deemed effective at the time of any transfer or otherwise pursuant to an effective registration statement under the Securities Act:

THE SECURITY OR ITS PREDECESSOR EVIDENCED HEREBY HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND, ACCORDINGLY, MAY NOT BE OFFERED OR SOLD WITHIN THE

UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS EXCEPT AS SET FORTH IN THE FOLLOWING SENTENCE. BY ITS ACQUISITION HEREOF, THE HOLDER (1) REPRESENTS THAT (A) IT IS A "QUALIFIED INSTITUTIONAL BUYER" (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) OR (B) IT IS AN INSTITUTIONAL "ACCREDITED INVESTOR" (AS DEFINED IN RULE 501(a)(1),(2),(3) OR (7) UNDER THE SECURITIES ACT) ("INSTITUTIONAL ACCREDITED INVESTOR") OR (C) IT IS NOT A U.S. PERSON AND IS ACQUIRING THE SECURITY EVIDENCED HEREBY IN AN OFFSHORE TRANSACTION, (2) AGREES THAT IT WILL NOT WITHIN THREE YEARS AFTER THE ORIGINAL ISSUANCE OF THE SECURITY EVIDENCED HEREBY RESELL OR OTHERWISE TRANSFER THE SECURITY EVIDENCED HEREBY EXCEPT (A) TO CARTER HAWLEY HALE STORES, INC. OR ANY SUBSIDIARY THEREOF, (B) INSIDE THE UNITED STATES TO A QUALIFIED INSTITUTIONAL BUYER IN COMPLIANCE WITH RULE 144 UNDER THE SECURITIES ACT, (C) INSIDE THE UNITED STATES TO AN INSTITUTIONAL ACCREDITED INVESTOR THAT, PRIOR TO SUCH TRANSFER, FURNISHES TO CONTINENTAL BANK, NATIONAL ASSOCIATION, AS TRANSFER AGENT, A SIGNED LETTER CONTAINING CERTAIN REPRESENTATIONS AND AGREEMENTS RELATING TO THE RESTRICTIONS ON TRANSFER OF THE SECURITY EVIDENCED HEREBY (THE FORM OF WHICH LETTER CAN BE OBTAINED FROM SUCH TRANSFER AGENT) OR (D) OUTSIDE THE UNITED STATES IN COMPLIANCE WITH RULE 904 UNDER THE SECURITIES ACT AND (3) AGREES THAT IT WILL DELIVER TO EACH PERSON TO WHOM THE SECURITY EVIDENCED HEREBY IS TRANSFERRED A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND. IN CONNECTION WITH ANY TRANSFER OF THE SECURITY EVIDENCED HEREBY IN CERTIFICATED FORM WITHIN THREE YEARS AFTER THE ORIGINAL ISSUANCE OF SUCH SECURITY, THE HOLDER MUST CHECK THE APPROPRIATE BOX SET FORTH ON THE REVERSE OF THIS CERTIFICATE RELATING TO THE MANNER OF SUCH TRANSFER AND SUBMIT THIS CERTIFICATE TO CONTINENTAL BANK, NATIONAL ASSOCIATION, AS TRANSFER AGENT. IF THE PROPOSED TRANSFEREE IS AN INSTITUTIONAL ACCREDITED INVESTOR OR A PURCHASER WHO IS NOT A U.S. PERSON, THE HOLDER MUST, PRIOR TO SUCH TRANSFER, FURNISH TO CONTINENTAL BANK, NATIONAL ASSOCIATION, AS TRANSFER AGENT, SUCH CERTIFICATIONS, LEGAL OPINIONS OR

OTHER INFORMATION AS IT MAY REASONABLY REQUIRE TO CONFIRM THAT SUCH TRANSFER IS BEING MADE PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT. THIS LEGEND WILL BE REMOVED AFTER THE EXPIRATION OF THREE YEARS FROM THE ORIGINAL ISSUANCE OF THE SECURITY EVIDENCED HEREBY. AS USED HEREIN, THE TERMS "OFFSHORE TRANSACTION", "UNITED STATES," AND "U.S. PERSON" HAVE THE MEANINGS GIVEN TO THEM BY REGULATION UNDER THE SECURITIES ACT.

(d) The Company shall not, and shall not permit any of its affiliates (as defined in Rule 501(b) of Regulation D under the Securities Act) to, resell any Securities (or any Common Stock issued or issuable upon conversion thereof) that have been acquired by any of them; provided, however, that such affiliates may resell any such Securities (or Common Stock) if, upon resale, such Securities (or Common Stock) would not be "restricted securities" within the meaning of Rule 144 under the Securities Act. The Registrar shall not register the transfer of any Security if the transferor of such Security is the Company or such an affiliate of the Company, except, in the case of such an affiliate, to the Company.

The Securities and related documentation may be amended or supplemented from time to time in accordance with Section 11.01 hereof (x) to modify the restrictions on, the procedures for, resales and other transfers of the Securities to reflect any change in applicable law or regulation (or the interpretation thereof) or provide alternative procedures in compliance with applicable law and practices relating to the resale or other transfer of restricted securities generally and (y) to accommodate the issuance, if any, of Securities in book-entry form and matters related thereto (although no such amendment or supplement may require that a Security outstanding at the time such amendment or supplement becomes effective be placed in book-entry form). Each Holder of any Security shall be deemed, by the acceptance or such Security, to have agreed to any such amendment or supplement.

SECTION 2.07 Replacement Securities.

If a mutilated Security is surrendered to the Trustee, or if the Holder of a Security claims that the Security has been lost, destroyed or wrongfully taken,

and neither the Company nor the Trustee has received notice that such Security has been acquired by a bona fide purchaser, the Company shall issue and the Trustee shall authenticate a replacement Security if the requirements of Section 8-405 of the New York Uniform Commercial Code, as in effect on the date of this Indenture, are met, and there shall have been delivered to the Company and the Trustee evidence to their satisfaction of the loss, destruction or theft of any Security if such is the case. An indemnity bond may be required that is sufficient in the judgment of the Company and the Trustee to protect the Company, the Trustee or any Agent from

any loss which any of them may suffer if a Security is replaced. The Company may charge for its expenses (including the fees and expenses of the Trustee) in replacing a Security. Every replacement Security is an additional obligation of the Company.

SECTION 2.08 Outstanding Securities.

Securities outstanding at any time are all Securities authenticated by the Trustee, except for those cancelled by it, those delivered to it for cancellation and those described in this Section 2.08 as not outstanding.

If a Security is replaced pursuant to Section 2.07, it ceases to be outstanding until the Trustee receives proof satisfactory to it that the replaced Security is held by a bona fide purchaser.

If the Paying Agent (other than the Company or an Affiliate of the Company) holds on a redemption date or maturity date money sufficient to pay the principal of and accrued interest on Securities payable on that date, then on and after that date such Securities cease to be outstanding and interest on them ceases to accrue.

A Security does not cease to be outstanding because the Company or an Affiliate of the Company holds the Security.

SECTION 2.09 Treasury Securities.

In determining whether the Holders of the required principal amount of Securities have concurred in any notice, direction, waiver or consent, Securities owned by the Company or any other obligor on the Securities or by any Affiliate of the Company or of such other obligor shall be disregarded, except that for purposes of determining whether the Trustee shall be protected in relying on any such notice, direction, waiver or consent, only Securities which the Trustee knows are so owned shall be so disregarded. Securities so owned which have been pledged in good faith shall not be disregarded if the pledge establishes to the satisfaction of the Trustee the pledgee's right so to act with respect to the Securities and that the pledgee is not the Company or any other obligor upon the Securities or any Affiliate of the Company or of such other obligor.

SECTION 2.10 Temporary Securities.

Until definitive Securities are ready for delivery, the Company may prepare and, upon the order of the Company, the Trustee shall authenticate temporary Securities. Temporary Securities shall be substantially in the form of definitive Securities but may have variations that the Company considers appropriate for temporary Securities. Without unreasonable delay, the Company shall prepare and the Trustee shall

authenticate definitive Securities in exchange for temporary Securities.

SECTION 2.11 Cancellation.

The Company at any time may deliver Securities to the Trustee for cancellation. The Registrar, Paying Agent and Conversion Agent shall forward to the Trustee any Securities surrendered to them for transfer, exchange, payment or conversion. The Trustee and no one else shall cancel all Securities surrendered for transfer, exchange, payment, conversion or cancellation. The Company may not issue new Securities to replace Securities it has paid or delivered to the Trustee for cancellation or which have been converted. All cancelled Securities shall be held by the Trustee and may be destroyed (and, if so destroyed, certification of their destruction shall be delivered to the Company) unless the Company shall direct in writing that the cancelled Securities be returned to it.

SECTION 2.12 Defaulted Interest.

If the Company defaults in a payment of interest on the Securities, it shall pay the defaulted interest to the persons who are Securityholders on a subsequent special record date, and such term as used in this Section 2.12 with respect to the payment of any defaulted interest shall mean the fifteenth day next preceding the special payment date fixed by the Company, whether or not such day is a Business Day. At least 15 days before the special record date, the Company shall mail to each Securityholder and the Trustee a notice that states the special record date, the special payment date and the amount of defaulted interest to be paid.

SECTION 2.13 CUSIP Numbers.

The Company in issuing the Securities may use "CUSIP" numbers (if then generally in use), and, if so, the Trustee shall use "CUSIP" numbers in notices of redemption as a convenience to Holders; provided that any such notice may state that no representation is made as to the correctness of such number either as printed on the Securities or as contained in any notice of a redemption and that reliance may be placed only on the other identification numbers printed on the Securities, and any such redemption shall not be affected by any defect in or omission of such numbers.

SECTION 2.14 Procedures for Global Securities.

(a) Upon issuance, the Securities may be represented by one or more fully registered notes in global form ("Global Securities") as well as Securities in definitive form registered in the name of individual purchasers or their nominees.

If the Securities are to be represented by one or more Global Securities, the Company shall execute and the Trustee shall, in accordance with Section 2.02, authenticate and deliver, such Global Security or Securities which (i) shall represent, and shall be denominated in an amount equal to the aggregate principal amount of, the aggregate principal amount of the outstanding Securities to be represented by such Global Security or Securities, (ii) shall be registered in the name of Cede & Co., as nominee of The Depository Trust Company, as depositary (such depositary and any successor depositary shall be referred to herein as the "Depositary"), (iii) shall be delivered by the Trustee to the Depositary or pursuant to the Depositary's instructions and (iv) if required by the Depositary, shall bear a legend substantially to the following effect:

> Unless this certificate is presented by an authorized representative of the Depositary to the Company or its agent for registration or transfer, exchange or payment, and any certificate issued is registered in the name of the nominee of the Depositary or in such other name as is requested by an authorized representative of the Depositary (and any payment is made to the nominee of the Depositary or to such other entity as is requested by an authorized representative of the Depositary), ANY TRANSFER, PLEDGE, OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL inasmuch as the registered owner hereof, the nominee of the Depositary, has an interest herein.

(b) A Global Security may be transferred, in whole but not in part, only to a nominee of the Depositary for such Global Security, or to the Depositary, or to the successor Depositary selected or approved by the Company, or to a nominee of such successor Depositary.

(c) (i) If at any time the Depositary for a Global Security notifies the Company that it is unwilling or unable to continue as Depositary for such Global Security or if at anytime the Depositary for such Global Security shall no longer be eligible or in good standing under the Exchange Act, or other applicable statute or regulation, the Company shall appoint a successor Depositary with respect to such Global Security. If a successor Depositary for such Global Security is not appointed by the Company within 90 days after the Company receives such notice or becomes aware of such ineligibility, the Company will execute an authentication order or orders signed by two Officers or by an Officer and an Assistant Treasurer or Assistant Secretary of the Company, and the Trustee, upon receipt of such order or orders, will authenticate and deliver individual Securities in an aggregate principal amount equal to the principal amount of the Global Security in exchange for such Global Security.

(ii) The Company may at any time and in its sole discretion determine that the Securities or portion thereof issued or issuable in the form of one or more Global Securities

shall no longer be represented by such Global Security or Securities. In such event the Company will execute an authentication order or orders for the authentication and delivery of individual Securities in exchange in whole or in part for such Global Security, and the Trustee, upon receipt of such order or orders, will authenticate and deliver individual Securities in definitive form in an aggregate principal amount equal to the principal amount of such Global Security or Securities representing such Securities or portion thereof in exchange for such Global Securities.

(iii) In any exchange provided for in any of clauses (i) or (ii) above, the Company will execute and the Trustee will authenticate and deliver individual Securities in definitive registered form in authorized denominations. Upon the exchange of the entire principal amount of a Global Security for individual Securities, such Global Security shall be cancelled by the Trustee. Except as provided in the preceding paragraph, Securities issued in exchange for a Global Security pursuant to this Section shall be registered in such names and in such authorized denominations as the Depositary for such Global Security shall instruct the Trustee or the Registrar. The Trustee or the Registrar shall deliver such Securities to the persons in whose names such Securities are so registered.

(d) Notwithstanding any other provisions of this Indenture, so long as a Global Security remains outstanding, unless the transferee shall otherwise request in writing to the Registrar, no definitive Security shall be issued or authenticated in connection with the transfer of any definitive Security pursuant to the exemption from registration provided by Rule 144A under the Securities Act. Instead, upon acceptance for transfer of any definitive Security, the Registrar shall cancel such definitive Security and shall, in lieu of issuing a new definitive Security in exchange for the definitive Security surrendered for registration of transfer, endorse on the schedule affixed to such Global Security (or on a continuation of such schedule affixed to such Global Security and made a part thereof), an appropriate notation evidencing the date and an increase in the principal amount of such Global Security in an amount equal to the principal amount of such definitive Security. The Registrar shall notify the Depositary promptly of any increase in the principal amount of any Global Security.

Notwithstanding any other provisions of this Indenture, resales or other transfers of Securities represented by a Global Security made in compliance with Rule 144A under the Securities Act or made on or subsequent to the date that is three years after the original issue date of such Securities will be conducted according to the rules and procedures of the Depositary applicable to

U.S. corporate debt obligations and without notice to, or action by, the Registrar. Upon written notice (upon which notice to the Registrar may rely) from a participant in the Depositary's system having an interest in the Securities represented by a Global Security that such participant (or a

beneficial owner who holds an interest in the Securities through such participant) intends to resell or transfer such Securities otherwise than pursuant to Rule 144A under the Securities Act prior to three years after the original issue date of such Securities, and upon satisfaction by the transferor and, if applicable, the transferee, of the conditions necessary for the registration of transfer of a Security set out in Section 2.06(b), the Registrar shall and is authorized by the holder of such Global Security, by its acceptance thereof, to endorse on the schedule affixed to such Global Security (or on a continuation of such schedule affixed to such Global Security and made a part thereof) an appropriate notation evidencing the date and the reduction in the principal amount of such Global Security equal to the principal amount of the portion of the Global Security being transferred and shall authenticate and deliver a definitive Security registered in the name of the transferee or its nominee in an equal aggregate principal amount. The Registrar shall notify the Depositary promptly of any decrease in the principal amount of the Global Security.

ARTICLE 3

REDEMPTION

SECTION 3.01 Notice to Trustee.

If the Company wants to redeem Securities pursuant to paragraph 5 of the Securities, it shall notify the Trustee at least 45 days prior to the redemption date as fixed by the Company (unless a shorter notice shall be satisfactory to the Trustee) of the redemption date and the principal amount of Securities to be redeemed.

SECTION 3.02 Selection of Securities to be Redeemed.

If less than all of the Securities are to be redeemed, the Trustee shall, not more than 60 days prior to the redemption date, select the Securities to be redeemed pro rata or by lot, as the Trustee in its discretion shall determine. The Trustee shall make the selection from the Securities outstanding and not previously called for redemption. Securities in denominations of $1,000 may only be redeemed in whole. The Trustee may select for redemption portions (equal to $1,000 or any integral multiple thereof) of the principal of Securities that have denominations larger than $1,000. Provisions of this Indenture that apply to Securities called for redemption also apply to portions of Securities called for redemption.

SECTION 3.03 Notice of Redemption.

At least 15 days but not more than 60 days before a redemption date, the Company shall mail a notice of redemption by first class mail to each Holder of Securities to be redeemed.

The notice shall identify the Securities to be redeemed and shall state:

(1) the redemption date;

(2) the redemption price;

(3) the then current conversion price;

(4) the name and address of the Paying Agent and the Conversion Agent;

(5) that Securities called for redemption must be surrendered to the Paying Agent to collect the redemption price;

(6) that the right to convert Securities called for redemption shall terminate at the close of business on the tenth Business Day immediately preceding the redemption date;

(7) that Holders who wish to convert Securities must satisfy the requirements in paragraph 8 of the Securities;

(8) that, unless the Company defaults in making the redemption payment, interest on Securities called for redemption ceases to accrue on and after the redemption date and the only remaining right of the Holder is to receive payment of the redemption price upon surrender to the Paying Agent of the Securities;

(9) if any Security is being redeemed in part, the portion of the principal amount of such Security to be redeemed and that, after the redemption date, upon surrender of such Security, a new Security or Securities in principal amount equal to the unredeemed portion thereof will be issued; and

(10) the CUSIP number, if any, of the Securities to be redeemed.

At the Company's request, the Trustee shall give the notice of redemption in the Company's name and at the Company expense.

SECTION 3.04 Effect of Notice of Redemption.

Once notice of redemption is mailed, Securities called for redemption become due and payable on the redemption date, subject to the provisions of Section 4.01, and at the redemption price. Upon surrender to the Paying Agent, such Securities shall be paid at the redemption price, plus accrued and unpaid interest to the redemption date.

SECTION 3.05 Deposit of Redemption Price.

On or prior to the redemption date, the Company shall promptly deposit with the Paying Agent (or if the Company is its

own Paying Agent, shall segregate and hold in trust) money sufficient to pay the redemption price of and accrued and unpaid interest on all Securities to be redeemed on that date, other than Securities or portions thereof called for redemption on that date which have been delivered by the Company to the Trustee for cancellation. The Paying Agent shall return to the Company any money not required for that purpose because of the conversion of Securities or otherwise.

SECTION 3.06 Securities Redeemed in Part.

Upon surrender of a Security that is redeemed in part, the Company shall issue and the Trustee shall authenticate for the Holder a new Security equal in principal amount to the unredeemed portion of the Security surrendered.

ARTICLE 4

CONVERSION

SECTION 4.01 Conversion Privilege.

A Holder of a Security may convert it into Common Stock of the Company at any time prior to maturity at the conversion price then in effect, except that, with respect to any Security called for redemption, such conversion right shall terminate at the close of business on the tenth Business Day immediately preceding the redemption date (unless the Company shall default in making the

redemption payment when it becomes due, in which case the conversion right shall terminate on the date such default is cured). The number of shares of Common Stock issuable upon conversion of a Security is determined by dividing the principal amount converted by the conversion price in effect on the conversion date.

The initial conversion price is stated in paragraph 8 of the Securities and is subject to adjustment as provided in this Article 4.

A Holder may convert a portion of a Security equal to $1,000 or any integral multiple thereof. Provisions of this Indenture that apply to conversion of all of a Security also apply to conversion of a portion of it.

SECTION 4.02 Conversion Procedure.

To convert a Security, a Holder must satisfy the requirements in paragraph 8 of the Securities. The date on which the Holder satisfies all of those requirements is the conversion date. As soon as practicable after the conversion date, the Company shall deliver to the Holder through the Conversion Agent a certificate for the number of whole shares of Common Stock issuable upon the conversion and a check for any fractional share. The person in whose name the certificate is registered shall become the stockholder of record on the conversion date

and, as of such date, such person's rights as a Securityholder shall cease.

No payment or adjustment will be made for accrued and unpaid interest on a converted Security or for dividends or distributions on shares of Common Stock issued upon conversion of a Security, but if any Holder surrenders a Security for conversion after the close of business on the record date for the payment of an installment of interest and prior to the opening of business on the next interest payment date, then, notwithstanding such conversion, the interest payable on such interest payment date shall be paid to the Holder of such Security on such record date. In such event, such Security, when surrendered for conversion, must be accompanied by payment of an amount equal to the interest payable on such interest payment date on the portion so converted. If such payment does not accompany such Security, the Security shall not be converted. If the Company defaults in the payment of interest payable on the interest payment date, the Trustee shall repay such funds to the Holder.

If a Holder converts more than one Security at the same time, the number of whole shares issuable upon the conversion shall be based on the total principal amount of Securities converted.

Upon surrender of a Security that is converted in part, the Trustee shall authenticate for the Holder a new Security equal in principal amount to the unconverted portion of the Security surrendered.

SECTION 4.03 Fractional Shares.

The Company will not issue fractional shares of Common Stock upon conversion of Securities. In lieu thereof, the Company will pay an amount in cash based upon the current market price of the Common Stock on the trading day prior to the date of conversion.

SECTION 4.04 Taxes on Conversion.

The issuance of certificates for shares of Common Stock upon the conversion of any Security shall be made without charge to the converting Securityholder for such certificates or any tax in respect of the issuance of such certificates, and such certificates shall be issued in the respective names of, or in such names as may be directed by, the Holder or Holders of the Security converted; provided, however, that in the event that certificates for shares of Common Stock are to be issued in a name other than the name of the Holder of the Security converted, such Security, when surrendered for conversion, shall be accompanied by an instrument of transfer, in form satisfactory to the Company, duly executed by the registered Holder thereof or his duly authorized

attorney; and provided further, however, that the Company shall not be required to pay any tax which may be payable in respect of any transfer involved in the issuance and

delivery of any such certificates in a name other than that of the holder of the Security converted, and the Company shall not be required to issue or deliver such certificates unless or until the person or persons requesting the issuance thereof shall have paid to the Company the amount of such tax or shall have established to the satisfaction of the Company that such tax has been paid or is not applicable.

SECTION 4.05 Company to Provide Stock.

The Company shall at all times reserve and keep available, free from preemptive rights, out of its authorized but unissued Common Stock, solely for the purpose of issuance upon conversion of Securities as herein provided, a sufficient number of shares of Common Stock to permit the conversion of all outstanding Securities.

All shares of Common Stock which may be issued upon conversion of the Securities shall be duly authorized, validly issued, fully paid and non-assessable when so issued.

SECTION 4.06 Adjustment of Conversion Price.

The conversion price (herein called the "Conversion Price") shall be subject to adjustment from time to time as follows:

(a) In case the Company shall (1) pay a dividend in shares of Common Stock to holders of Common Stock, (2) make a distribution in shares of Common Stock to holders of Common Stock, (3) subdivide its outstanding shares of Common Stock into a greater number of shares of Common Stock or (4) combine its outstanding shares of Common Stock into a smaller number of shares of Common Stock, the Conversion Price in effect immediately prior to such action shall be adjusted so that the Holder of any Security thereafter surrendered for conversion shall be entitled to receive the number of shares of Common Stock which he would have owned immediately following such action had such Securities been converted immediately prior thereto. Any adjustment made pursuant to this subsection (a) shall become effective immediately after the record date in the case of a dividend or distribution and shall become effective immediately after the effective date in the case of a subdivision or combination.

(b) In case the Company shall issue rights or warrants to substantially all holders of Common Stock entitling them (for a period commencing no earlier than the record date for the determination of holders of Common Stock entitled to receive such rights or warrants and expiring not more than 45 days after such record date) to subscribe for or purchase shares of Common Stock (or securities convertible into Common Stock) at a price per share less than the current market price (as determined pursuant to subsection (d) below) of the Common Stock on such record date, the Conversion Price shall be adjusted so that the same shall

equal the price determined by multiplying the Conversion Price in effect immediately prior to such record date by a fraction of which the numerator shall be the number of shares of Common Stock outstanding on such record date, plus the number of shares of Common Stock which the aggregate offering price of the offered shares of Common Stock (or the aggregate conversion price of the convertible securities so offered) would purchase at such current market price, and of which the denominator shall be the number of shares of Common Stock outstanding on such record date plus the number of additional shares of Common

Stock offered (or into which the convertible securities so offered are convertible). Such adjustments shall become effective immediately after such record date.

(c) In case the Company shall distribute to all holders of Common Stock shares of any class of stock other than Common Stock, evidences of indebtedness or other assets (other than cash dividends out of current or retained earnings), or shall distribute to substantially all holders of Common Stock rights or warrants to subscribe for securities (other than those referred to in subsection (b) above), then in each such case the Conversion Price shall be adjusted so that the same shall equal the price determined by multiplying the Conversion Price in effect immediately prior to the date of such distribution by a fraction of which the numerator shall be the current market price (determined as provided in subsection (d) below) of the Common Stock on the record date mentioned below less the then fair market value (as determined by the Board of Directors of the Company, whose determination shall be conclusive evidence of such fair market value) of the portion of the assets so distributed or of such subscription rights or warrants applicable to one share of Common Stock, and of which the denominator shall be such current market price of the Common Stock. Such adjustment shall become effective immediately after the record date for the determination of the holders of Common Stock entitled to receive such distribution. Notwithstanding the foregoing, in the event that the Company shall distribute rights or warrants (other than those referred to in subsection (b) above) ("Rights") pro rata to holders of Common Stock, the Company may, in lieu of making any adjustment pursuant to this Section 4.06, make proper provision so that each holder of a Security who converts such Security (or any portion thereof) after the record date for such distribution and prior to the expiration or redemption of the Rights shall be entitled to receive upon such conversion, in addition to the shares of Common Stock issuable upon such conversion (the "Conversion Shares"), a number of Rights to be determined as follows: (i) if such conversion occurs on or prior to the date for the distribution to the holders of Rights of separate certificates evidencing such Rights (the "Distribution Date"), the same number of Rights to which a holder of a number of shares of Common Stock equal to the number of Conversion Shares is entitled at the time of such conversion in accordance with the terms and provisions of and applicable to the Rights; and (ii) if such conversion occurs after the Distribution Date, the same number of Rights to which a holder of the number of shares of

Common Stock into which the principal amount of the Security so converted was convertible immediately prior to the Distribution Date would have been entitled on the Distribution Date in accordance with the terms and provisions of and applicable to the Rights.

(d) The current market price per share of Common Stock on any date shall be deemed to be the average of the daily closing prices for thirty consecutive trading days commencing forty-five trading days before the day in question. The closing price for each day shall be the last reported sales price regular way or, in case no such reported sale takes place on such date, the average of the reported closing bid and asked prices regular way, in either case on the New York Stock Exchange, or if the Common Stock is not listed or admitted to trading on such Exchange, or the principal national securities exchange on which the Common Stock is listed or admitted to trading or, if not listed or admitted to trading on any national securities exchange, the closing sale price of the Common Stock, or in case no reported sale takes place, the average of the closing bid and asked prices, on NASDAQ or any comparable system, or if the Common Stock is not quoted on NASDAQ or any comparable system, the closing sale price or, in case no reported sale takes place, the average of the closing bid and asked prices, as furnished by any two members of the National Association of Securities Dealers, Inc. selected from time to time by the Company for that purpose.

(e) In any case in which this Section 4.06 shall require that an adjustment be made immediately following a record date, the Company may elect to defer (but only until five Business Days following the filing by the Company with the Trustee of the certificate described in Section 4.10 below) issuing to the holder of any Security converted after such record date the shares of

Common Stock and other capital stock of the Company issuable upon such conversion over and above the shares of Common Stock and other capital stock of the Company issuable upon such conversion only on the basis of the Conversion Price prior to adjustment; and, in lieu of the shares the issuance of which is so deferred, the Company shall issue or cause its transfer agents to issue due bills or other appropriate evidence of the right to receive such shares.

SECTION 4.07 No Adjustment.

No adjustment in the Conversion Price shall be required until cumulative adjustments amount to 1% or more of the Conversion Price as last adjusted; provided, however, that any adjustments which by reason of this Section 4.07 are not required to be made shall be carried forward and taken into account in any subsequent adjustment. All calculations under this Article 4 shall be made to the nearest cent or to the nearest one-hundredth of a share, as the case may be. No adjustment of the Conversion Price shall be made for cash dividends.

SECTION 4.08 Equivalent Adjustments.

In the event that, as a result of an adjustment made pursuant to Section 4.06 above, the holder of any Security thereafter surrendered for conversion shall become entitled to receive any shares of capital stock of the Company other than shares of its Common Stock, thereafter the Conversion Price of such other shares so receivable upon conversion of any Securities shall be subject to adjustment from time to time in a manner and on terms as nearly equivalent as practicable to the provisions with respect to Common Stock contained in this Article 4.

SECTION 4.09 Adjustments for Tax Purposes.

The Company may make such reductions in the Conversion Price, in addition to those required by paragraphs (a), (b) and (c) of Section 4.06 above, as it considers to be advisable in order that any event treated for Federal income tax purposes as a dividend of stock or stock rights shall not be taxable to the recipients thereof.

SECTION 4.10 Notice of Adjustment.

Whenever the Conversion Price is adjusted, the Company shall promptly mail to Securityholders a notice of the adjustment and file with the Trustee an Officers' Certificate briefly stating the facts requiring the adjustment and the manner of computing it. The certificate shall be conclusive evidence of the correctness of such adjustment.

SECTION 4.11 Notice of Certain Transactions.

In the event that:

(1) the Company takes any action which would require an adjustment in the Conversion Price.

(2) the Company consolidates or merges with, or transfers all or substantially all of its assets to, another corporation and stockholders of the Company must approve the transaction, or

(3) there is a dissolution or liquidation of the Company,

a Holder of a Security may wish to convert such Security into shares of Common Stock prior to the record date for or the effective date of the transaction so that he may receive the rights, warrants, securities or assets which a holder of shares of Common Stock on that date may receive. Therefore, the Company shall mail to Securityholders and the Trustee a notice stating the proposed record or effective date, as the case may be. The Company shall mail the notice at least 10 days before such date; however, failure to mail such notice or any defect therein shall

not affect the validity of any transaction referred to in clause (1), (2) or (3) of this Section 4.11.

SECTION 4.12 Effect of Reclassifications, Consolidations, Mergers or Sales on Conversion Privilege.

If any of the following shall occur, namely: (i) any reclassification or change of outstanding shares of Common Stock issuable upon conversion of Securities (other than a change in par value, or from par value to no par value, or from no par value to par value, or as a result of a subdivision or combination), (ii) any consolidation or merger to which the Company is a party other than a merger in which the Company is the continuing corporation and which does not result in any reclassification of, or change (other than a change in name, or par value, or from par value to no par value, or from no par value to par value or as a result of a subdivision or combination) in, outstanding shares of Common Stock or (iii) any sale or conveyance of all or substantially all of the property or business of the Company as an entirety, then the Company, or such successor or purchasing corporation, as the case may be, shall, as a condition precedent to such reclassification, change, consolidation, merger, sale or conveyance, execute and deliver to the Trustee a supplemental indenture providing that the Holder of each Security then outstanding shall have the right to convert such Security into the kind and amount of shares of stock and other securities and property (including cash) receivable upon such reclassification, change, consolidation, merger, sale or conveyance by a holder of the number of shares of Common Stock deliverable upon conversion of such Security immediately prior to such reclassification, change, consolidation, merger, sale or conveyance. Such supplemental indenture shall provide for adjustments of the Conversion Price which shall be as nearly equivalent as may be practicable to the adjustments of the Conversion Price provided for in this Article 4. The foregoing, however, shall not in any way affect the right a holder of a Security may otherwise have, pursuant to clause (ii) of the last sentence of subsection (c) of Section 4.06, to receive Rights upon conversion of a Security. If, in the case of any such consolidation, merger, sale or conveyance, the stock or other securities and property (including cash) receivable thereupon by a holder of Common Stock includes shares of stock or other securities and property of a corporation other than the successor or purchasing corporation, as the case may be, in such consolidation, merger, sale or conveyance, then such supplemental indenture shall also be executed by such other corporation and shall contain such additional provisions to protect the interests of the Holders of the Securities as the Board of Directors of the Company shall reasonably consider necessary by reason of the foregoing. The provision of this Section 4.12 shall similarly apply to successive consolidations, mergers, sales or conveyances.

In the event the Company shall execute a supplemental indenture pursuant to this Section 4.12, the Company shall promptly file with the Trustee an Officers' Certificate briefly stating the reasons therefor, the kind or amount of shares of stock or securities or property (including cash) receivable by Holders of the Securities upon the conversion of their Securities after any such reclassification, change, consolidation, merger, sale or conveyance and any adjustment to be made with respect thereto.

SECTION 4.13 Trustee's Disclaimer.

The Trustee has no duty to determine when an adjustment under this Article 4 should be made, how it should be made or what such adjustment should be, but may accept as conclusive evidence of the correctness of any such adjustment, and shall be protected in relying upon, the Officers' Certificate with respect thereto which the Company is obligated to file with the Trustee pursuant to Section 4.10. The Trustee makes no representation as to the validity or value of any securities or assets issued upon conversion of Securities, and the

Trustee shall not be responsible for the Company's failure to comply with any provisions of this Article 4.

The Trustee shall not be under any responsibility to determine the correctness of any provisions contained in any supplemental indenture executed pursuant to Section 4.12, but may accept as conclusive evidence of the correctness thereof, and shall be protected in relying upon, the Officers' Certificate with respect thereto which the Company is obligated to file with the Trustee pursuant to Section 4.12.

ARTICLE 5

SUBORDINATION

SECTION 5.01 Agreement to Subordinate.

The Company, for itself and its successors, and each Holder, by his acceptance of Securities, agree that the payment of the principal of or interest on or any other amounts due on the Securities is subordinated in right of payment, to the extent and in the manner stated in this Article 5, to the prior payment in full of all Senior Debt. Each Holder by his acceptance of the Securities authorizes and directs the Trustee on his behalf to take such action as may be necessary or appropriate to effectuate, as between the holders of Senior Debt and such Holder, the subordination provided in this Article and appoints the Trustee his attorney-in-fact for such purpose. If the Trustee does not file a proper claim or proof of debt in the form required in any voluntary or involuntary dissolution, winding up, liquidation, reorganization, arrangement or similar proceedings relating to the Company prior to 30 days before the expiration of time to file such claim or claims, then any holder or holders of Senior Debt or their representative or representatives are hereby

authorized to and have the right to file an appropriate claim for and on behalf of the Holders.

The Securities shall be senior in right of payment and in rights upon liquidation to all Junior Subordinated Indebtedness.

SECTION 5.02 No Payment on Securities if Senior Debt in Default.

Anything in this Indenture to the contrary notwithstanding, no payment on account of principal of or redemption of, interest on or other amounts due on the Securities, and no redemption, purchase, or other acquisition of the Securities, shall be made by or on behalf of the Company (i) unless full payment of amounts then due for principal and interest and of all other amounts then due on all Senior Debt has been made or duly provided for pursuant to the terms of the instrument governing such Senior Debt, (ii) if, at the time of such payment, redemption, purchase or other acquisition, or immediately after giving effect thereto, there shall exist under any Senior Debt, or any agreement pursuant to which any Senior Debt is issued, any default, which default shall not have been cured or waived and which default shall have resulted in the full amount of such Senior Debt being declared due and payable or (iii) if, at the time of such payment, redemption, purchase or other acquisition, the Trustee shall have received written notice from the holder or holders of any Senior Debt or their representative or representatives (a "Payment Blockage Notice") that there exists under such Senior Debt, or any agreement pursuant to which such Senior Debt is issued, any default, which default shall not have been cured or waived, permitting the holders there to declare the full amount of such Senior Debt due and payable, but only for the period (the "Payment Blockage Period") commencing on the date of receipt of the Payment Blockage Notice and ending (unless earlier terminated by notice given to the Trustee by the holders of such Senior Debt) on the earlier of (a) the date on which such event of default shall have been cured or waived or (b) 180 days from the receipt of the Payment Blockage Notice. Upon termination of Payment Blockage Period, payments on account of principal of or interest on the Securities (other than amounts due and payable by reason of the acceleration of the maturity of the Securities) and redemptions, purchases or other acquisitions may be made by or on behalf of the Company. Notwithstanding

anything herein to the contrary, (A) only one Payment Blockage Notice may be given during any period of 360 consecutive days with respect to the same event of default and any other events of default on the same issue of Senior Debt existing and known to the person giving such notice at the time of such notice and (B) no new Payment Blockage Period may be commenced by the holder or holders of the same issue of Senior Debt or their representative or representatives during any period of 360 consecutive days unless all events of default which were the object of the immediately preceding Payment Blockage Notice, and any other event of default on the same issue of

Senior Debt existing and known to the person giving such notice at the time of such notice, have been cured or waived.

In the event that, notwithstanding the provisions of this Section 5.02, payments are made by or on behalf of the Company in contravention of the provisions of this Section 5.02, such payments shall be held by the Trustee, any Paying Agent or the Holders, as applicable, in trust for the benefit of, and shall be paid over to and delivered to, the holders of Senior Debt or their representative or the trustee under the indenture or other agreement (if any), pursuant to which any instruments evidencing any Senior Debt may have been issued, as their respective interests may appear, for application to the payment of all Senior Debt remaining unpaid to the extent necessary to pay all Senior Debt in full in accordance with the terms of such Senior Debt, after giving effect to any concurrent payment or distribution to or for the holders of Senior Debt.

The Company shall give prompt written notice to the Trustee and any Paying Agent of event of default under any Senior Debt or under any agreement pursuant to which any Senior Debt may have been issued.

SECTION 5.03 Distribution on Acceleration of Securities; Dissolution and Reorganization; Subrogation of Securities.

(a) Upon (i) any acceleration of the principal amount due on the Securities because of an Event of Default or (ii) any distribution of assets of the Company upon any dissolution, winding up, liquidation or reorganization of the Company (whether in bankruptcy, insolvency or receivership proceedings or upon an assignment for the benefit of creditors or any other dissolution, winding up, liquidation or reorganization of the Company):

(1) the holders of all Senior Debt shall first be entitled to receive payment in full of the principal thereof, the interest thereon and any other amounts due thereon before the Holders are entitled to receive payment on account of the principal of or interest on or any other amounts due on the Securities;

(2) any payment or distribution of assets of the Company of any kind or character, whether in cash, property or securities (other than securities of the Company as reorganized or readjusted or securities of the Company or any other corporation provided for by a plan of reorganization or readjustment the payment of which is subordinate, at least to the extent provided in this Article with respect to the Securities, to the payment in full without diminution or modification by such plan of all Senior Debt), to which the Holders or the Trustee would be entitled except for the provisions of this Article, shall be paid by the liquidating trustee or agent or other person making such a payment or distribution, directly to the holders of

Senior Debt (or their representative(s) or trustee(s) acting on their behalf), ratably according to the aggregate amounts remaining unpaid on account of the principal of or interest on and other amounts due on the Senior Debt held or

represented by each, to the extent necessary to make payment in full of all Senior Debt remaining unpaid, after giving effect to any concurrent payment or distribution to the holders of such Senior Debt; and

(3) in the event that, notwithstanding the foregoing, any payment or distribution of assets of the Company of any kind or character, whether in cash, property or securities (other than securities of the Company as reorganized or readjusted, or securities of the Company or any other corporation provided for by a plan of reorganization or readjustment the payment of which is subordinate, at least to the extent provided in this Article with respect to the Securities, to the payment in full without diminution or modification by such plan of Senior Debt), shall be received by the Trustee or the Holders before all Senior Debt is paid in full, such payment or distribution shall be held in trust for the benefit of, and be paid over to upon request by a holder of the Senior Debt, the holders of the Senior Debt remaining unpaid (or their representatives) or trustee(s) acting on their behalf, ratably as aforesaid, for application to the payment of such Senior Debt until all such Senior Debt shall have been paid in full, after giving effect to any concurrent payment or distribution to the holders of such Senior Debt.

Subject to the payment in full of all Senior Debt, the Holders shall be subrogated to the rights of the holders of Senior Debt to receive payments or distributions of cash, property or securities of the Company applicable to the Senior Debt until the principal of and interest on the Securities shall be paid in full and, for purposes of such subrogation, no such payments or distributions to the holders of Senior Debt of cash, property or securities which otherwise would have been payable or distributable to Holders shall, as between the Company, its creditors other than the holders of Senior Debt, and the Holders, be deemed to be a payment by the Company to or on account of the Senior Debt, it being understood that the provisions of this Article are and are intended solely for the purpose of defining the relative rights of the Holders, on the one hand, and the holders of Senior Debt, on the other hand.

Nothing contained in this Article or elsewhere in this Indenture or in the Securities is intended to or shall impair, as between the Company and its creditors other than the holders of Senior Debt, the obligation of the Company, which is absolute and unconditional, to pay to the Holders the principal of and interest on the Securities as and when the same shall become due and payable in accordance with the terms of the Securities or is intended to or shall affect the relative rights of the Holders and creditors of the Company other than holders of Senior Debt or, as between the Company and the Trustee, the obligations of the Company to the Trustee, nor shall anything herein or therein

prevent the Trustee or the Holders from exercising all remedies otherwise permitted by applicable law upon default under this Indenture, subject to the rights, if any, under this Article of the holders of Senior Debt in respect of cash, property and securities of the Company received upon the exercise of any such remedy. Upon distribution of assets of the Company referred to in this Article, the Trustee, subject to the provisions of Section 9.01 hereof, and the Holders shall be entitled to rely upon a certificate of the liquidating trustee or agent or other person making any distribution to the Trustee or to the Holders for the purpose of ascertaining the persons entitled to participate in such distribution, the holders of the Senior Debt and other indebtedness of the Company, the amount thereof or payable thereon, the amount or amounts paid or distributed thereon and all other facts pertinent thereto or to this Article. The Trustee, however, shall not be deemed to owe any fiduciary duty to the holders of Senior Debt. Nothing contained in this Article or elsewhere in this Indenture, or in any of the Securities, shall prevent the application by the Trustee of any moneys which were deposited with it hereunder, prior to its receipt of written notice of facts which would prohibit such application, for the purpose of the payment of or on account of the principal of or interest on, the Securities unless, prior to the date on which such application is made by the Trustee, the Trustee shall be charged with notice under Section 5.03(c) hereof of the facts which would prohibit the making of such application.

(b) The provisions of this Article shall not be applicable to any cash,

properties or securities received by the Trustee or by any Holder when received as a holder of Senior Debt and nothing in Section 9.11 hereof or elsewhere in this Indenture shall deprive the Trustee or such Holder of any of its rights as such holder.

(c) The Company shall give prompt written notice to the Trustee of any fact known to the Company which would prohibit the making of any payment of money to or by the Trustee in respect of the Securities pursuant to the provisions of this Article. The Trustee, subject to the provisions of Section 9.01 hereof, shall be entitled to assume that no such fact exists unless the Company or any holder of Senior Debt or any trustee therefor has given such notice to the Trustee. Notwithstanding the provisions of this Article or any other provisions of this Indenture, the Trustee shall not be charged with knowledge of the existence of any fact which would prohibit the making of any payment of monies to or by the Trustee in respect of the Securities pursuant to the provisions in this Article, unless, and until three Business Days after, the Trustee shall have received written notice thereof from the Company or any holder or holders of Senior Debt or from any trustee therefor; and, prior to the receipt of any such written notice, the Trustee, subject to the provisions of Section 9.01 hereof, shall be entitled in all respects conclusively to assume that no such facts exist; provided that if on a date not less than two Business Days immediately preceding the date upon which by the terms hereof any

such monies may become payable for any purpose (including, without limitation, the principal of or interest on any Security, and any amounts immediately due and payable upon the execution of any instrument acknowledging satisfaction and discharge of this Indenture, as provided in Article 10 hereof), the Trustee shall not have received with respect to such monies the notice provided for in this Section 5.03(c), than anything herein contained to the contrary notwithstanding, the Trustee shall have full power and authority to receive such monies and to apply the same to the purpose for which they were received, and shall not be affected by any notice to the contrary which may be received by it on or after such prior date.

The Trustee shall be entitled to rely on the delivery to it of a written notice by a person representing himself to be a holder of Senior Debt (or a trustee on behalf of such holder) to establish that such notice has been given by a holder of Senior Debt (or a trustee on behalf of any such holder or holders). In the event that the Trustee determines in good faith that further evidence is required with respect to the right of any person as a holder of Senior Debt to participate in any payment or distribution pursuant to this Article, the Trustee may request such person to furnish evidence to the reasonable satisfaction of the Trustee as to the amount of Senior Debt held by such person, the extent to which such person is entitled to participate in such payment or distribution and any other facts pertinent to the rights of such person under this Article, and, if such evidence is not furnished, the Trustee may defer any payment to such person pending judicial determination as to the right of such person to receive such payment; nor shall the Trustee be charged with knowledge of the curing or waiving of any default of the character specified in Section 5.02 hereof or that any event or any condition preventing any payment in respect of the Securities shall have ceased to exist, unless and until the Trustee shall have received an Officers' Certificate to such effect.

(d) The provisions of this Section 5.03 applicable to the Trustee shall also apply to any Paying Agent for the Company.

SECTION 5.04 Reliance by Senior Debt on Subordination Provisions.

Each Holder of any Security by his acceptance thereof acknowledges and agrees that the foregoing subordination provisions are, and are intended to be, an inducement and a consideration for each holder of any Senior Debt, whether such Senior Debt was created or acquired before or after the issuance of the Securities, to acquire and continue to hold, or to continue to hold, such Senior Debt, and such holder of Senior Debt shall be deemed conclusively to have relied on such subordination provisions in acquiring and continuing to hold, or in continuing to hold, such Senior Debt. Notice of any default in the payment of any Senior Debt, except as expressly stated in this Article, and

notice of acceptance of the provisions hereof

are hereby expressly waived. Except as otherwise expressly provided herein, no waiver, forbearance or release by any holder of Senior Debt under such Senior Debt or under this Article shall constitute a release of any of the obligations or liabilities of the Trustee or Holders of the Securities provided in this Article. Except as otherwise expressly provided herein, no right of any present or future holder of Senior Debt to enforce the subordination provisions hereof shall at any time or in any way be prejudiced or impaired by any act or failure to act on the part of the Company or any such holder or by any noncompliance by the Company with the terms, provisions or covenants of this Indenture, regardless of any knowledge thereof which such holder may have otherwise been charged with.

SECTION 5.05 Trustee's Relation to Senior Debt.

The Trustee in its individual capacity shall be entitled to all the rights set forth in this Article in respect of any Senior Debt at any time held by it, to the same extent as any holder of Senior Debt, and nothing in Section 9.11 hereof or elsewhere in this Indenture shall deprive the Trustee of any of its rights as such holder.

With respect to the holders of Senior Debt, the Trustee undertakes to perform or to observe only such of its covenants and obligation, as are specifically set forth in this Article, and no implied covenants or obligations with respect to the holders of Senior Debt shall be read into this Indenture against the Trustee. The Trustee shall not owe any fiduciary duty to the holders of Senior Debt but shall have only such obligations to such holders as are expressly set forth in this Article.

Each Holder of a Security by his acceptance thereof authorizes and directs the Trustee on his behalf to take such action as may be necessary or appropriate to effectuate the subordination provided in this Article and appoints the Trustee his attorney-in-fact for any and all such purposes, including, in the event of any dissolution, winding up or liquidation or reorganization under any applicable bankruptcy law of the Company (whether in bankruptcy, insolvency or receivership proceedings or otherwise), the timely filing of a claim for the unpaid balance of such Holder's Securities in the form required in such proceedings and the causing of such claim to be approved. If the Trustee does not file a claim or proof of debt in the form required in such proceedings prior to 10 days before the expiration of the time to file such claims or proofs, then the holders of Senior Debt, jointly, or their representative shall have the right to demand, sue for, collect, receive and receipt for the payments and distributions in respect of the Securities which are required to be paid or delivered to the holders of Senior Debt as provided in this Article and to file and prove all claims therefore and to take all such other action in the name of the Holders or otherwise, as such holders of Senior Debt or representative thereof may determine to be necessary or

appropriate for the enforcement of the provisions of this Article.

SECTION 5.06 Other Provisions Subject Hereto.

Expect as expressly stated in this Article, notwithstanding anything contained in this Indenture to the contrary, all the provisions of this Indenture and the Securities are subject to the provisions of this Article. However, nothing in this Article shall apply to or adversely affect the claims of, or payment, to, the Trustee pursuant to Section 9.07. Notwithstanding the foregoing, the failure to make a payment on account of principal of or interest on the Securities by reason of any provision of this Article 5 shall not be

construed as preventing the occurrence of an Event of Default under Section 8.01.

ARTICLE 6

COVENANTS

SECTION 6.01 Payment of Securities.

The Company shall pay the principal of and interest on the Securities on the dates and in the manner provided in the Securities and this Indenture. An installment of principal or interest shall be considered paid on the date it is due if the Paying Agent (other than the Company or an Affiliate of the Company) holds by 12:00 noon New York City time on that date money designated for and sufficient to pay the installment. The Company shall pay interest on overdue principal at the rate borne by the Securities per annum; it shall pay interest on overdue installments of interest at the same rate to the extent lawful.

SECTION 6.02 SEC Reports.

The Company shall file all reports and other information and documents which it is required to file with the SEC pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and within 15 days after it files them with the SEC, the Company shall file copies of all such reports, information and other documents with the Trustee. The Company will cause any quarterly and annual reports which it mails to its stockholders to be mailed to the Holders of the Securities.

If the Company is not subject to the reporting requirements of Section 13 or 15(d) of the Exchange Act, the Company will prepare, for the first three quarters of each fiscal year, quarterly financial statements substantially equivalent to the financial statements required to be included in a report on Form 10-Q under the Exchange Act. The Company will also prepare, on an annual basis, complete audited consolidated financial statements including, but not limited to, a balance sheet, a

statement of income and retained earnings, a statement of changes in financial position and all appropriate notes. All such financial statements will be prepared in accordance with generally accepted accounting principles consistently applied, except for changes with which the Company's independent accountants concur, and except that quarterly statements may be subject to year-end adjustments. The Company will cause a copy of such financial statements to be filed with the Trustee and mailed to the Holders of the Securities within 50 days after the close of each of the first three quarters of each fiscal year and within 95 days after the close of each fiscal year. The Company will also comply with the other provisions of TIA Section 314(a).

Holders of Securities and prospective purchasers designated by such Holders will have the right to obtain from the Company upon request by such Holders or prospective purchasers, during any period in which the Company is not subject to Section 13 or 15(d) of the Exchange Act, the information required by paragraph d(4)(i) of Rule 144A under the Securities Act.

SECTION 6.03 Waiver of Stay, Extension or Usury Laws.

The Company covenants (to the extent that it may lawfully do so) that it will not at any time insist upon, or plead, or in any manner whatsoever claim, and will actively resist any and all efforts to be compelled to take the benefit or advantage of, any stay or extension law or any usury law or other law, which would prohibit or forgive the Company from paying all or any portion of the principal of and/or interest on the Securities as contemplated herein, wherever enacted, now or at any time hereafter in force, or which may affect the covenants or the performance of this Indenture; and (to the extent that it may lawfully do so) the Company hereby expressly waives all benefit or advantage of any such law, and covenants that it will not hinder, delay or impede the execution of any power herein granted to the Trustee, but will

suffer and permit the execution of every such power as though no such law had been enacted.

SECTION 6.04 Liquidation.

The Board of Directors or the stockholders of the Company may not adopt a plan of liquidation which plan provides for, contemplates or the effectuation of which is preceded by (a) the sale, lease, conveyance or other disposition of all or substantially all of the assets of the Company otherwise than substantially as an entirety (Article 7 of this Indenture being the Article which governs any such sale, lease, conveyance or other disposition substantially as an entirety), and (b) the distribution of all or substantially all of the proceeds of such sale, lease, conveyance or other disposition and of the remaining assets of the Company to the holders of the capital stock of the Company, unless the Company shall in connection with the adoption of such plan make provision for, or agree that prior to making any liquidating distributions it will make provision for, the satisfaction of the Company's obligations hereunder and under the

Securities as to the payment of the principal and interest. The Company shall be deemed to make provision for such payments only if (1) the Company irrevocably deposits in trust with the Trustee money or U.S. Government Obligations maturing as to principal and interest in such amounts and at such times as are sufficient, without consideration of any reinvestment of such interest, to pay the principal of and interest on the Securities then outstanding to maturity and to pay all other sums payable by it hereunder, or (2) there is an express assumption of the due and punctual payment of the Company's obligations hereunder and under the Securities and the performance and observance of all covenants and conditions to be performed by the Company hereunder, by the execution and delivery of a supplemental indenture in form satisfactory to the Trustee by a person who acquires, or will acquire (otherwise than pursuant to a lease) a portion of the assets of the Company, and which person will have assets (immediately after the acquisition) and aggregate earnings (for such person's four full fiscal quarters immediately preceding such acquisition) equal to not less than the assets of the Company (immediately preceding such acquisition) and the aggregate earnings of the Company (for its four full fiscal quarters immediately preceding the acquisition), respectively, and which is a corporation organized under the laws of the United States, any State thereof or the District of Columbia; provided, however, that Company shall not make any liquidating distribution until after the Company shall have certified to the Trustee with an Officers' Certificate at least five days prior to the making of any liquidating distribution that it has complied with the provisions of this Section 6.04. Notwithstanding the foregoing, the provisions of this Section 6.04 shall be subject to Article 5 hereof.

SECTION 6.05 Compliance Certificates.

The Company shall deliver to the Trustee concurrently with the delivery of annual reports as provided in Section 6.02 herein, an Officers' Certificate as to the signers' knowledge of the Company's compliance with all conditions and covenants on its part contained in this Indenture and stating whether or not the signers know of any Event of Default. If they do know of such an Event of Default, the Certificate shall describe the Event of Default and the efforts to remedy the same. For the purposes of this Section 6.05, compliance shall be determined without regard to any requirement of notice provided pursuant to the terms of this Indenture. The Certificate need not comply with Section 12.04 hereof. One of the signers of the Officers' Certificate shall be the principal executive officer, the principal financial officer or the principal accounting officer of the Company.

SECTION 6.06 Notice of Events of Defaults.

In the event that indebtedness of the Company in an aggregate amount in excess of $10,000,000 is declared due and payable before its maturity because of the occurrence of any default under such indebtedness, the Company will promptly give written notice to the Trustee of such declaration.

SECTION 6.07 Payment of Taxes and Other Claims.

The Company will pay or discharge or cause to be paid or discharged, before the same shall become delinquent, (1) all material taxes, assessments and governmental charges levied or imposed upon the Company, directly or by reason of its ownership of any Subsidiary or upon the income, profits or property of the Company; and (2) all material lawful claims for labor, materials and supplies, which, if unpaid, might by law become a lien upon the property of the Company; provided, however, that the Company shall not be required to pay or discharge or cause to be paid or discharged any such tax, assessment, charge or claim whose amount, applicability or validity is being contested in good faith by appropriate proceedings and for which adequate provision has been made.

SECTION 6.08 Corporate Existence.

Subject to Section 6.04 and Article 7, the Company will do or cause to be done all things necessary to preserve and keep in full force and effect its corporate existence and rights (charter and statutory); provided, however, that the Company shall not be required to preserve any right if the Board of Directors shall determine that the preservation is no longer desirable in the conduct of the Company's business and that the loss thereof is not, and will not be, adverse in any material respect to the Holders.

SECTION 6.09 Maintenance of Properties.

Subject to Section 6.04, the Company will cause all material properties owned, leased or licensed in the conduct of its business or the business of its Subsidiaries to be maintained and kept in good condition, repair and working order and supplied with all necessary equipment and will cause to be made all necessary repairs, renewals, replacements, betterments and improvements thereof and thereto, all as in the judgment of the Company may be necessary so that the business carried on in connection therewith may be properly and advantageously conducted at all times while any Securities are outstanding; provided, however, that nothing in this Section 6.09 shall prevent the Company from discontinuing the maintenance of any such properties if, in the judgment of the Board of Directors, such discontinuance is desirable in the conduct of the Company's business or the business of its Subsidiaries and is not, and will not be, adverse in any material respect to the Holders.

SECTION 6.10 Purchase of Securities at Option of the Holder Upon Change in Control.

(a) If at any time that Securities remain outstanding there shall have occurred a Change in Control, Securities shall be purchased by the Company at the option of the Holder thereof, at a purchase price (the "Change in Control Purchase Price") equal to the principal amount thereof plus accrued interest to the Change in Control Purchase Date (as hereinafter defined), as of the date that is the later of (i) 20 Business Days after the date of mailing of the Change in Control Purchase Notice and (ii) 40 Business Days after the occurrence of the Change in Control (the "Change in Control Purchase Date"), subject to satisfaction by or on behalf of the Holder of the requirements set forth in Section 6.10(c).

(b) Within 20 Business Days after the occurrence of a Change in Control, the Company shall mail a written notice of Change in Control by first-class mail to the Trustee and to each Holder (and to beneficial owners as required by applicable law) and shall cause a copy of such notice to be published in a daily newspaper of national circulation (which shall be The Wall Street Journal unless it is not then so circulated). The Trustee may conclusively assume in

the absence of written notice to the contrary from the Company that no Change in Control has occurred. The notice shall include the form of a Change of Control Purchase Notice (as defined below) to be completed by the Holder and shall state:

(1) the date of such Change in Control and, briefly, the events causing such Change in Control;

(2) the date by which the Change in Control Purchase Notice pursuant to this Section 6.10 must be given;

(3) the Change in Control Purchase Date;

(4) the Change in Control Purchase Price;

(5) briefly, the conversion rights of the Securities;

(6) the name and address of the Paying Agent and the Conversion Agent;

(7) the Conversion Price and any adjustments thereto;

(8) that Securities as to which a Change in Control Purchase Notice has been given may be converted into Common Stock only to the extent that the Change in Control Purchase Notice has been withdrawn in accordance with the terms of this Indenture;

(9) the procedures that the Holder must follow to exercise rights under this Section 6.10;

(10) the procedures for withdrawing a Change in Control Purchase Notice, including a form of notice of withdrawal; and

(11) that the Holder must satisfy the requirements set forth in the Securities in order to convert the Securities.

(c) A Holder may exercise its rights specified in Section 6.10(a) upon delivery of a written notice of the exercise of such rights (a "Change in Control Purchase Notice") to the Paying Agent at any time prior to the close of business on the Change in Control Purchase Date, stating;

(1) the certificate number of each Security that the Holder will deliver to be purchased;

(2) the portion of the principal amount of each Security that the Holder will deliver to be purchased, which portion must be $1,000 or an integral multiple thereof; and

(3) that such Security shall be purchased pursuant to the terms and conditions specified in this Indenture.

The delivery of such Security to the Paying Agent prior to, on or after the Change in Control Purchase Date (together with all necessary endorsements) at the office of the Paying Agent shall be a condition to the receipt by the Holder of the Change in Control Purchase Price therefor; provided, however, that such Change in Control Purchase Price shall be so paid pursuant to this Section 6.10 only if the Security so delivered to the Paying Agent shall conform in all respects to the description thereof set forth in the related Change in Control Purchase Notice.

The Company shall purchase from the Holder thereof, pursuant to this Section 6.10, a portion of a Security if the principal amount of such portion is $1,000 or an integral multiple of $1,000. Provisions of this Indenture that apply to the purchase of all of a Security pursuant to Section 6.10 through 6.15 also apply to the purchase of such portion of such Security.

Notwithstanding anything herein to the contrary, any Holder delivering to the Paying Agent the Change in Control Purchase Notice contemplated by this

Section 6.10(c) shall have the right to withdraw such Change in Control Purchase Notice in whole or in a portion thereof that is $1,000 or in an integral multiple thereof at any time prior to the close of business on the Change in Control Purchase Date by delivery of a written notice of withdrawal to the Paying Agent in accordance with Section 6.11.

The Paying Agent shall promptly notify the Company of the receipt by it of any Change in Control Purchase Notice or written withdrawal thereof.

SECTION 6.11 Effect of Change in Control Purchase Notice.

Upon receipt by the Paying Agent of the Change in Control Purchase Notice specified in Section 6.10(c), the Holder of the Security in respect of which such Change in Control Purchase Notice was given shall (unless such Change in Control Purchase Notice is withdrawn as specified below) thereafter be entitled to receive solely the Change in Control Purchase Price with respect to such Security. Such Change in Control Purchase Price shall be paid to such Holder promptly following the later of (i) the Change in Control Purchase Date with respect to such Security (provided the conditions in Section 6.10(c) have been satisfied) and (ii) the time of delivery of such Security to the Paying Agent by the Holder thereof in the manner required by Section 6.10(c). Securities in respect of which a Change in Control Purchase Notice has been given by the Holder thereof may not be converted into shares of Common Stock on or after the date of the delivery of such Change in Control Purchase Notice unless such Change in Control Purchase Notice has first been validly withdrawn.

A Change in Control Purchase Notice may be withdrawn by means of a written notice of withdrawal delivered to the office of the Paying Agent at any time prior to the close of business on the Change in Control Purchase Date to which it relates, specifying:

(1) the certificate number of each Security in respect of which such notice of withdrawal is being submitted.

(2) the principal amount of the Security or portion thereof with respect to which such notice of withdrawal is being submitted, and

(3) the principal amount, if any, of such Security that remains subject to the original Change in Control Purchase Notice and that has been or will be delivered for purchase by the Company.

There shall be no purchase of any Securities pursuant to Section 6.10 if there has occurred (prior to, on or after, as the case may be, the giving, by the Holders of such Securities, of the required Change in Control Purchase Notice) and is continuing an Event of Default (other than a default in the payment of the Change in Control Purchase Price with respect to such Securities).

SECTION 6.12 Deposit of Change in Control Purchase Price.

On or before the Business Day following a Change in Control Purchase Date, the Company shall deposit with the Trustee or with the Paying Agent (or, if the Company is acting as the Paying Agent, shall segregate and hold in trust as provided in

Section 2.04) an amount of money sufficient to pay the aggregate Change in Control Purchase Price of all the Securities or portions thereof that are to be purchased as of such Change in Control Purchase Date.

If on the Business Day following the Change in Control Purchase Date the

Paying Agent holds, in accordance with the terms hereof, money sufficient to pay the Change in Control Purchase Price of any Security for which a Change in Control Purchase Notice has been tendered and not withdrawn, then, on and after the Change in Control Purchase Date, such Security will cease to be outstanding and interest on such Security will cease to accrue and will be deemed paid, whether or not such Security is delivered to the Paying Agent, and all other rights of the Holder in respect thereof shall terminate (other than the right to receive the Change in Control Purchase Price upon delivery of such Security).

SECTION 6.13 Securities Purchased in Part.

Any Security that is to be purchased only in part shall be surrendered at the office of the Paying Agent (with, if the Company or the Trustee so requires, due endorsement by, or a written instrument of transfer in form satisfactory to the Company and the Trustee duly executed by, the Holder thereof or such Holder's attorney duly authorized in writing), and the Company shall execute and the Trustee shall authenticate and deliver to the Holder of such Security, without service charge, a new Security or Securities, of such authorized denomination or denominations as may be requested by such Holder, in aggregate principal amount equal to, and in exchange for, the portion of the principal amount of the Security so surrendered that is not purchased.

SECTION 6.14 Compliance with Securities Laws upon Purchase of Securities.

In connection with any offer to purchase or purchase of Securities under Section 6.10 hereof (provided that such offer or purchase constitutes an "issuer tender offer" for purposes of Rule 13e-4 (which term, as used herein, includes any successor provision thereto) at the time of such offer or purchase), the Company shall (i) comply with Rule 13e-4 and Rule 14e-1 under the Exchange Act, (ii) file the related Schedule 13E-4 (or any successor schedule, form or report) under the Exchange Act, and (iii) otherwise comply with all Federal and state securities laws so as to permit the rights of the Holders and obligations of the Company under Sections 6.10 through 6.13, to be exercised in the time and in the manner specified therein.

SECTION 6.15 Repayment to the Company.

Subject to the provisions of Section 5.07, to the extent that the aggregate amount of cash deposited by the Company pursuant to Section 6.12 exceeds the aggregate Change in Control

Purchase Price of the Securities or portions thereof to be purchased, then promptly after the Business Day following the Change in Control Purchase Date the Trustee or the Paying Agent, as the case may be, shall return any such excess to the Company.

SECTION 6.16 Limitations on Ranking of Future Indebtedness.

The Company will not, directly or indirectly, incur, create, assume or guarantee any Indebtedness which is subordinate or junior in right of payment to any Senior Indebtedness and which is not expressly made by the terms of the instrument creating such Indebtedness pari passu with, or subordinate and junior in right of payment to, the Notes.

SECTION 6.17 Registration Rights.

(a) Simultaneously with the execution and delivery of this Indenture, the Company shall enter into a Registration Agreement substantially in the form of Exhibit C hereto (the "Registration Agreement"), and shall deliver to the Trustee an Opinion of Counsel stating that the Registration Agreement has been duly authorized, executed and delivered by the parties thereto.

(b) If the Company fails to comply with Section 2(a)(i) of the Registration Agreement with respect to the filing of a Shelf Registration Statement (as defined in the Registration Agreement), then, at such time, in lieu of any other remedy that may be available to the Holders hereunder,

pursuant to applicable law or otherwise, the interest rate on the Securities shall increase by 25 basis points. Such increase will remain in effect until the date on which the Shelf Registration Statement is filed, on which date the interest rate on the Securities shall revert to the interest rate originally borne by the Securities plus any increase in such interest rate pursuant to the following sentence. If the Company fails to comply with Section 2.1(a)(ii) of the Registration Agreement with respect to the effectiveness of such Shelf Registration Statement, then, at such time and on each date that is the successive 30th day subsequent to such time, in lieu of any other remedy that may be available to the Holders hereunder, pursuant to applicable law or otherwise, the per annum interest rate on the Securities (which interest rate shall be the original interest rate on the Securities plus any increase or increases in such interest rate pursuant to the preceding sentence and this sentence) shall increase by an additional 25 basis points; provided, however, that the interest rate shall not increase by more than 50 basis points pursuant to this sentence. Such increase or increases will remain in effect until the date on which such Shelf Registration Statement is declared effective, on which date the interest rate on the Securities shall revert to the interest rate originally borne by the Securities; provided, however, that if a Shelf Registration Statement has been declared effective with respect to resales of the Securities and Converted Notes (as defined in the

Registration Agreement) as set forth in Section 2.1 of the Registration Agreement and the Company fails at any time for any reason to comply with Section 2.1(a)(iii) of the Registration Agreement with respect to such Shelf Registration Statement, then at such time and on each date thereafter that is the successive 30th day subsequent to such time and until the earliest of (i) the date that the Shelf Registration Agreement is again deemed effective pursuant to Section 2.3 of the Registration Agreement, (ii) the date that is the third anniversary subsequent to the date of original issuance of the Securities and (iii) the date as of which all the Securities and the Converted Notes have been sold pursuant to such Shelf Registration Statement, the per annum interest rate on the Securities shall increase by an additional 25 basis points; provided, further, that the interest rate shall not increase by more than 50 basis points pursuant to the foregoing proviso. The sole and exclusive remedy of the holders of the Securities for any failure of the Company to perform any of its obligations under Section 2 of the Registration Agreement is as set forth in this Section 6.17 of the Indenture.

SECTION 6.18 Maintenance of Office or Agency.

The Company will maintain an office or agency where Securities may be surrendered for registration of transfer or exchange or for presentation for payment and where notices and demands to or upon the Company in respect of the Securities and this indenture may be served. The Company will give prompt written notice to the Trustee of the location, and any change in location, of such office or agency. If at any time the Company shall fail to maintain any such required office or agency or shall fail to furnish the Trustee with the address thereof, such presentations, surrenders, notices and demands may be made or served at the address of the Trustee.

The Company may also from time to time designate one or more other offices or agencies where the Securities may be presented or surrendered for any or all such purposes and may from time to time rescind such designations. The Company will give prompt written notice to the Trustee of any such designation or rescission and of any change in the location of any such other office or agency.

The Company hereby initially designates the office of the Trustee as such office of the Company.

ARTICLE 7

SUCCESSOR CORPORATION

SECTION 7.01 When Company May Merge, etc.

The Company shall not consolidate with or merge with or into, or transfer all or substantially all of its assets to, any person unless:

(a) either the Company shall be the resulting or surviving entity or such person is a corporation organized and existing under the laws of the United States, a State thereof or the District of Columbia, such person expressly assumes by supplemental indenture executed and delivered to the Trustee, in form satisfactory to the Trustee, all the obligations of the Company under the Securities and this Indenture (in which case all such obligations of the Company shall terminate); and

(b) immediately before and immediately after giving effect to such transaction and treating any indebtedness which becomes an obligation of the Company as a result of such transaction as having been incurred by the Company at the time of such transaction, no default or Event of Default shall have occurred and be continuing.

The Company shall deliver to the Trustee prior to the proposed transaction an Officers' Certificate and an Opinion of Counsel, each of which shall comply with Section 12.04 and shall state that such consolidation, merger or transfer and such supplemental indenture comply with this Article 7 and that all conditions precedent herein provided for relating to such transaction have been complied with.

SECTION 7.02 Successor Corporation Substituted.

Upon any consolidation or merger, or any transfer of all or substantially all of the assets of the Company in accordance with Section 7.01, the successor corporation formed by such consolidation or into which the Company is merged or to which such transfer is made shall succeed to, and be substituted for, and may exercise every right and power of, the Company under this Indenture and the Securities with the same effect as if such successor corporation had been named as the Company herein and in the Securities.

ARTICLE 8

DEFAULT AND REMEDIES

SECTION 8.01 Events of Default.

An "Event of Default" occurs if:

(1) the Company defaults in the payment of interest on any Security when the same becomes due and payable and the default continues for a period of 30 days;

(2) the Company defaults in the payment of the principal of any Security when the same becomes due and payable at maturity, upon redemption or otherwise;

(3) the Company fails to comply with any of its other agreements contained in the Securities or this Indenture and

the default continues for the period and after the notice specified below;

(4) there shall be a default under any bond, debenture, note or other evidence of indebtedness for money borrowed or under any mortgage, indenture or other instrument under which there may be issued or by which there may be secured or evidenced any indebtedness for money borrowed by the Company or under any guarantee of payment by the Company of indebtedness for money

borrowed, whether such indebtedness or guarantee now exists or shall hereafter be created, which default relates to (A) the obligation to pay the principal of or interest on any such indebtedness or guarantee, taking into account any applicable grace period, or (B) an obligation other than the obligation to pay the principal of or interest on any such indebtedness, which default results in the acceleration of the maturity of such indebtedness; provided, however, that no default under this Section 8.01(4) shall exist if all such defaults do not relate to such indebtedness or such guarantees with an aggregate principal amount in excess of $10,000,000;

(5) the Company pursuant to or within the meaning of any Bankruptcy Law (A) commences a voluntary case or proceeding under any Bankruptcy Law with respect to itself, (B) consents to the entry of a judgment, decree or order for relief against it in an involuntary case or proceeding under any Bankruptcy Law, (C) consents to or acquiesces in the institution of bankruptcy or insolvency proceedings against it, (D) applies for, consents to or acquiesces in the appointment of or taking possession by a Custodian of the Company for any material part of its property, (E) makes a general assignment for the benefit of its creditors or (F) takes any corporate action in furtherance of or to facilitate, conditionally or otherwise, any of the foregoing;

(6) (i) a court of competent jurisdiction enters a judgment, decree or order for relief in respect of the Company in an involuntary case or proceeding under any Bankruptcy Law which shall (A) approve as properly filed a petition seeking reorganization, arrangement, adjustment or composition in respect of the Company, (B) appoint a Custodian of the Company for any material part of its property or (C) order the winding-up or liquidation of its affairs, and such judgment, decree or order shall remain unstayed and in effect for a period of 90 consecutive days; or (ii) any bankruptcy or insolvency petition or application is filed, or any bankruptcy or insolvency proceeding is commenced against the Company and such petition, application or proceeding is not dismissed within 90 days; or (iii) any warrant of attachment is issued against any material portion of the property of the Company which is not released within 90 days of service; or

(7) one or more judgments or decrees shall be entered against the Company involving, individually or in the aggregate, a liability of ten million dollars ($10,000,000) or more and a sufficient number of such judgments or decrees shall not have been vacated, discharged, satisfied or stayed pending appeal within 30 days from the entry thereof so as to bring the aggregate liability in respect thereof below the ten million dollar ($10,000,000) threshold.

The term "Bankruptcy Law" means Title II, U.S. Code or any similar Federal or state law for the relief of debtors. The term "Custodian" means any receiver, trustee, assignee, liquidator, sequestrator or similar official under any Bankruptcy Law.

A default under clause (3) is not an Event of Default until the Trustee notifies the Company or the Holders of at least 25% in principal amount of the Securities then outstanding of the default, and the Company does not cure the default within 60 days after receipt of such notice. The notice given pursuant to this Section 8.01 must specify the default, demand that it be remedied and state that the notice is a "Notice of Default". When a default under clause (3) above is cured within such 60 day period, it ceases.

Subject to the provisions of Sections 9.01 and 9.02, the Trustee shall not be charged with knowledge of any Event of Default unless written notice thereof shall have been given to a Trust Officer at the principal corporate trust office of the Trustee by the Company, the Paying Agent, any Holder or an agent of any Holder.

SECTION 8.02 Acceleration.

If an Event of Default (other than an Event of Default specified in Section 8.01(5) or (6)) occurs and is continuing, the Trustee may, by notice to the

Company, or the Holders of at least 25% in principal amount of the Securities then outstanding may, by notice to the Company and the Trustee, and the Trustee shall, upon the request for such Holders, declare all unpaid principal of and accrued interest to the date of acceleration on the Securities then outstanding (if not then due and payable) to be due and payable and upon any such declaration, the same shall become and be immediately due and payable. If an Event of Default specified in Section 8.01(5) or (6) occurs, all unpaid principal and accrued interest on the Securities then outstanding shall ipso facto become and be immediately due and payable without any declaration or other act on the part of the Trustee or any Securityholder. The Holders of a majority in principal amount of the Securities then outstanding by notice to the Trustee may rescind an acceleration and its consequences if (i) all existing Events of Default, other than the non-payment of the principal of the Securities which has become due solely by such declaration of acceleration, have been cured or waived; (ii) to the extent the payment of such interest is lawful, interest on

overdue installments of interest and overdue principal, which has become due otherwise than by such declaration of acceleration, has been paid; (iii) the rescission would not conflict with any judgment or decree of a court of competent jurisdiction; and (iv) all payments due to the Trustee and any predecessor Trustee under Section 9.07 have been made. Anything herein contained to the contrary notwithstanding, in the event of any acceleration pursuant to this Section 8.02, the Company shall not be obligated to pay any premium which it would have had to pay if it had then elected to redeem the Securities pursuant to paragraph 5 of the Securities, except in the case of any Event of Default occurring by reason of any willful action (or inaction) taken (or not taken) by or on behalf of the Company with the intention of avoiding payment of the premium which it would have had to pay if it had then elected to redeem the Securities pursuant to paragraph 5 of the Securities, in which case an equivalent premium shall also become and be immediately due and payable to the extent permitted by law.

SECTION 8.03 Other Remedies.

If an Event of Default occurs and is continuing, the Trustee may pursue any available remedy by proceeding at law or in equity to collect the payment of the principal of or interest on the Securities or to enforce the performance of any provision of the Securities or this Indenture.

The Trustee may maintain a proceeding even if it does not possess any of the Securities or does not produce any of them in the proceeding. A delay or omission by the Trustee or any Securityholder in exercising any right or remedy accruing upon an Event of Default shall not impair the right or remedy or constitute a waiver of or acquiescence in the Event of Default. No remedy is exclusive of any other remedy. All available remedies are cumulative to the extent permitted by law.

SECTION 8.04 Waiver of Defaults and Events of Default.

Subject to Sections 8.07 and 11.02, the Holders of a majority in principal amount of the Securities then outstanding by notice to the Trustee may waive an existing default or Event of Default and its consequences, except a default in the payment of the principal of or interest on any Security as specified in clauses (1) and (2) of Section 8.01. When a default or Event of Default is waived, it is cured and ceases.

SECTION 8.05 Control by Majority.

The Holders of a majority in principal amount of the Securities then outstanding may direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or exercising any trust or power conferred on it. However, the Trustee may refuse to follow any direction that conflicts with law or this Indenture, that the Trustee determines

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may be unduly prejudicial to the rights of another Securityholder, or that may involve the Trustee in personal liability; provided that the Trustee may take any other action deemed proper by the Trustee which is not inconsistent with such direction.

SECTION 8.06 Limitation on Suits.

A Securityholder may not pursue any remedy with respect to this Indenture or the Securities unless:

(1) the Holder gives to the Trustee written notice of a continuing Event of Default;

(2) the Holders of at least 25% in principal amount of the outstanding Securities make a written request to the Trustee to pursue the remedy;

(3) such Holder or Holders offer to the Trustee indemnity satisfactory to the Trustee against any loss, liability or expense (including counsel fees and expenses);

(4) the Trustee does not comply with the request within 60 days after receipt of the request and the offer of indemnity; and

(5) no direction inconsistent with such written request has been given to the Trustee during such 60-day period by the Holders of a majority in principal amount of the Securities then outstanding.

A Securityholder may not use this Indenture to prejudice the rights of another Securityholder or to obtain a preference or priority over such other Securityholder.

SECTION 8.07 Rights of Holders to Receive Payment.

Notwithstanding any other provision of this Indenture, the right of any Holder of a Security to receive payment of the principal of and interest on the Security, on or after the respective due dates expressed in the Security, or to bring suit for the enforcement of any such payment on or after such respective dates, is absolute and unconditional and shall not be impaired or affected without the consent of the Holder.

SECTION 8.08 Collection Suit by Trustee.

If an Event of Default in the payment of principal or interest specified in Section 8.01(1) or (2) occurs and is continuing, the Trustee may recover judgment in its own name and as trustee of an express trust against the Company or any other obligor on the Securities for the whole amount of principal and accrued interest remaining unpaid, together with interest on overdue principal and, to the extent that payment of such interest is lawful, interest on overdue installments of interest,

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in each case at the rate per annum borne by the Securities and such further amount as shall be sufficient to cover the costs and expenses of collection, including the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel.

SECTION 8.09 Trustee May File Proofs of Claim.

The Trustee may file such proofs of claim and other papers or documents as may be necessary or advisable in order to have the claims of the Trustee (including any claim for the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel) and the Securityholders allowed in any judicial proceedings relative to the Company (or any other

obligor on the Securities), its creditors or its property and shall be entitled and empowered to collect and receive any monies or other property payable or deliverable on any such claims and to distribute the same, and any Custodian in any such judicial proceeding is hereby authorized by each Securityholder to make such payments to the Trustee and, in the event that the Trustee shall consent to the making of such payments directly to the Securityholders, to pay to the Trustee any amount due to it for the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel, and any other amounts due the Trustee under Section 9.07. Nothing herein contained shall be deemed to authorize the Trustee to authorize or consent to or the Trustee to authorize or accept or adopt on behalf of any Securityholder any plan of reorganization, arrangement, adjustment or composition affecting the Securities or the rights of any Holder thereof, or to authorize the Trustee to vote in respect of the claim of any Securityholder in any such proceeding.

SECTION 8.10 Priorities.

If the Trustee collects any money pursuant to this Article 8, it shall pay out the money in the following order:

First: to the Trustee for amounts due under Section 9.07;

Second: to the holders of Senior Debt to the extent required by Article 5;

Third: to Securityholders for amounts due and unpaid on the Securities for principal and interest, ratably, without preference or priority of any kind, according to the amounts due and payable on the Securities for principal and interest, respectively; and

Fourth: to the Company.

The Trustee may fix a record date and payment date for any payment to Securityholders pursuant to this Section 8.10.

SECTION 8.11 Undertaking for Costs.

In any suit for the enforcement of any right or remedy under this Indenture or in any suit against the Trustee for any action taken or omitted by it as Trustee, a court in its discretion may require the filing by any party litigant in the suit of an undertaking to pay the costs of the suit, and the court in its discretion may assess reasonable costs, including reasonable attorneys' fees, against any party litigant in the suit, having due regard to the merits and good faith of the claims or defense made by the party litigant. This Section 8.11 does not apply to a suit made by the Trustee, a suit by a Holder pursuant to Section 8.06, or a suit by Holders of more than 10% in principal amount of the Securities then outstanding.

ARTICLE 9

TRUSTEE

SECTION 9.01 Duties of Trustee.

(a) If an Event of Default has occurred and is continuing, the Trustee shall exercise such of the rights and powers vested in it by this Indenture and use the same degree of care and skill in their exercise as a prudent person would exercise or use under the circumstances in the conduct of his own affairs.

(b) Except during the continuance of an Event of Default:

(1) the Trustee need perform only those duties as are specifically set forth in this Indenture and no others; and

(2) in the absence of bad faith on its part, the Trustee may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon certificates or opinions furnished to the Trustee and

conforming to the requirements of this Indenture. The Trustee, however, shall examine the certificates and opinions to determine whether or not they conform to the requirements of this Indenture.

(c) The Trustee may not be relieved from liability for its own negligent action, its own negligent failure to act, or its own willful misconduct, except that:

(1) this paragraph does not limit the effect of paragraph (b) of this Section 9.01;

(2) the Trustee shall not be liable for any error of judgment made in good faith by a Trust Officer, unless it is proved that the Trustee was negligent in ascertaining the pertinent facts; and

(3) the Trustee shall not be liable with respect to any action it takes or omits to take in good faith in accordance with a direction received by it pursuant to Section 8.05.

(d) The Trustee may refuse to perform any duty or exercise any right or power unless it receives indemnity satisfactory to it against any loss, liability, expense or fee.

(3) Every provision of this Indenture that in any way relates to the Trustee is subject to paragraphs (a), (b), (c) and (d) of this Section 9.01.

(f) The Trustee shall not be liable for interest on any money received by it except as the Trustee may agree in writing with the Company. Money held in trust by the Trustee need not be segregated from other funds except to the extent required by law.

SECTION 9.02 Rights of Trustee.

Subject to Section 9.01:

(a) The Trustee may rely upon (and shall be protected in acting or refraining from acting upon) any document believed by it to be genuine and to have been signed or presented by the proper person. The Trustee need not investigate any fact or matter stated in the document.

(b) Before the Trustee acts or refrains from acting, it may require an Officers' Certificate or an Opinion of Counsel, which shall conform to Section 12.04(b). The Trustee shall not be liable for any action it takes or omits to take in good faith in reliance on such Certificate or Opinion.

(c) The Trustee may act through its agents and shall not be responsible for the misconduct or negligence of any agent appointed with due care.

(d) The Trustee shall not be liable for any action it takes or omits to take in good faith which it believes to be authorized or within its rights or powers.

(e) The Trustee may consult with counsel of its selection and the advice or opinion of such counsel as to matters of law that shall be full and complete authorization and protection in respect of any action taken, omitted or suffered by it hereunder in good faith and in accordance with the advice or opinion of such counsel.

SECTION 9.03 Individual Rights of Trustee.

The Trustee in its individual or any other capacity may become the owner or pledgee of Securities and may otherwise deal

with the Company or an affiliate of the Company with the same rights it would have if it were not Trustee. Any Agent may do the same with like rights. However, the Trustee is subject to Section 9.10 and 9.11.

SECTION 9.04 Trustee's Disclaimer.

The Trustee makes no representation as to the validity or adequacy of this Indenture or the Securities, it shall not be accountable for the Company's use of the proceeds from the Securities, and it shall not be responsible for any statement in the Securities other than its certificate of authentication.

SECTION 9.05 Notice of Defaults or Events of Default.

Within 30 days after the occurrence of any default or Event of Default with respect to the Securities, the Trustee shall give to all Holders of the Securities notice of such default or Event of Default known to the Trustee, unless such default or Event of Default shall have been cured or waived; provided, however, that, except in the case of a default or Event of Default in the payment of the principal of or interest on any Security, the Trustee shall be protected in withholding such notice if and so long as the board of directors of the Trustee or a committee of Trust Officers in good faith determine that the withholding of such notice is in the interest of the Holders.

SECTION 9.06 Reports by Trustee to Holders.

Within 60 days after each May 15 beginning with the May 15 following the date of this Indenture, the Trustee shall, if required by TIA Section 313(a), mail to each Securityholder a brief report dated as of such May 15 that complies with TIA Section 313(a). The Trustee also shall comply with TIA Section 313(b).

A copy of each report at the time of its mailing to Securityholders shall be mailed to the Company and filed with the SEC and each stock exchange, if any, on which the Securities are listed. The Company shall promptly notify the Trustee whenever the Securities become listed on any stock exchange.

SECTION 9.07 Compensation and Indemnity.

The Company shall pay to the Trustee from time to time such compensation for its services as the Company and the Trustee shall from time to time agree to in writing (which compensation shall not be limited by any provision of law in regard to the compensation of a trustee of an express trust). The Company shall reimburse the Trustee upon request for all reasonable disbursements, expenses and advances incurred or made by it, including the compensation and the expenses and disbursements of its agent and counsel.

The Company shall indemnify the Trustee for, and hold it harmless against, any and all loss, damage, claims, liability

or expense, including taxes (other than taxes based upon, measured by or determined by the income of the Trustee), arising out of or in connection with the acceptance or administration of the trust or trusts hereunder, including the costs and expenses of defending itself against any claim or liability in connection with the exercise or performance of any of its powers or duties hereunder, except to the extent that such loss, damage, claim, liability or expense is due to its own negligence or bad faith. The Trustee shall notify the Company promptly of any Claim asserted against the Trustee for which it may seek indemnity. The Company shall defend the claim and the Trustee shall cooperate in the defense. The Trustee may have separate counsel and the Company shall pay the reasonable fees and expenses of such counsel. The Company need not pay for any settlement made without its written consent.

To secure the Company's payment obligations in this Section, the Trustee shall have a senior claim to which the Securities are hereby made subordinate on all money or property held or collected by the Trustee, except such money or property held in trust to pay the principal of and interest on particular Securities.

When the Trustee incurs expenses or renders services after an Event of Default specified in Section 8.01(5) and (6) occurs, the expenses and the compensation for the services are intended to constitute expenses of administration under any Bankruptcy Law.

The provisions of this Section 9.07 shall survive the termination of this Indenture.

SECTION 9.08 Replacement of Trustee.

The Trustee may resign by so notifying the Company. The Holders of a majority in principal amount of the Securities then outstanding may remove the Trustee by so notifying the Trustee and may appoint a successor Trustee with the Company's written consent. The Company may remove the Trustee if:

(1) the Trustee fails to comply with Section 9.10;

(2) the Trustee is adjudged a bankrupt or an insolvent;

(3) a receiver or other public officer takes charge of the Trustee or its property; or

(4) the Trustee becomes incapable of acting.

If the Trustee resigns or is removed or if a vacancy exists in the office of Trustee for any reason, the Company shall promptly appoint a successor Trustee.

If a successor Trustee does not take office within 45 days after the retiring Trustee resigns or is removed, the retiring Trustee, the Company or the Holders of 10% in principal amount of the Securities then outstanding may petition any court of competent jurisdiction for the appointment of a successor Trustee.

If the Trustee fails to comply with Section 9.10, any Securityholder may petition any court of competent jurisdiction for the removal of the Trustee and the appointment of a successor Trustee.

A successor Trustee shall deliver a written acceptance of its appointment to the retiring Trustee and to the Company. Immediately after that, the retiring Trustee shall transfer all property held by it as Trustee to the successor Trustee, the resignation or removal of the retiring Trustee shall become effective, and the successor Trustee shall have all the rights, powers and duties of the Trustee under this Indenture. A successor Trustee shall mail notice of its succession to each Securityholder.

Notwithstanding replacement of the Trustee pursuant to this Section 9.08, the Company's obligations under Section 9.07 hereof shall continue for the benefit of the retiring Trustee.

SECTION 9.09 Successor Trustee by Merger, etc.

If the Trustee consolidates with, merges or converts into, or transfers all or substantially all of its corporate trust assets to, another corporation, the resulting, surviving or transferee corporation without any further act shall be the successor Trustee, provided such transferee corporation shall qualify and be eligible under Section 9.10.

SECTION 9.10 Eligibility: Disqualification.

This Indenture shall always have a Trustee who satisfies the requirements of paragraphs (1), (2) and (5) of TIA Section 310 and has a capital and surplus

of at least $50,000,000. If at any time the Trustee shall cease to satisfy any such requirements, it shall resign immediately in the manner and with the effect specified in this Article Nine. The Trustee shall be subject to the provisions of TIA Section 310(b). Nothing herein shall prevent the Trustee from filing with the SEC the application referred to in the penultimate paragraph of TIA Section 310(b).

SECTION 9.11 Preferential Collection of Claims Against Company.

The Trustee shall comply with TIA Section 311(a), excluding any creditor relationship listed in TIA Section 311(b). A trustee who

has resigned or been removed shall be subject to TIA Section 311(a) to the extent indicated therein.

ARTICLE 10

SATISFACTION AND DISCHARGE OF INDENTURE

SECTION 10.01 Termination of Company's Obligations.

The Company may terminate all of its obligations under the Securities and this Indenture (except those obligations referred to in the immediately succeeding paragraph) if all Securities previously authenticated and delivered (other than destroyed, lost or stolen Securities which have been replaced or paid or Securities for whose payment money has theretofore been held in trust and thereafter repaid to the Company, as provided in Section 10.03) have been delivered to the Trustee for cancellation and the Company has paid all sums payable by it hereunder, or if the Company irrevocably deposits in trust with the Trustee money or U.S. Government Obligations maturing as to principal and interest in such amounts and at such times as are sufficient, without consideration of any reinvestment of such interest, to pay the principal of and interest on the Securities then outstanding to maturity and to pay all other sums payable by it hereunder. The Company may make an irrevocable deposit pursuant to this Section 10.01 only if at such time it is not prohibited from doing so under the provisions of Article 5 and the Company shall have delivered to the Trustee and any such Paying Agent an Officers' Certificate to that effect.

The Company's obligations in paragraph 10 of the Securities and in Sections 2.03, 2.04, 2.05, 2.06, 2.07, 6.01, 9.07, 9.08 and 10.04 and in Article 4 shall survive until the Securities are no longer outstanding. Thereafter, the Company's obligations in such paragraph 10 and in Section 9.07 shall survive.

After such irrevocable deposit, the Trustee upon request shall acknowledge in writing the discharge of the Company's obligations under the Securities and this Indenture, except for those surviving obligations specified above.

"U.S. Government Obligations" means direct non-callable obligations of, or non-callable obligations guaranteed by, the United States of America for the payment of which guarantee or obligation the full faith and credit of the United States is pledged.

SECTION 10.02 Application of Trust Money.

The Trustee or Paying Agent shall hold in trust, for the benefit of the Holders, money or U.S. Government Obligations deposited with it pursuant to Section 10.01, and shall apply the deposited money and the money from U.S. Government Obligations in accordance with this Indenture to the payment of the

principal of and interest on the Securities. Money and U.S. Government Obligations so held in trust shall not be subject to the subordination provisions of Article 5.

SECTION 10.03 Repayment to Company.

Subject to Section 10.01, the Trustee and the Paying Agent shall promptly pay to the Company upon written request any excess money or U.S. Government Obligations held by them at any time.

The Trustee and the Paying Agent shall pay to the Company upon request any money held by them for the payment of principal or interest that remains unclaimed for two years after a right to such money has matured; provided, however, that the Trustee or such Paying Agent, before being required to make any such payment, may at the expense of the Company cause to be published once in newspapers of general circulation in the City of New York and the City of Los Angeles or mail to each Holder entitled to such money notice that such money remains unclaimed and that after a date specified therein, which shall be at least 30 days from the date of such publication or mailing, any unclaimed balance of such money then remaining will be repaid to the Company. After payment to the Company, Securityholders entitled to money must look to the Company for payment as general creditors unless otherwise prohibited by law.

SECTION 10.04 Reinstatement.

If the Trustee or Paying Agent is unable to apply any money or U.S. Government Obligations in accordance with Section 10.01 by reason of any legal proceeding or by reason of any order or judgment of any court or governmental authority enjoining, restraining or otherwise prohibiting such application, the Company's obligations under this Indenture and the Securities shall be revived and reinstated as though no deposit had occurred pursuant to Section 10.01 until such time as the Trustee or Paying Agent is permitted to apply all such money or U.S. Government Obligations in accordance with Section 10.01; provided, however, that if the Company has made any payment of the principal of or interest on any Securities because of the reinstatement of its obligations, the Company shall be subrogated to the rights of the Holders of such Securities to receive any such payment from the money or U.S. Government Obligations held by the Trustee or Paying Agent.

ARTICLE 11

AMENDMENTS, SUPPLEMENTS AND WAIVERS

SECTION 11.01 Without Consent of Holders.

The Company and the Trustee may amend or supplement this Indenture or the Securities without notice to or consent of any Securityholder:

(a) to comply with Sections 6.04 and 7.01;

(b) to provide for uncertificated Securities in addition to or in place of certificated Securities;

(c) to cure any ambiguity, defect or inconsistency, or to make any other change that does not adversely affect the rights of any Securityholder;

(d) to add to the covenants, agreements and obligations of the Company for the benefit of the Holders of all of the Securities or to surrender any right or power herein conferred upon the Company;

(e) to reduce the Conversion Price, provided that such reduction will not adversely effect the interests of any holder of the Securities in any material respect;

(f) Pursuant to the last paragraph of Section 2.06(d); or

(g) to comply with the requirements of the SEC in order to effect or maintain the qualification of this Indenture under the TIA.

SECTION 11.02 With Consent of Holders.

The Company and the Trustee may amend or supplement this Indenture or the Securities with the written consent of the Holders of a majority in principal amount of the Securities then outstanding. The Holders of a majority in principal amount of the Securities then outstanding may waive compliance in a particular instance by the Company with any provision of this Indenture or the Securities without notice to any Securityholder. Subject to Section 11.04, without the consent of each Securityholder affected, however, an amendment, supplement or waiver, including a waiver pursuant to Section 8.04, may not:

(1) reduce the percentage in principal amount of Securities whose Holders must consent to an amendment, supplement or waiver;

(2) reduce the rate of or change the time for payment of interest on any Security;

(3) reduce the principal of or change the fixed maturity of any Security or alter the redemption provisions with respect thereto;

(4) alter the conversion, Change in Control or redemption provisions with respect to any Security in a manner adverse to the holder thereof;

(5) waive a default in the payment of the principal of or interest on any Security;

(6) make any changes in Section 8.04, 8.07 or this sentence;

(7) modify the provisions of Article 5 hereof in a manner adverse to the holders;

(8) make any Security payable in money other than that stated in the Security; or

(9) impair the right to institute suit for the enforcement of any payment of principal or interest after the payment date therefor.

It shall not be necessary for the consent of the Holders under this Section to approve the particular form of any proposed amendment, supplement or waiver, but it shall be sufficient if such consent approves the substance thereof.

After an amendment, supplement or waiver under this Section becomes effective, the Company shall mail to the Holders affected thereby a notice briefly describing the amendment, supplement or waiver. Any failure of the Company to mail such notice, or any defect therein, shall not, however, in any way impair or affect the validity of any such amendment, supplement or waiver.

An amendment under this Section 11.02 may not make any change that adversely affects the rights under Article 5 of any holder of an issue of Senior Debt unless the holders of that issue, pursuant to its terms, consent to the change.

SECTION 11.03 Compliance with Trust Indenture Act.

Every amendment to or supplement of this Indenture or the Securities shall comply with the TIA as in effect at the date of such amendment or supplement.

SECTION 11.04 Revocation and Effect of Consents.

Until an amendment or waiver becomes effective, a consent to it by a Holder is a continuing consent by the Holder and every subsequent Holder of a Security or portion of a Security that evidences the same debt as the consenting Holder's Security even if notation of the consent is not made on any Security. However, any such Holder or subsequent Holder may revoke the consent as to his Security or portion of a Security if the Trustee receives the notice of revocation before the date the amendment, supplement or waiver becomes effective.

After an amendment, supplement or waiver becomes effective, it shall bind every Securityholder, unless it makes a change described in any of clauses (1) through (9) of Section 11.02. In that case the amendment, supplement or waiver shall bind each Holder of a Security who has consented to it and every subsequent Holder of a Security or portion of a Security that evidences the same debt as the consenting Holder's Security.

SECTION 11.05 Notation On or Exchange of Securities.

If an amendment, supplement or waiver changes the terms of a Security, the Trustee may require the Holder of the Security to deliver it to the Trustee. The Trustee may place an appropriate notation on the Security about the changed terms and return it to the Holder. Alternatively, if the Company or the Trustee so determines, the Company in exchange for the Security shall issue and the Trustee shall authenticate a new Security that reflects the changed terms.

SECTION 11.06 Trustee to Sign Amendments, etc.

The Trustee shall sign any amendment or supplement authorized pursuant to this Article 11 if the amendment or supplement does not adversely affect the rights, duties, liabilities or immunities of the Trustee. If it does, the Trustee may but need not sign it. In signing or refusing to sign such amendment or supplement, the Trustee shall be entitled to receive and, subject to Section 9.01 shall be fully protected in relying upon, an Opinion of Counsel stating that such amendment or supplement is authorized or permitted by this Indenture. The Company may not sign an amendment or supplement until the Board of Directors approves it.

ARTICLE 12

MISCELLANEOUS

SECTION 12.01 Trust Indenture Act Controls.

If any provision of this Indenture limits, qualifies or conflicts with the duties imposed by any of Sections 310 to 317,

inclusive, of the TIA through operation of Section 318(c) thereof, such imposed duties shall control.

SECTION 12.02 Notices.

Any notice or communication shall be given in writing and delivered in person or mailed by certified or registered mail, return receipt requested, addressed as follows:

if to the Company:

Carter Hawley Hale Stores, Inc.
3880 North Mission Road
Los Angeles, California 90031

Attention: Marc C. Bercoon, Esq.
General Counsel

if to the Trustee:

Continental Bank, National Association
231 S. La Salle
Chicago, Illinois 60697

Attention: Corporate Trust Department

Such notices or communications shall be effective when received.

The Company or the Trustee by notice to the other may designate additional or different addresses for subsequent notices or communications.

Any notice or communication mailed to a Securityholder shall be mailed by first-class mail to him at his address shown on the register kept by the Registrar.

Failure to mail a notice or communication to a Securityholder or any defect in it shall not affect its sufficiency with respect to other Securityholders. If a notice or communication to a Securityholder is mailed in the manner provided above, it is duly given, whether or not the addressee receives it.

SECTION 12.03 Communications by Holders With Other Holders.

Securityholders may communicate pursuant to TIA Section 312(b) with other Securityholders with respect to their rights under this Indenture or the Securities. The Company, the

Trustee, the Registrar and any other person shall have the protection of TIA Section 312(c).

SECTION 12.04 Certificate and Opinion as to Conditions Precedent.

(a) Upon any request or application by the Company to the Trustee to take any action under this Indenture, the Company shall furnish to the Trustee at the request of the Trustee:

(1) an Officers' Certificate stating that, in the opinion of the signers, all conditions precedent (including any covenants compliance with which constitutes a condition precedent), if any, provided for in this Indenture relating to the proposed action have been complied with; and

(2) an Opinion of Counsel stating that, in the opinion of such counsel, all such conditions precedent (including any covenant compliance with which constitutes a condition precedent) have been complied with.

(b) Each Officers' Certificate and Opinion of Counsel with respect to compliance with a condition or covenant provided for in this Indenture (other than annual certificates provided pursuant to Section 6.05 hereof) shall include:

(1) a statement that the person making such certificate or opinion has read such covenant or condition;

(2) a brief statement as to the nature and scope of the examination or investigation upon which the statements or opinions contained in such certificate or opinion are based;

(3) a statement that, in the opinion of such person, he has made such examination or investigation as is necessary to enable him to express an informed opinion as to whether or not such covenant or condition has been complied with; and

(4) a statement as to whether or not, in the opinion of such person, such condition or covenant has been complied with; provided, however, that with

respect to matters of fact an Opinion of Counsel may rely on an Officer's Certificate on certificates of public officials.

SECTION 12.05 Record Date for Vote or Consent of Securityholders.

The Company may set a record date for purposes of determining the identity of Securityholders entitled to vote or consent to any action by vote or consent authorized or permitted under this Indenture, which record date shall be the later of 10 days prior to the first solicitation of such vote or consent or the date of the most recent list of Securityholders furnished to the Trustee pursuant to Section 2.05 hereof prior to such solicitation. If a record date is fixed, those persons who were Holders of Securities at such record date (or their duly designated proxies), and only those persons, shall be entitled to take such action by vote or consent or to revoke any vote or consent previously given, whether or not such persons continue to be Holders after such record date.

SECTION 12.06 Rules by Trustee, Paying Agent, Registrar.

The Trustee may make reasonable rules for action by or at a meeting of Holders. The Registrar or Paying Agent may make reasonable rules for its functions.

SECTION 12.07 Legal Holidays.

A "Legal Holiday" is a Saturday, a Sunday or a day on which state or Federally chartered banking institutions in New York, New York or Chicago, Illinois are not required to be open. If a payment date is a Legal Holiday at a place of payment, payment may be made at that place on the next succeeding day that is not a Legal Holiday, and no interest shall accrue for the intervening period.

SECTION 12.08 Governing Law.

The laws of the State of New York shall govern this Indenture and the Securities without regard to principles of conflicts of law.

SECTION 12.09 No Adverse Interpretation of Other Agreements.

This Indenture may not be used to interpret another indenture, loan or debt agreement of the Company or a Subsidiary.

SECTION 12.10 No Recourse Against Others.

All liability described in paragraph 19 of the Securities of any director, officer, employee or stockholder, as such, of the Company is waived and released.

SECTION 12.11 Successors.

All agreements of the Company in this Indenture and the Securities shall bind its successor. All agreements of the Trustee in this Indenture shall bind its successor.

SECTION 12.12 Multiple Counterparts.

The parties may sign multiple counterparts of this Indenture. Each signed counterpart shall be deemed an original, but all of them together represent the same agreement.

SECTION 12.13 Separability.

In case any provision in this Indenture or in the Securities shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

SECTION 12.14 Table of Contents, Headings, etc.

The table of contents, cross-reference sheet and headings of the Articles and Sections of this Indenture have been inserted for convenience of reference only, are not to be considered a part hereof, and shall in no way modify or restrict any of the terms or provisions hereof.

SIGNATURES

IN WITNESS WHEREOF, the parties hereto have hereunto set their hands as of the ___ of December, 1993.

CARTER HAWLEY HALE STORES, INC.

By_____

Title_____

[SEAL]

Attest:_____
Secretary

CONTINENTAL BANK,
NATIONAL ASSOCIATION,
Trustee

By_____

Title_____

[SEAL]

Attest:_____

Title_____

STATE OF CALIFORNIA)
) ss.
COUNTY OF LOS ANGELES)

On ___ day of December, 1993, before me personally came _____, to me known, who, being by me duly sworn, did depose and say that he is _____ of Carter Hawley Hale Stores, Inc., one of the parties described in and which executed the foregoing instrument; that he knows the seal of said corporation; that the seal affixed to said instrument is such corporate seal; that it was so affixed by authority of the Board of Directors of said corporation; and that he signed his name thereto by like authority.

_____

My Commission Expires:

STATE OF ILLINOIS)
) ss.
COUNTY OF _____)

On ___ day of December, 1993, before me personally came _____, to me known, who, being by me duly sworn, did depose and say that he is _____ of Continental Bank, National Association one of the parties described in and which executed the foregoing instrument; that he knows the seal of said corporation; that the seal affixed to said instrument is such corporate seal; that it was so affixed by authority of the Board of Directors of said corporation; and that he signed his name thereto by like authority.

_____

My Commission Expires:

Exhibit A [Front of Security]

Number

CARTER HAWLEY HALE STORES, INC.

6-1/4% Convertible Senior Subordinated Note due 2000

CARTER HAWLEY HALE STORES, INC., a Delaware corporation promises to pay to or registered assigns the principal sum of

Dollars on December 31, 2000.

Interest Payment Dates: December 31 and June 30

Record Dates: December 15 and June 15

Additional provisions of this Note are set forth on the other side of this Note.

CARTER HAWLEY HALE STORES, INC.

By: _____

By: _____

Certificate of Authentication:

CONTINENTAL BANK, NATIONAL ASSOCIATION, as

Trustee, certifies that this is one of the
Securities referred to in the Indenture.

By _____
Authorized Signatory

Dated:

[BACK OF SECURITY]

CARTER HAWLEY HALE STORES, INC.
6-1/4% Convertible Senior Subordinated Note Due 2000

1. Interest and Maturity.

Carter Hawley Hale Stores, Inc., a Delaware corporation (the "Company"), promises to pay interest on the principal amount of this Note at the rate per annum shown above (plus any rate increase that may be required under Section 6.17 of the Indenture (as defined below)). The Company will pay interest semi-annually on December 31 and June 30 of each year, commencing June 30, 1994. Interest on the Notes will accrue from the most recent date to which interest has been paid or, if no interest has been paid, from the date of first issuance of the Notes under the Indenture; provided that, if there is no existing default in the payment of interest, and if this Note is authenticated between a record date referred on the face hereof and the next succeeding interest payment date, interest shall accrue from such interest payment date. Interest will be computed on the basis of a 360-day year of twelve 30-day months; and provided, further that, if a Note is converted after the close of business on the record date for the payment of an installment of interest and prior to the opening of business on the next interest payment date, then, in accordance with Section 8 hereof, the holder of the Note so converted will be required to pay to the Company the amount of such interest at the time of surrender of the Note for conversion. The principal of this Note will mature and be payable on December 31, 2000, unless earlier redeemed or converted.

2. Method of Payment.

The Company will pay interest on this Note (except defaulted interest) to the person who is the registered holder of this Note at the close of business on the December 15 and June 15 next preceding the interest payment date. The holder must surrender this Note to the Paying Agent to collect payment of principal. The Company will pay principal and interest in money of the United States that at the time of payment is legal tender for payment of public and private debts.

3. Paying Agent, Registrar and Conversion Agent.

Initially, Continental Bank, National Association (the "Trustee"), will act as Paying Agent, Registrar and Conversion Agent. The Company may change any Paying Agent, Registrar or Conversion Agent without notice to the Noteholders. The Company or any of its Subsidiaries may act as Paying Agent, Registrar or Conversion Agent.

4. Indenture Limitations.

The Company issues this Note under an Indenture dated as of December 21, 1993 (the "Indenture") between the Company and the Trustee. The terms of this Note include those stated in the Indenture and those made part of the Indenture

by reference to the Indenture Act of 1939 (15 U.S.C. Section 77aaa-77bbb), as amended, by the Trust Indenture Reform Act of 1990 and as in effect on the date of the Indenture. This Note is subject to all such terms, and the holder of this Note is referred to the Indenture and said Act for a statement of them. The Notes are unsecured obligations of the Company limited to $125,000,000 aggregate principal amount (subject to Sections 2.02 and 2.07 of the Indenture).

5. Optional Redemption.

The Notes may be redeemed, at the Company's option, in whole or from time to time in part, at any time on and after December 31, 1998, at a redemption price of 100% of the principal amount thereof together with accrued and unpaid interest to the date fixed for redemption.

6. Notice of Redemption.

Notice of redemption will be mailed by first class mail at least 15 days but not more than 60 days before the redemption date of each holder of Notes to be redeemed at his registered address. Notes in denominations larger than $1,000 may be redeemed in part, but only in whole multiples of $1,000. On and after the redemption date, interest ceases to accrue on Notes or portions of them called for redemption.

7. Purchase of Notes at Option of Holder upon a Change in Control.

At the option of the Holder and subject to the terms and conditions of the Indenture, the Company shall become obligated to purchase all or any part specified by the Holder (so long as the principal amount of such part is $1,000 or an integral multiple thereof) of the Notes held by such Holder on the date that is the later of (i) 20 Business Days after the date of mailing of a Change in Control Purchase Notice and (ii) 40 Business Days after the occurrence of a Change in Control of the Company, at the principal amount thereof together with accrued and unpaid interest thereon to the Change in Control Purchase Date. The Holder shall have the right to withdraw any Change in Control Purchase Notice by delivering a written notice of withdrawal to the Paying Agent in accordance with the terms of the Indenture.

8. Conversion.

A Holder of a Note may convert it into shares of Common Stock of the Company at any time after 90 days following the date of original issuance thereof and prior to maturity, except that if the Note is called for redemption, the conversion right will terminate at the close of business on the tenth Business Day immediately preceding the redemption date. The initial conversion price is $12.19 per share, subject to adjustment under certain circumstances. The number of shares issuable upon conversion of a Note is determined by dividing the principal amount converted by the conversion price in effect on the conversion date. Upon conversion, no adjustment for interest or dividends will be made. No fractional shares will be issued upon conversion, in lieu thereof, an amount will be paid in cash based upon the market price (as defined) of the Common Stock on the last trading day prior to the date of conversion.

To convert a Note, a Holder must (1) complete and sign a conversion notice substantially in the form set forth below, (2) surrender the Note to a Conversion Agent, (3) furnish appropriate endorsements or transfer documents if required by the Registrar or Conversion Agent and (4) pay any transfer or similar tax, if required. If a holder surrenders a Note for conversion after the close of business on the record date for the payment of an installment of interest and prior to the opening of business on the next interest payment date, then, notwithstanding such conversion, the interest payable on such interest payment date will be paid to the registered holder on such record date. In such event, the Note, when surrendered for conversion, must be accompanied by payment of an amount equal to the interest payable on such interest payment date on the principal amount of the Note or portion thereof then converted. A holder may convert a portion of a Note equal to

$1,000 or any integral multiple thereof.

A Note in respect of which a Holder has delivered a Change in Control Purchase Notice exercising the option of such Holder to require the Company to purchase such Note may be converted only if the notice of exercise is withdrawn as provided above and in accordance with the terms of the Indenture.

9. Subordination.

This Note is a general unsecured obligation of the Company and is (i) subordinate in right of payment to all existing and future Senior Debt of the Company, (ii) pari passu in right of payment to all existing and future Senior Subordinated Indebtedness; and (iii) senior in right of payment to all existing and future Junior Subordinated Indebtedness of the Company, as described in the Indenture.

10. Denominations, Transfer, Exchange.

The Notes are issuable in registered form without coupons in denominations of $1,000 and integral multiples of $1,000. A holder may register the transfer of or exchange Notes in accordance with the Indenture. The Registrar may require a holder, among other things, to furnish appropriate endorsements and transfer documents and to pay any taxes or other governmental charges that may be imposed by law or permitted by the Indenture.

11. Available Information.

The Holder of this Note and prospective purchasers designated by such Holder will have the right to obtain from the Company upon request by such Holder or prospective purchasers, during any period in which the Company is not subject to Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the information required by paragraph d(4)(i) of Rule 144A under the Securities Act of 1933, as amended (the "Securities Act").

12. Persons Deemed Owners.

The registered holder of a Note may be treated as the owner of it for all purposes.

13. Registration Rights.

The Company has entered into the Registration Agreement with Salomon Brothers Inc as the representative of each Holder, substantially in the form of Exhibit C to the Indenture, to file, after the date of issuance hereof, a shelf registration statement under the Securities Act relating to resales of the Notes and the Common Stock issuable upon conversion thereof. If such registration statement is not filed or has not been declared effective by the Securities and Exchange Commission (the "Commission") within the time periods set forth in the Indenture, the interest rate on the Notes will be temporarily or permanently increased in the manner set forth in the Indenture. Unless and until the Notes are registered pursuant to a registration statement that has been declared effective by the Commission under the Securities Act, the Notes are subject to certain restrictions on transfer and may only be resold or transferred to certain persons in a transaction that complies with certain procedures established by the Company as described in the Indenture. By purchasing this Note, the Holder hereof agrees to be bound by all of the terms of the Registration Agreement, including the information supplying, indemnification and other obligations contained therein.

14. Unclaimed Money.

If money for the payment of principal or interest remains unclaimed for two years, the Trustee or Paying Agent will pay the money back to the Company at its request. After that, holders entitled to money must look to the Company for payment.

15. Amendments, Supplement and Waiver.

Subject to certain exceptions, the Indenture or the Notes may be amended or supplemented with the consent of the holders of a majority in principal amount of the Notes then outstanding and any past default or noncompliance with any provision may be waived in a particular instance with the consent of the holders of a majority in principal amount of the Notes then outstanding. Without the consent of or notice to any Noteholder, the Company and the Trustee may amend or supplement the Indenture or the Notes to, among other things, provide for uncertified Notes in addition to or in place of certificated Notes, to cure any ambiguity, defect or inconsistency, to add to the covenants and obligations of the Company for the benefit of the holders, to reduce the Conversion Price provided it will not adversely effect the interests of any holder in any material respect, or to make any other change that does not adversely affect the right of any Noteholder.

16. Successor Corporation

When a successor corporation assumes all the obligations of its predecessor under the Notes and the Indenture, the predecessor corporation will be released from those obligations.

17. Defaults and Remedies.

An Event of Default is: default for 30 days in payment of interest on the Notes; default in payment of principal on the Notes; failure by the Company for 60 days after notice to it to comply with any of its other agreements in the Indenture or the Notes; certain events of bankruptcy or insolvency of the Company or any of its subsidiaries; certain failures to pay judgments or decrees entered against the Company; and certain defaults on other indebtedness. If an Event of Default (other than as a result of certain events of bankruptcy or insolvency), occurs and is continuing, the Trustee or the holders of at least 25% in principal amount of the Notes then outstanding may declare all unpaid principal and the accrued interest to the date of acceleration on the Notes then outstanding to be due and payable immediately, all as and to the extent provided in the Indenture. If any Event of Default occurs as a result of certain events of bankruptcy or insolvency, all unpaid principal of and accrued interest on the Notes then outstanding shall become due and

payable immediately without any declaration or other act on the part of the Trustee or any Noteholder, all as and to the extent provided in the Indenture. Noteholders may not enforce the Indenture or the Notes except as provided in the Indenture. The Trustee may require indemnity satisfactory to it before it enforces the Indenture or the Notes. Subject to certain limitations, holders of a majority in principal amount of the Notes then outstanding may direct the Trustee in its exercise of any trust or power. The Trustee may withhold from Noteholders notice of any continuing default (except a default in payment of principal or interest) if it determines that withholding notice is in their interests. The Company is required to file periodic reports with the Trustee as to the absence of default.

18. Trustee Dealing with the Company.

Continental Bank, National Association, the Trustee under the Indenture, in its individual or any other capacity, may make loans to, accept deposits from, and perform services for the Company or an Affiliate of the Company, and may otherwise deal with the Company or an Affiliate of the Company, as if it were not Trustee.

19. No Recourse Against Others.

A director, officer, employee or stockholder, as such, of the Company shall not have any liability for any obligations of the Company under the Notes or the Indenture or for any claim based on, in respect or by reason of, such obligations or their creation. The Holder of this Note by accepting this Note waives and releases all such liability. The waiver and release are part of the consideration for the issue of this Note.

20. Discharge Prior to Maturity.

If the Company deposits with the Trustee or Paying Agent money or U.S. Government Obligations sufficient to pay the principal of and interest on the Notes to maturity, the Company will be discharged from the Indenture except for certain Sections thereof.

21. Authentication.

This Note shall not be valid until the Trustee or an authenticating agent signs the certificate of authentication on the other side of this Note.

22. Abbreviations and Definitions.

Customary abbreviations may be used in name of a Noteholder or an assignee, such as : TEN COM (= tenants in common, TEN ENT (= tenants by the entireties), JT TEN (= joint

tenants with right of survivorship and not as tenants in common), CUST (= Custodian) and U/G/M/A (= Uniform Gifts to Minors Act).

All capitalized terms used in this Note and not specifically defined herein are defined in the Indenture and are used herein as so defined.

23. Indenture to Control.

In the case of any conflict between the provisions of this Note and the Indenture, the provisions of the Indenture shall control.

The Company will furnish to any Noteholder, upon written request and without charge, a copy of the Indenture. Requests may be made to: Carter Hawley Hale Stores, Inc., 3880 North Mission Road, Los Angeles, California 90031, Attention: Secretary.

ASSIGNMENT FORM

To assign this Note, fill in the form below: (I) or (we) assign and transfer this Note to

(insert assignee's Social Security or tax I.D. number)

_____

_____

(print or type assignee's name, address and zip code)

and irrevocably appoint _____ agent to transfer this Note on the books of the Company. The agent may substitute another to act for him.

Date: _____ Your Signature _____
(Sign exactly as your name appears on the other side of this Note)

*Signature
Guarantee: _____

*Guarantor must be a member of one of the following recognized signature guarantee program: (1) the Securities Transfer Agents Medallion Program, (2) the New York Stock Exchange Medallion Signature Program and (3) the Stock Exchange Medallion Program.

ELECTION TO CONVERT

To Carter Hawley Hale Stores, Inc.:

The undersigned owner of this Note hereby irrevocably exercises the option to convert this Note, or the portion below designated, into Common Shares of CARTER HAWLEY HALE STORES, INC. in accordance with the terms of the Indenture referred to in this Note, and directs that the shares issuable and deliverable upon conversion, together with any check in payment for fractional shares, be issued in the name of and delivered to the undersigned, unless a different name has been indicated in the assignment below. If shares are to be issued in the name of a person other than the undersigned, the undersigned will pay all transfer taxes payable with respect thereto. Any amount required to be paid by the undersigned on account of interest accompanies this Note.

Date:

in whole ___

Portions of Note to be purchased ($1,000 or an integral multiplier thereof): $ _____

_____
Signature (for conversion only)

Please Print or Typewrite Name and Address, Including Zip Code, and Social Security or Other Identifying Number

_____

OPTION OF HOLDER TO ELECT PURCHASE

If you wish to elect to have all or portion of this Note purchased by the Company pursuant to Section 6.10 of the Indenture, check the applicable box:

in whole ___

Portions of Note to be purchased ($1,000 or an integral multiplier thereof): $ _____

Date: _____

Signature: _____
(Sign exactly as your name

appears on the other side of
this Note)

*Signature
Guarantee: _____
Taxpayer Identification Number: _____

*Guarantor must be a member of one of the following recognized signature guarantee program: (1) the Securities Transfer Agents Medallion Program, (2) the New York Stock Exchange Medallion Signature Program and (3) the Stock Exchange Medallion Program.

CARTER HAWLEY HALE STORES, INC.

6-1/4% Convertible Senior Subordinated Notes Due 2000

REGISTRATION AGREEMENT

New York, New York
December 21, 1993

Salomon Brothers Inc
Seven World Trade Center
New York, New York 10048

Dear Sirs:

Carter Hawley Hale Stores, Inc., a Delaware corporation (the "Company"), proposes to issue and sell to a purchaser (the "Purchaser"), upon the terms set forth in a purchase agreement of even date herewith (the "Purchase Agreement"), its 6-1/4% Convertible Senior Subordinated Notes due 2000 (the "Securities") (the "Initial Placement"). As an inducement to the Purchaser to enter into the Purchase Agreement and in satisfaction of a condition to your obligations thereunder, the Company agrees with you, (i) for your benefit and (ii) for the benefit of the holders from time to time of the Securities and the Converted Securities (as defined below) (including you) (each of the foregoing a "Holder" and together the "Holders"), as follows:

W I T N E S S E T H:

WHEREAS, the Company and Continental Bank, National Association (the "Trustee") have entered into an indenture, dated as of December 21, 1993 (as it may be amended from time to time, the "Indenture"), relating to $125,000,000 aggregate principal amount of Securities and an option relating to $18,750,000 aggregate principal amount of additional Securities;

WHEREAS, Section 6.17 of the Indenture provides that, unless, after the Closing Date, the Company complies with certain conditions relating to the filing and effectiveness of a shelf registration statement with respect to the Securities and the Converted Securities, the per annum interest rate on the Securities will be adjusted by the percentage specified in the Indenture;

WHEREAS, as provided in Section 6.17 of the Indenture, the Company has agreed to enter into this Agreement; and

NOW, THEREFORE, the parties hereto hereby agree as follows:

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1. Definitions. Capitalized terms used herein without definition shall have their respective meanings set forth in the Purchase Agreement. As used in this Agreement, the following capitalized defined terms shall have the following meanings:

"Act" means the Securities Act of 1933, as amended, and the rules and regulations of the Commission promulgated thereunder.

"Affiliate" of any specified person means any other person, directly or indirectly controlling or controlled by, or under direct or indirect common control with such specified person. For the purposes of this definition, "control" when used with respect to any person means the power to direct the management and policies of such person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms "controlling" and "controlled" have meanings correlative to the foregoing.

"Closing Date" has the meaning set forth in the Purchase Agreement.

"Commission" means the Securities and Exchange Commission.

"Common Stock" shall mean the common stock, $.01 par value, of the Company.

"Converted Securities" shall mean Securities which have been duly converted into shares of Common Stock.

"Exchange Act" means the Securities Exchange Act of 1934, as amended, and the rules and regulations of the Commission promulgated thereunder.

"Final Memorandum" has the meaning set forth in the Purchase Agreement.

"Holder" has the meaning set forth in the preamble hereto.

"Initial Placement" has the meaning set forth in the preamble hereto.

"Majority Holders" means the Holders of a majority of the aggregate principal amount of securities registered under a Shelf Registration Statement.

"Managing Underwriters" means the investment banker or investment bankers and manager or managers that shall administer an underwritten offering.

"Prospectus" means the prospectus included in any Shelf Registration Statement (including, without limitation, a prospectus that discloses information previously omitted from a prospectus filed as part of an effective registration statement in reliance upon Rule 430A under the Act), as amended or

supplemented by any prospectus supplement, with respect to the terms of the offering of any portion of the Securities or Converted Securities, covered by such Shelf Registration Statement, and all amendments and supplements to the Prospectus, including post- effective amendments.

"Securities" has the meaning set forth in the preamble hereto.

"Shelf Registration" means a registration effected pursuant to Section 2 hereof.

"Shelf Registration Period" has the meaning set forth in Section 2(b) hereof.

"Shelf Registration Statement" means a "shelf" registration statement of the Company pursuant to the provisions of Section 2 hereof which covers some or all of the Securities or Converted Securities, as applicable, on an appropriate form under Rule 415 under the Act, or any similar rule that may be adopted by the Commission, amendments and supplements to such registration statement, including post-effective amendments, in each case including the Prospectus contained therein, all exhibits thereto and all material incorporated by reference therein.

"Trustee" means the trustee with respect to the Securities under the Indenture.

"underwriter" means any underwriter of Securities or Converted Securities in connection with an offering thereof under a Shelf Registration Statement.

2. Shelf Registration.

(a) The Company agrees that (i) it shall prepare and, not later than 45 days following the Closing Date, shall file with the Commission, a Shelf Registration Statement providing for resales of the Securities and the Converted Securities by the Holders thereof; and (ii) within 90 days of the Closing Date such Shelf Registration Statement shall be declared effective by the Commission.

(b) The Company shall keep the Shelf Registration Statement continuously effective in order to permit the Prospectus forming part thereof to be usable by Holders for a period of three years from the Closing Date or such shorter period that will terminate when all the Securities covered by the Shelf Registration Statement have been registered and sold pursuant to the Shelf Registration Statement (in any such case, such period being called the "Shelf Registration Period").

(c) A Shelf Registration Statement pursuant to Section 2.1 hereof will not be deemed to have become effective unless it has been declared effective by the Commission; provided, however, that if, after it has been declared effective, the offering of Securities or Converted Securities pursuant to a Shelf Registration Statement is interfered with by any stop order, injunction or other order or requirement of the Commission or any other governmental agency or court, such Registration Statement will be deemed not to have been effective during the period of such interference, and instead shall be deemed to have been declared effective at such time as the offering of Securities and Converted Securities pursuant to such Registration Statement may resume.

3. Registration Procedures. In connection with the obligations of the Company pursuant to Section 2 hereof, the Company shall have the following obligations:

(a) The Company shall furnish to you, prior to the filing thereof with the Commission, a copy of any Shelf Registration Statement, and each amendment thereof and each amendment or supplement, if any, to the Prospectus included therein and shall use its best efforts to reflect in each such document, when so filed with the Commission, such comments as you or your counsel reasonably may propose.

(b) The Company shall ensure that (i) any Shelf Registration Statement and any amendment thereto and any Prospectus forming part thereof and any amendment or supplement thereto complies in all material respects with the Act and the rules and regulations thereunder, (ii) any Shelf Registration Statement is available for the sale of the Securities or the Converted Securities, as the case may be, by the Selling Holders, (iii) any Shelf Registration Statement and any amendment thereto does not, when it becomes effective, contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading, (iv) any Prospectus forming part of any Shelf Registration Statement, and any amendment or supplement to such Prospectus, does not include an untrue statement of a material fact or omit to state a material fact necessary in order to make the statements, in the light of the circumstances under which they were made, not misleading; (v) any Shelf Registration Statement complies as to form in all material respects with the requirements of the applicable form and include all financial statements required by the Commission to be filed therewith; and (vi) it prepares and files with the Commission such amendments and post-effective amendments to such Shelf Registration Statement effective for the applicable period specified in Section 2 and cause such Prospectus to be supplemented, and as so supplemented to be filed pursuant to Rule 424 under the Securities Act.

(c) (1) The Company shall advise you and the Holders and, if requested by you or any such Holder, confirm such advice in writing:

(i) when a Shelf Registration Statement and any amendment thereto has been filed with the Commission and when the Shelf Registration Statement or any post-effective amendment thereto has become effective; and

(ii) of any request by the Commission for amendments or supplements to the Shelf Registration Statement or the Prospectus included therein or for additional information.

(2) The Company shall promptly advise you and the Holders and, if requested by you or any such Holder, confirm such advice in writing:

(i) of the issuance by the Commission of any stop order suspending the effectiveness of the Shelf Registration Statement or the initiation of any proceedings for that purpose;

(ii) of the receipt by the Company of any notification with respect to the suspension of the qualification of the securities included therein for sale in any jurisdiction or the initiation or threatening of any proceeding for such purpose;

(iii) of the happening of any event that requires the making of any changes in the Shelf Registration Statement or the Prospectus so that, as of such date, the statements therein are not misleading and do not omit to state a material fact required to be stated therein or necessary to make the statements therein (in the case of the Prospectus, in light of the circumstances under which they were made) not misleading (which advice shall be accompanied by an instruction to suspend the use of the Prospectus until the requisite changes have been made); and

(iv) if between the effective date of such Registration Statement and the closing of any sale of Securities or Converted Securities covered thereby, the representations and warranties of the Company contained in any underwriting agreement, securities sales agreements or other sales agreement or similar agreement relating to the Offering cease to be true and correct in all material respects.

(d) The Company shall use its best efforts to obtain the withdrawal of any order suspending the effectiveness of any Shelf Registration Statement at the earliest possible time.

(e) The Company shall furnish to each Holder of securities included within the coverage of any Shelf Registration Statement, without charge, at least one copy of such Shelf Registration Statement and any post-effective amendment thereto, including financial statements and schedules, and, if the Holder so requests in writing, all exhibits (including those incorporated by reference).

(f) The Company shall, during the Shelf Registration Period, deliver to each Holder of securities included within the coverage of any Shelf Registration Statement, without charge, as many copies of the Prospectus (including each preliminary Prospectus) included in such Shelf Registration Statement and any amendment or supplement thereto as such Holder may reasonably request; and the Company consents to the use of the Prospectus or any amendment or supplement thereto by each of the selling Holders of securities in connection with the offering and sale of the securities covered by the Prospectus or any amendment or supplement thereto.

(g) Prior to any offering of securities pursuant to any Shelf Registration Statement, the Company shall register or qualify or cooperate with the Holders of securities included therein and their respective counsel in connection with the registration or qualification of such securities for offer and sale under the securities or blue sky laws of such jurisdictions as any such Holders reasonably request in writing and do any and all other acts or things necessary or advisable to enable the

offer and sale in such jurisdictions of the securities covered by such Shelf Registration Statement; provided, however, that the Company will not be required to qualify generally to do business in any jurisdiction where it is not then so qualified or to take any action which would subject it to general service of process or to taxation in any such jurisdiction where it is not then so subject.

(h) The Company shall cooperate with the Holders of Securities to facilitate the timely preparation and delivery of certificates representing Securities or Converted Securities to be sold pursuant to any Shelf Registration Statement free of any restrictive legends and in such denominations and registered in such names as Holders may request prior to sales of securities pursuant to such Shelf Registration Statement.

(i) Upon the occurrence of any event contemplated by paragraph (c)(2)(iii) above, the Company shall promptly prepare a post-effective amendment to any Shelf Registration Statement or an amendment or supplement to the related Prospectus or file any other required document so that, as thereafter delivered to purchasers of the securities included therein, the Prospectus

will not include an untrue statement of a material fact or omit to state any material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

(j) Not later than the effective date of any Shelf Registration Statement hereunder, the Company shall provide a CUSIP number for the Securities registered under such Shelf Registration Statement, and provide the applicable trustee with printed certificates for such Securities, in a form eligible for deposit with The Depository Trust Company.

(k) The Company shall use its best efforts to comply with all applicable rules and regulations of the Commission and shall make generally available to its security holders as soon as practicable after the effective date of the applicable Shelf Registration Statement an earnings statement satisfying the provisions of Section 11(a) of the Act.

(l) The Company shall cause the Indenture to be qualified under the Trust Indenture Act in a timely manner, cooperate with the Trustee and the Holders to effect such changes to the Indenture as may be required for such Indenture to be qualified in accordance with the terms of the Trust Indenture Act and execute, and use its best efforts to cause the Trustee to execute all documents as may be required to effect such changes, and all other forms and documents required to be filed with the Commission to enable such Indenture to be so qualified in a timely manner.

(m) The Company may require each Holder of securities to be sold pursuant to any Shelf Registration Statement to furnish to the Company such information regarding the Holder and the distribution of such securities as the Company may from time to time reasonably require for inclusion in such Shelf Registration Statement.

(n) The Company shall, if requested, promptly incorporate in a Prospectus supplement or post-effective amendment to a Shelf Registration Statement, such information as the Managing Underwriters and Majority Holders reasonably agree should be included therein and shall make all required filings of such Prospectus supplement or post-effective amendment as soon as notified of the matters to be incorporated in such Prospectus supplement or post-effective amendment.

(o) The Company shall enter into such agreements (including underwriting agreements) and take all other appropriate actions in order to expedite or facilitate the registration or the disposition of the Securities, and in connection therewith, if an underwriting agreement is entered into, cause the same to contain indemnification provisions and procedures no less favorable

than those set forth in Section 5 (or such other provisions and procedures acceptable to the Majority Holders and the Managing Underwriters, if any, with respect to all parties to be indemnified pursuant to Section 5 from Holders of Securities to the Company).

(p) The Company shall (i) make reasonably available for inspection by the Holders of securities to be registered thereunder, any underwriter participating in any disposition pursuant to such Shelf Registration Statement, and any attorney, accountant or other agent retained by the Holders or any such underwriter all relevant financial and other records, pertinent corporate documents and properties of the Company and its subsidiaries; (ii) cause the Company's officers, directors and employees to supply all relevant information reasonably requested by the Holders or any such underwriter, attorney, accountant or agent in connection with any such Shelf Registration Statement as is customary for similar due diligence examinations; provided, however, that any information that is designated in writing by the Company, in good faith, as confidential at the time of delivery of such information shall be kept confidential by the Holders or any such underwriter, attorney, accountant or agent, unless such disclosure is made in connection with a court proceeding or required by law, or such information becomes available to the public generally or through a third party without an accompanying obligation of confidentiality; (iii) make such representations and warranties to the Holders of securities registered thereunder and the underwriters, if any, in form, substance and scope as are customarily made by issuers to underwriters in primary underwritten offerings and covering matters including, but not limited to, those set forth in the Purchase Agreement; (iv) obtain opinions of counsel to the Company and updates thereof (which counsel and opinions (in form, scope and substance) shall be reasonably satisfactory to the Managing Underwriters, if any) addressed to each selling Holder and the underwriters, if any, covering such matters as are customarily covered in opinions requested in underwritten offerings and such other matters as may be reasonably requested by such Holders and underwriters; (v) obtain "cold comfort" letters and updates thereof from the independent certified public accountants of the Company (and, if necessary, any other independent certified public accountants of any subsidiary of the Company or of any business acquired by the Company for which financial statements and financial data are, or are required to be, included in the Shelf Registration Statement), addressed to each selling Holder of securities registered thereunder and the underwriters, if any, in customary form and

covering matters of the type customarily covered in "cold comfort" letters in connection with primary underwritten offerings; and (vi) deliver such documents and certificates as may be reasonably requested by the Majority

Holders and the Managing Underwritings, if any, including those to evidence compliance with Section 3(i) and with any customary conditions contained in the underwriting agreement or other agreement entered into by the Company. The foregoing actions set forth in clauses (iii), (iv), (v) and (vi) of this Section 3(p) shall be performed at (A) the effectiveness of such Shelf Registration Statement and each post-effective amendment thereto and (B) each closing under any underwriting or similar agreement as and to the extent required thereunder.

4. Registration Expenses. The Company shall bear all expenses incurred in connection with the performance of its obligations under Sections 2 and 3 hereof and shall reimburse the Holders for the reasonable fees and disbursements of one firm or counsel designated by the Majority Holders to act as counsel for the Holders in connection therewith. Such expenses shall include but not be limited to the following: (i) all Commission, stock exchange or National Association of Securities Dealers, Inc. registration and filing fees; (ii) all fees and expenses incurred in connection with compliance with state securities or blue sky laws (including reasonable fees and disbursements of counsel for any Underwriter or Holders in connection with blue sky qualification of any of the Notes or Converted Securities), (iii) all expenses of any persons in preparing or assisting in preparing, printing and distributing any Registration Statement, any Prospectus, any amendments or supplements thereto, any underwriting agreements and other documents relating to the performance of and compliance with this Agreement; (iv) all rating agency fees; (v) all fees associated with listing of the Converted Securities with the New York Stock Exchange; and (vi) the fees and disbursements of counsel for the Company and of independent public accountants of the Company, including the expenses of any special audits or "comfort" letters required by or incident to such performance and compliance.

5. Indemnification and Contribution. (a) In connection with any Shelf Registration Statement, the Company agrees to indemnify and hold harmless each Holder of securities covered thereby (including each Purchaser), the directors, officers, employees and agents of each such Holder and each person who controls any such Holder within the meaning of either the Act or the Exchange Act against any and all losses, claims, damages or liabilities, joint or several, to which they or any of them may become subject under the Act, the Exchange Act or other Federal or state statutory law or regulation, at common law or otherwise, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon any untrue statement or alleged untrue statement of a material fact contained in the Shelf Registration Statement as originally filed or in any amendment thereof, or in any preliminary Prospectus or Prospectus, or in any amendment thereof or supplement thereto, or arise out of or are based upon the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, and agrees to reimburse each such indemnified party, as incurred, for any legal or other expenses reasonably incurred by them in connection with investigating or defending any such loss, claim, damage, liability or action; provided, however, that the Company will not be liable in any case to the extent that any such loss, claim, damage or liability arises out of or is based upon any such untrue statement or

alleged untrue statement or omission or alleged omission made therein in reliance upon and in conformity with written information furnished to the Company by or on behalf of any such Holder specifically for inclusion therein. This indemnity agreement will be in addition to any liability which the Company may otherwise have.

The Company also agrees to indemnify or contribute to Losses of, as provided in Section 5(d), any underwriters of Securities registered under a Shelf Registration Statement, their officers and directors and each person who controls such underwriters on substantially the same basis as that of the indemnification of the Purchaser and the selling Holders provided in this Section 5(a) and shall, if requested by any Holder, enter into an underwriting agreement reflecting such agreement, as provided in Section 3(o) hereof.

(b) Each Holder of securities covered by a Shelf Registration Statement (including each Purchaser) severally agrees to indemnify and hold harmless (i) the Company, (ii) each of its directors, (iii) each of its officers who signs such Shelf Registration Statement and (iv) each person who controls the Company within the meaning of either the Act or the Exchange Act to the same extent as the foregoing indemnity from the Company to each such Holder, but only with reference to written information relating to such Holder furnished to the Company by or on behalf of such Holder specifically for inclusion in the documents referred to in the foregoing indemnity. This indemnity agreement will be in addition to any liability which any such Holder may otherwise have.

(c) Promptly after receipt by an indemnified party under this Section 5 or notice of the commencement of any action, such indemnified party will, if a claim in respect thereof is to be made against the indemnifying party under this Section 5, notify the indemnifying party in writing of the commencement thereof; but the failure so to notify the indemnifying party (i) will not relieve it from liability under paragraph (a) or (b) above unless and to the extent it did not otherwise learn of such action and such failure results in the forfeiture by the indemnifying party of substantial rights and defenses and (ii) will not, in any event, relieve the indemnifying party from any obligations to any indemnified party other than the indemnification obligation provided in paragraph (a) or (b) above. The indemnifying party shall be entitled to appoint counsel of the indemnifying party's choice at the indemnifying party's expense to represent the indemnified party in any action for which indemnification is sought (in which case the indemnifying party shall not thereafter be responsible for the fees and expenses of any separate counsel retained by the indemnified party or parties except as set forth below); provided, however, that such counsel shall be satisfactory to the indemnified party. Notwithstanding the indemnifying party's election to appoint counsel to

represent the indemnified party in an action, the indemnified party shall have the right to employ separate counsel (including local counsel), and the indemnifying party shall bear the reasonable fees, costs and expenses of such separate counsel (and local counsel) if (i) the use of counsel chosen by the indemnifying party to represent the indemnified party would present such counsel with a conflict of interest, (ii) the actual or potential defendants in, or targets of, any such action include both the indemnified party and the indemnifying party and the indemnified party shall have reasonably concluded that there may be legal defenses available to it and/or other indemnified parties which are different from or additional to those available to the indemnifying party, (iii) the

indemnifying party shall not have employed counsel satisfactory to the indemnified party to represent the indemnified party within a reasonable time after notice of the institution of such action or (iv) the indemnifying party shall authorize the indemnified party to employ separate counsel at the expense of the indemnifying party. An indemnifying party will not, without the prior written consent of the indemnified parties, settle or compromise or consent to the entry of any judgment with respect to any pending or threatened claim, action, suit or proceeding in respect of which indemnification or contribution may be sought hereunder (whether or not the indemnified parties are actual or potential parties to such claim or action) unless such settlement, compromise or consent includes an unconditional release of each indemnified party from all liability arising out of such claim, action, suit or proceeding.

(d) In the event that the indemnity provided in paragraph (a) or (b) of this Section 5 is unavailable to or insufficient to hold harmless an indemnified party for any reason, then each applicable indemnifying party, in lieu of indemnifying such indemnified party, shall have a joint and several obligation to contribute to the aggregate losses, claims, damages and liabilities (including legal or other expenses reasonably incurred in connection with investigating or defending same) (collectively "Losses") to which such indemnified party may be subject in such proportion as is appropriate to reflect the relative benefits received by such indemnifying party, on the one hand, and such indemnified party, on the other hand, from the Initial Placement and the Shelf Registration Statement which resulted in such Losses; provided, however, that in no case shall any Purchaser or any subsequent Holder of any Security be responsible, in the aggregate, for any amount in excess of the purchase discount or commission applicable to such Security, as set forth on the cover page of the Final Memorandum, nor shall any underwriter be responsible for any amount in excess of the underwriting discount or commission applicable to the securities purchased by such underwriter under the Shelf Registration Statement which resulted in such Losses. If the allocation provided by the immediately preceding sentence is

unavailable for any reason, the indemnifying party and the indemnified party shall contribute in such proportion as is appropriate to reflect not only such relative benefits but also the relative fault of such indemnifying party, on the one hand, and such indemnified party, on the other hand, in connection with the statements or omissions which resulted in such Losses as well as any other relevant equitable considerations. Benefits received by the Company shall be deemed to be equal to the sum of (x) the total net proceeds from the Initial Placement (before deducting expenses) as set forth on the cover page of the Final Memorandum and (y) the total amount of additional interest which the Company was not required to pay as a result of registering the securities covered by the Shelf Registration Statement which resulted in such Losses. Benefits received by the Initial Purchaser shall be deemed to be equal to the total purchase discounts and commissions as set forth on the cover page of the Final Memorandum, and benefits received by any other Holders shall be deemed to be equal to the value of receiving Securities registered under the Act. Benefits received by any underwriter shall be deemed to be equal to the total underwriting discounts and commissions, as set forth on the cover page of the Prospectus forming a part of the Shelf Registration Statement which resulted in such Losses. Relative fault shall be determined by reference to whether any alleged untrue statement or omission relates to information provided by the indemnifying party, on the one hand, or by the indemnified party, on the other hand. The parties agree that it would not be just and equitable if contribution were

determined by pro rata allocation or any other method of allocation which does not take account of the equitable considerations referred to above. Notwithstanding the provisions of this paragraph (d), no person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. For purposes of this Section 6, each person who controls a Holder within the meaning of either the Act or the Exchange Act and each director, officer, employee and agent of such Holder shall have the same rights to contribution as such Holder, and each person who controls the Company within the meaning of either the Act or the Exchange Act, each officer of the Company who shall have signed the Shelf Registration Statement and each director of the Company shall have the same rights to contribution as the Company, subject in each case to the applicable terms and conditions of this paragraph (d).

(e) The provisions of this Section 5 will remain in full force and effect, regardless of any investigation made by or on behalf of any Holder or the Company or any of the officers, directors or controlling persons referred to in Section 5 hereof, and will survive the sale by a Holder of securities covered by a Shelf Registration Statement.

6. Miscellaneous.

(a) No Inconsistent Agreements. The Company has not, as of the date hereof, entered into, nor shall it, on or after the date hereof, enter into, any agreement with respect to its securities that is inconsistent with the rights granted to the Holders herein or otherwise conflicts with the provisions hereof.

(b) Amendments and Waivers. The provisions of this Agreement, including the provisions of this sentence, may not be amended, qualified, modified or supplemented, and waivers or consents to departures from the provisions hereof may not be given, unless the Company has obtained the written consent of the Holders of at least a majority of the then outstanding aggregate principal amount of Securities; provided that, with respect to any matter that directly or indirectly affects the rights of any Purchaser hereunder, the Company shall obtain the written consent of each such Purchaser against which such amendment, qualification, supplement, waiver or consent is to be effective. Notwithstanding the foregoing (except the foregoing proviso), a waiver or consent to departure from the provisions hereof with respect to a matter that relates exclusively to the rights of Holders whose securities are being sold pursuant to a Shelf Registration Statement and that does not directly or indirectly affect the rights of other Holders may be given by the Majority Holders, determined on the basis of securities being sold rather than registered under such Shelf Registration Statement.

(c) Notices. All notices and other communications provided for or permitted hereunder shall be made in writing by hand-delivery, first- class mail, telex, telecopier, or air courier guaranteeing overnight delivery:

(1) if to a Holder, at the most current address given by such holder to the Company in accordance with the provisions of this Section 6(c), which

address initially is, with respect to each Holder, the address of such Holder maintained by the Registrar under the Indenture, with a copy in like manner to Salomon Brothers Inc;

(2) if to you, initially at the respective address set forth in the Purchase Agreement; and

(3) if to the Company, initially at its address set forth in the Purchase Agreement.

All such notices and communications shall be deemed to have been duly given

when received.

The Purchasers or the Company by notice to the other may designate additional or different addresses for subsequent notices or communications.

(d) Successors and Assigns. This Agreement shall inure to the benefit of and be binding upon the successors and assigns of each of the parties, including, without the need for an express assignment or any consent by the Company thereto, subsequent Holders of Securities. The Company hereby agrees to extend the benefits of this Agreement to any Holder of Securities and any such Holder may specifically enforce the provisions of this Agreement as if an original party hereto.

(e) Counterparts. This Agreement may be executed in any number of counterparts and by the parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute one and the same agreement.

(f) Headings. The headings in this agreement are for convenience of reference only and shall not limit or otherwise affect the meaning hereof.

(g) Governing Law. This agreement shall be governed by and construed in accordance with the internal laws of the State of New York applicable to agreements made and to be performed in said State.

(h) Severability. In the event that any one of more of the provisions contained herein, or the application thereof in any circumstances, is held invalid, illegal or unenforceable in any respect for any reason, the validity, legality and enforceability of any such provision in every other respect and of the remaining provisions hereof shall not be in any way impaired or affected thereby, it being intended that all of the rights and privileges of the parties shall be enforceable to the fullest extent permitted by law.

(i) Securities Held by the Company, etc. Whenever the consent or approval of Holders of a specified percentage of principal amount of Securities is required hereunder, Securities held by the Company or its Affiliates (other than subsequent Holders of Securities if such subsequent Holders are deemed to be

Affiliates solely by reason of their holdings of such Securities) shall not be counted in determining whether such consent or approval was given by the Holders of such required percentage.

(j) The sole and exclusive remedy of you and the Holders for any failure of the Company to perform any of its obligations under Section 2 hereof shall be as set forth in Section 6.17 of the Indenture.

Please confirm that the foregoing correctly sets forth the agreement between the Company and you.

Very truly yours,

CARTER HAWLEY HALE STORES, INC.

By: _____
Name:
Title:

Accepted in New York, New York

December __, 1993

SALOMON BROTHERS INC

By: SALOMON BROTHERS INC

By: _____
Title:

January 7, 1994

Carter Hawley Hale Stores, Inc.
3880 North Mission Road
Los Angeles, California 90031

Re: Registration Statement on Form S-3

Gentlemen:

We have examined the Registration Statement on Form S-3 filed by Carter Hawley Hale Stores, Inc. (the "Company") with the Securities and Exchange Commission on January 7, 1994 (the "Registration Statement"), relating to the shelf registration of the sale by the holders thereof of $143,750,000 aggregate principal amount of the Company's 6 1/4% Convertible Senior Subordinated Notes due 2000 (the "Notes") and 11,792,453 shares of the Company's common stock, par value $.01 per share issuable upon conversion of the Notes (the "Shares"). We have examined that certain indenture, dated December 21, 1993 (the "Indenture"), between the Company and Continental Bank, National Association as trustee (the "Trustee") under which the Notes were issued. We are familiar with the proceedings heretofore taken by the Company in connection with the authorization, registration, issuance and sale of the Notes and Shares.

It is our opinion that the Notes constitute legally valid and binding obligations of the Company, enforceable against the Company in accordance with their terms, except as limited by bankruptcy, insolvency, reorganization, moratorium or similar laws affecting creditors' rights generally, and except that we advise you that the enforceability of the Notes is subject to the effect of general principles of equity including, without limitation, concepts of materiality, reasonableness, good faith and fair dealing and the possible unavailability of specific performance or injunctive relief regardless of whether considered in a proceeding in equity or at law.

Based on the foregoing, it is our opinion that the Shares, if and when issued upon conversion of the Notes in the manner prescribed in the Indenture, will be validly issued, fully paid and nonassessable.

We hereby consent to the use of this opinion as an exhibit to the Registration Statement and to the reference to this firm appearing under the heading "Legal Matters" in the prospectus which is contained in the Registration Statement.

This opinion is furnished to you in connection with the filing of the Registration Statement, and is not to be used, circulated, quoted or otherwise relied upon for any other purposes, except as expressly provided in the preceding paragraph.

Respectfully submitted,

Milbank, Tweed, Hadley & McCloy

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CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Prospectus constituting part of this Registration Statement on Form S-3 of our reports dated March 12, 1993 appearing on pages 30 and 31 of Carter Hawley Hale Stores, Inc.'s Annual Report on Form 10-K for the fifty-two week period ended January 30, 1993, as amended by the Company's Amended Annual Report on Form 10-K/A No. 1 dated May 14, 1993. We also consent to the reference to us under the heading "Experts" in such Prospectus.

PRICE WATERHOUSE

Los Angeles, California
January 6, 1994

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM T-1

STATEMENT OF ELIGIBILITY
UNDER THE TRUST INDENTURE ACT OF 1939 OF A
CORPORATION DESIGNATED TO ACT AS TRUSTEE

CHECK IF AN APPLICATION TO DETERMINE
ELIGIBILITY OF A TRUSTEE PURSUANT TO SECTION
305(B)(2)

CONTINENTAL BANK, NATIONAL ASSOCIATION
(EXACT NAME OF TRUSTEE AS SPECIFIED IN ITS CHARTER)

36-0947896
(I.R.S. EMPLOYER
IDENTIFICATION NO.)

231 SOUTH LASALLE STREET, CHICAGO, ILLINOIS (ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)	60697 (ZIP CODE)

CARTER HAWLEY HALE STORES, INC.
(EXACT NAME OF OBLIGOR AS SPECIFIED IN ITS CHARTER)

DELAWARE (STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	94-0457907 (I.R.S. EMPLOYER IDENTIFICATION NO.)
3880 NORTH MISSION ROAD LOS ANGELES, CALIFORNIA (ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)	90031 (ZIP CODE)

6 1/4% CONVERTIBLE SENIOR SUBORDINATED NOTES DUE 2000
(TITLE OF THE INDENTURE SECURITIES)

ITEM 1. GENERAL INFORMATION.

FURNISH THE FOLLOWING INFORMATION AS TO THE TRUSTEE:

(A) NAME AND ADDRESS OF EACH EXAMINING OR SUPERVISING AUTHORITY TO WHICH IT IS SUBJECT.

Comptroller of the Currency, Washington, D.C.

Chicago Clearing House Association, 164 W. Jackson Boulevard, Chicago, Illinois.

Federal Deposit Insurance Corporation, Washington, D.C.

The Board of Governors of the Federal Reserve System, Washington, D.C.

(B) WHETHER IT IS AUTHORIZED TO EXERCISE CORPORATE TRUST POWERS.

Yes.

ITEM 2. AFFILIATIONS WITH THE OBLIGOR.

IF THE OBLIGOR IS AN AFFILIATE OF THE TRUSTEE, DESCRIBE EACH SUCH AFFILIATION.

The obligor is not an affiliate of the trustee.

ITEM 3. VOTING SECURITIES OF THE TRUSTEE.

FURNISH THE FOLLOWING INFORMATION AS TO EACH CLASS OF VOTING SECURITIES OF THE TRUSTEE:

AS OF JANUARY 4, 1994

<TABLE>
<CAPTION>

COL. A TITLE OF CLASS	COL. B AMOUNT OUTSTANDING
<S>	<C>

</TABLE>

Not applicable by virtue of response to Item 13.

ITEM 4. TRUSTEESHIPS UNDER OTHER INDENTURES.

IF THE TRUSTEE IS A TRUSTEE UNDER ANOTHER INDENTURE UNDER WHICH ANY OTHER SECURITIES, OR CERTIFICATES OF INTEREST OR PARTICIPATION IN ANY OTHER SECURITIES, OF THE OBLIGOR ARE OUTSTANDING, FURNISH THE FOLLOWING INFORMATION:

(A) TITLE OF THE SECURITIES OUTSTANDING UNDER EACH SUCH OTHER INDENTURE.

Not applicable by virtue of response to Item 13.

(B) A BRIEF STATEMENT OF THE FACTS RELIED UPON AS A BASIS FOR THE CLAIM

THAT NO CONFLICTING INTEREST WITHIN THE MEANING OF SECTION 310(B)(1) OF THE ACT ARISES AS A RESULT OF THE TRUSTEESHIP UNDER ANY SUCH OTHER INDENTURE, INCLUDING A STATEMENT AS TO HOW THE INDENTURE SECURITIES WILL RANK AS COMPARED WITH THE SECURITIES ISSUED UNDER SUCH OTHER INDENTURE.

Not applicable by virtue of response to Item 13.

ITEM 5. INTERLOCKING DIRECTORATES AND SIMILAR RELATIONSHIPS WITH THE OBLIGOR OR UNDERWRITERS.

IF THE TRUSTEE OR ANY OF THE DIRECTORS OR EXECUTIVE OFFICERS OF THE TRUSTEE IS A DIRECTOR, OFFICER, PARTNER, EMPLOYEE, APPOINTEE, OR REPRESENTATIVE OF THE OBLIGOR OR OF ANY UNDERWRITER FOR THE OBLIGOR, IDENTIFY EACH SUCH PERSON HAVING ANY SUCH CONNECTION AND STATE THE NATURE OF EACH SUCH CONNECTION.

Not applicable by virtue of response to Item 13.

ITEM 6. VOTING SECURITIES OF THE TRUSTEE OWNED BY THE OBLIGOR OR ITS OFFICIALS.

FURNISH THE FOLLOWING INFORMATION AS TO THE VOTING SECURITIES OF THE TRUSTEE OWNED BENEFICIALLY BY THE OBLIGOR AND EACH DIRECTOR, PARTNER AND EXECUTIVE OFFICER OF THE OBLIGOR.

AS OF JANUARY 4, 1994

<TABLE>
<CAPTION>

COL. A	COL. B	COL. C	COL. D
NAME OF OWNER	TITLE OF CLASS	AMOUNT OWNED BENEFICIALLY	PERCENTAGE OF VOTING SECURITIES REPRESENTED BY AMOUNT GIVEN IN COL. C
<S>	<C>	<C>	<C>

</TABLE>

Not applicable by virtue of response to Item 13.

ITEM 7. VOTING SECURITIES OF THE TRUSTEE OWNED BY UNDERWRITERS OR THEIR OFFICIALS.

FURNISH THE FOLLOWING INFORMATION AS TO THE VOTING SECURITIES OF THE TRUSTEE OWNED BENEFICIALLY BY EACH UNDERWRITER FOR THE OBLIGOR AND EACH DIRECTOR, PARTNER, AND EXECUTIVE OFFICER OF EACH SUCH UNDERWRITER.

AS OF JANUARY 4, 1994

<TABLE>
<CAPTION>

COL. A	COL. B	COL. C	COL. D
			PERCENTAGE OF VOTING SECURITIES

NAME OF OWNER	TITLE OF CLASS	AMOUNT OWNED BENEFICIALLY	REPRESENTED BY AMOUNT GIVEN IN COL. C
<S>	<C>	<C>	<C>

</TABLE>

Not applicable by virtue of response to Item 13.

ITEM 8. SECURITIES OF THE OBLIGOR OWNED OR HELD BY THE TRUSTEE.

FURNISH THE FOLLOWING INFORMATION AS TO SECURITIES OF THE OBLIGOR OWNED BENEFICIALLY OR HELD AS COLLATERAL SECURITY FOR OBLIGATIONS IN DEFAULT BY THE TRUSTEE:

AS OF JANUARY 4, 1994

<TABLE>
<CAPTION>

COL. A	COL. B	COL. C	COL. D
TITLE OF CLASS	WHETHER THE SECURITIES ARE VOTING OR NONVOTING SECURITIES	AMOUNT OWNED BENEFICIALLY OR HELD AS COLLATERAL SECURITY FOR OBLIGATIONS IN DEFAULT	PERCENT OF CLASS REPRESENTED BY AMOUNT GIVEN IN COL. C
<S>	<C>	<C>	<C>

</TABLE>

Not applicable by virtue of response to Item 13.

ITEM 9. SECURITIES OF UNDERWRITERS OWNED OR HELD BY THE TRUSTEE.

IF THE TRUSTEE OWNS BENEFICIALLY OR HOLDS AS COLLATERAL SECURITY FOR OBLIGATIONS IN DEFAULT ANY SECURITIES OF AN UNDERWRITER FOR THE OBLIGOR, FURNISH THE FOLLOWING INFORMATION AS TO EACH CLASS OF SECURITIES OF SUCH UNDERWRITER ANY OF WHICH ARE SO OWNED OR HELD BY THE TRUSTEE.

AS OF JANUARY 4, 1994

<TABLE>
<CAPTION>

COL. A	COL. B	COL. C	COL. D
NAME OF ISSUER AND TITLE OF CLASS	AMOUNT OUTSTANDING	AMOUNT OWNED BENEFICIALLY OR HELD AS COLLATERAL SECURITY FOR OBLIGATIONS IN DEFAULT BY TRUSTEE	PERCENT OF CLASS REPRESENTED BY AMOUNT GIVEN IN COL. C
<S>	<C>	<C>	<C>

</TABLE>

Not applicable by virtue of response to Item 13.

ITEM 10. OWNERSHIP OR HOLDINGS BY THE TRUSTEE OF VOTING SECURITIES OF CERTAIN AFFILIATES OR SECURITY HOLDERS OF THE OBLIGOR.

IF THE TRUSTEE OWNS BENEFICIALLY OR HOLDS AS COLLATERAL SECURITY FOR OBLIGATIONS IN DEFAULT VOTING SECURITIES OF A PERSON WHO, TO THE KNOWLEDGE OF THE TRUSTEE (1) OWNS 10 PERCENT OR MORE OF THE VOTING SECURITIES OF THE OBLIGOR OR (2) IS AN AFFILIATE, OTHER THAN A SUBSIDIARY, OF THE OBLIGOR, FURNISH THE FOLLOWING INFORMATION AS TO THE VOTING SECURITIES OF SUCH PERSON.

AS OF JANUARY 4, 1994

<TABLE>
<CAPTION>

COL. A	COL. B	COL. C	COL. D
NAME OF ISSUER AND TITLE OF CLASS	AMOUNT OUTSTANDING	AMOUNT OWNED BENEFICIALLY OR HELD AS COLLATERAL SECURITY FOR OBLIGATIONS IN DEFAULT BY TRUSTEE	PERCENT OF CLASS REPRESENTED BY AMOUNT GIVEN IN COL. C
<S>	<C>	<C>	<C>

</TABLE>

Not applicable by virtue of response to Item 13.

ITEM 11. OWNERSHIP OR HOLDINGS BY THE TRUSTEE OF ANY SECURITIES OF A PERSON OWNING 50 PERCENT OR MORE OF THE VOTING SECURITIES OF THE OBLIGOR.

IF THE TRUSTEE OWNS BENEFICIALLY OR HOLDS AS COLLATERAL SECURITY FOR OBLIGATIONS IN DEFAULT ANY SECURITIES OF A PERSON WHO, TO THE KNOWLEDGE OF THE TRUSTEE, OWNS 50 PERCENT OR MORE OF THE VOTING SECURITIES OF THE OBLIGOR, FURNISH THE FOLLOWING INFORMATION AS TO EACH CLASS OF SECURITIES OF SUCH PERSON ANY OF WHICH ARE SO OWNED OR HELD BY THE TRUSTEE.

AS OF JANUARY 4, 1994

<TABLE>
<CAPTION>

COL. A	COL. B	COL. C	COL. D
NAME OF ISSUER AND TITLE OF CLASS	AMOUNT OUTSTANDING	AMOUNT OWNED BENEFICIALLY OR HELD AS COLLATERAL SECURITY FOR OBLIGATIONS IN DEFAULT BY TRUSTEE	PERCENT OF CLASS REPRESENTED BY AMOUNT GIVEN IN COL. C
<S>	<C>	<C>	<C>

</TABLE>

Not applicable by virtue of response to Item 13.

5

ITEM 12. INDEBTEDNESS OF THE OBLIGOR TO THE TRUSTEE.

EXCEPT AS NOTED IN THE INSTRUCTIONS, IF THE OBLIGOR IS INDEBTED TO THE TRUSTEE, FURNISH THE FOLLOWING INFORMATION:

AS OF JANUARY 4, 1994

<TABLE>
<CAPTION>

COL. A	COL. B	COL. C
NATURE OF INDEBTEDNESS	AMOUNT OUTSTANDING	DATE DUE

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

</TABLE>

Not applicable by virtue of response to Item 13.

ITEM 13. DEFAULTS BY THE OBLIGOR.

(A) STATE WHETHER THERE IS OR HAS BEEN A DEFAULT WITH RESPECT TO THE SECURITIES UNDER THIS INDENTURE. EXPLAIN THE NATURE OF ANY SUCH DEFAULT.

There is not nor has there been a default with respect to the securities under this indenture.

(B) IF THE TRUSTEE IS A TRUSTEE UNDER ANOTHER INDENTURE UNDER WHICH ANY OTHER SECURITIES, OR CERTIFICATES OF INTEREST OR PARTICIPATION IN ANY OTHER SECURITIES, OF THE OBLIGOR ARE OUTSTANDING, OR IS TRUSTEE FOR MORE THAN ONE OUTSTANDING SERIES OR SECURITIES UNDER THE INDENTURE, STATE WHETHER THERE HAS BEEN A DEFAULT UNDER ANY SUCH INDENTURE OR SERIES, IDENTIFY THE INDENTURE OR SERIES AFFECTED, AND EXPLAIN THE NATURE OF ANY SUCH DEFAULT.

There is not nor has there been a default with respect to the securities outstanding under this indenture. The trustee is not a trustee under another indenture under which securities issued by the obligor are outstanding.

ITEM 14. AFFILIATIONS WITH THE UNDERWRITERS.

IF ANY UNDERWRITER IS AN AFFILIATE OF THE TRUSTEE, DESCRIBE EACH SUCH AFFILIATION.

Not applicable by virtue of response to Item 13.

ITEM 15. FOREIGN TRUSTEE.

IDENTIFY THE ORDER OR RULE PURSUANT TO WHICH THE FOREIGN TRUSTEE IS AUTHORIZED TO ACT AS SOLE TRUSTEE UNDER INDENTURES QUALIFIED OR TO BE QUALIFIED UNDER THE ACT.

Not applicable.

ITEM 16. LIST OF EXHIBITS.

LIST BELOW ALL EXHIBITS FILED AS A PART OF THIS STATEMENT OF ELIGIBILITY AND QUALIFICATION.

1. A copy of the Articles of Association of Continental Bank, National Association as now in effect, incorporated herein by reference to Exhibit 1 to T-1; Registration No. 33-40462.

2. A copy of the certificate of authority to commence business, incorporated herein by reference to Exhibit 2 to T-1; Registration No. 33-26747.

3. A copy of the authorization to exercise corporate trust powers, incorporated herein by reference to Exhibit 3 of Amendment No. 1 to T-1; Registration No. 2-51075.

4. A copy of the existing By-Laws of Continental Bank, National Association as now in effect, incorporated herein by reference to Exhibit 4 to T-1; Registration No. 33-43020.

5. Not applicable by virtue of response to Item 13.

6. The consent of the trustee required by Section 321(b) of the Trust Indenture Act of 1939, incorporated herein by reference to Exhibit 6 of Amendment No. 1 to T-1; Registration No. 2-51075.

7. A copy of the latest report of condition of the trustee published pursuant to law or the requirements of its supervising or examining authority, filed herewith.

8. Not applicable.

9. Not applicable.

SIGNATURE

PURSUANT TO THE REQUIREMENTS OF THE TRUST INDENTURE ACT OF 1939, THE TRUSTEE, CONTINENTAL BANK, NATIONAL ASSOCIATION, A NATIONAL BANKING ASSOCIATION ORGANIZED AND EXISTING UNDER THE LAWS OF THE UNITED STATES OF AMERICA, HAS DULY CAUSED THIS STATEMENT OF ELIGIBILITY TO BE SIGNED ON ITS BEHALF BY THE UNDERSIGNED, THEREUNTO DULY AUTHORIZED, ALL IN THE CITY OF CHICAGO, AND STATE OF ILLINOIS, ON THE 4TH DAY OF JANUARY, 1994.

CONTINENTAL BANK, NATIONAL ASSOCIATION

/s/ Michele Gallo

By _____

MICHELE GALLO
TRUST OFFICER

EXHIBIT 7

(OFFICIAL PUBLICATION)
REPORT OF CONDITION
CONSOLIDATING DOMESTIC AND FOREIGN SUBSIDIARIES OF THE

(LOGO) CONTINENTAL BANK, NATIONAL ASSOCIATION

Charter No. 13639 National Bank Region No. 7

In the state of Illinois at the close of business on September 30, 1993 published in response to call made by Comptroller of the Currency, under title 12, United States Code, Section 161.

<TABLE>
<CAPTION>

ASSETS In Millions

<S>		<C>
Cash and balances due from depository institutions:		
Noninterest-bearing balances and currency and coin		$ 1,790
Interest-bearing balances		2,043
Securities		1,534
Federal funds sold and securities purchased under agreements to resell in domestic offices of the bank and of its Edge and Agreement subsidiaries, and in IBFs:		
Federal funds sold		303
Securities purchased under agreements to resell		1,011
Loans and lease financing receivables:		
Loans and leases, net of unearned income	$11,950	
LESS: Allowance for loan and lease losses	350	
LESS: Allocated transfer risk reserve	0	
Loans and leases, net of unearned income, allowance and reserve		11,600
Assets held in trading accounts		1,565
Premises and fixed assets (including capitalized leases)		215
Other real estate owned		131
Investments in unconsolidated subsidiaries and associated companies		0
Customers' liability to this bank on acceptances outstanding		110
Intangible assets		1
Other assets		1,226
TOTAL ASSETS		$21,529
LIABILITIES		
Deposits:		
In domestic offices		$ 9,817
Noninterest-bearing	$2,485	
Interest-bearing	7,332	
In foreign offices, Edge and Agreement subsidiaries, and IBFs		3,981
Noninterest-bearing	$ 103	
Interest-bearing	3,878	
Federal funds purchased and securities sold under agreements to repurchase in domestic offices of the bank and of its Edge and Agreement subsidiaries, and in IBFs:		
Federal funds purchased		688
Securities sold under agreements to repurchase		584
Demand notes issued to the U.S.Treasury		1,385
Other borrowed money		1,417
Mortgage indebtedness and obligations under capitalized leases		0
Bank's liability on acceptances executed and outstanding		110
Notes and debentures subordinated to deposits		397
Other liabilities		1,065
TOTAL LIABILITIES		19,444
Limited-life preferred stock		0
EQUITY CAPITAL		
Perpetual preferred stock		0
Common stock		685
Surplus		827
Undivided profits and capital reserves		578
LESS: Net unrealized loss on marketable equity securities		0
Cumulative foreign currency translation adjustments		(5)
TOTAL EQUITY CAPITAL		2,085

TOTAL LIABILITIES, LIMITED-LIFE PREFERRED STOCK, AND EQUITY CAPITAL	$21,529

</TABLE>

I, John J. Higgins, Controller of the above-named bank do hereby declare that this Report of Condition is true and correct to the best of my knowledge and belief.

JOHN J. HIGGINS

Controller

November 10, 1993

WAIVER AGREEMENT

THIS WAIVER AGREEMENT (this "Agreement") is entered into as of December 8, 1993 by and between Carter Hawley Hale Stores, Inc. (the "Company") and First Plaza Group Trust, by its trustee, Mellon Bank, N.A. ("First Plaza").

WITNESSETH

WHEREAS, First Plaza and the Company are parties to that certain Stockholder's Agreement, dated as of January 25, 1993 (the "Stockholder's Agreement"), pursuant to which the Company granted to First Plaza certain registration rights with respect to 2.5 million shares (the "FP Shares") of the Company's common stock, par value $.01 per share (the "Common Stock") owned by First Plaza;

WHEREAS, the Company is considering issuing notes or preferred stock (the "Securities"); and

WHEREAS, in connection with the issuance of the Securities (the "Offering"), the Company may grant certain registration rights to or for the benefit of the purchasers or holders of such Securities.

NOW, THEREFORE, in consideration of the mutual agreements contained herein, the parties agree as follows:

Section 1. DEFINITIONS. Initially capitalized terms not otherwise defined herein shall have the meanings ascribed to such terms in the Stockholder's Agreement.

Section 2. WAIVER OF REGISTRATION RIGHTS. First Plaza hereby agrees that it shall not exercise its rights to Demand Registration or Piggy-Back Registration of the FP Shares (i) during the period beginning on the date hereof and ending on the last day of the Lock-Up Period (as defined below), and (ii) that it shall not at any time exercise such rights to Piggy-Back Registration with respect to any registration statement filed in connection with the Offering. The term "Lock-Up Period" shall mean the period commencing on the date hereof and ending on that date which is 90 days after the date of a definitive Offering Memorandum circulated in connection with the Proposed Offering (the "Offering Memorandum"); provided, however, that such Offering Memorandum shall be dated no later than January 30, 1994. In the event circulation of such Offering Memorandum has not commenced on or before January 31, 1994, the Lock-Up Period shall terminate at 11:59 p.m. on January 31, 1994, and this Agreement shall thereupon terminate.

Section 3. TRANSFER OF FP SHARES. During the Lock-Up Period, First

Plaza shall not sell, transfer, distribute or otherwise dispose of any of the FP Shares or any other shares of Common Stock that may now or hereafter be owned, beneficially or

otherwise, by First Plaza.

Section 4. COUNTERPARTS, FACSIMILE TRANSMISSION. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument. This Agreement may also be executed and delivered by facsimile transmission.

Section 5. HEADINGS. Section headings are inserted herein for convenience of reference only and do not form a part of this Agreement.

Section 6. SCOPE OF WAIVER. The parties hereto acknowledge that no representation or promise not expressly contained in this Agreement has been made to such entity and further acknowledge that neither of the parties hereto have agreed to waive any rights not expressly waived herein.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first written above.

CARTER HAWLEY HALE STORES, INC.

By: _____
Name:
Title:

FIRST PLAZA GROUP TRUST

By: Mellon Bank, N.A.
Trustee (as directed by
General Motors Investment
Management Corporation)

By: _____
Name:
Title:

The decision to participant in this investment, any representations made herein by the participant, and any actions taken hereunder by the participant has/have been made solely at the direction of the investment fiduciary who has sole

investment discretion with respect to this investment.