

SECURITIES AND EXCHANGE COMMISSION

FORM 10-K

Annual report pursuant to section 13 and 15(d)

Filing Date: **1999-03-26** | Period of Report: **1998-12-31**
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FILER

LITTLEFIELD ADAMS & CO

CIK: **59870** | IRS No.: **221469846** | State of Incorporation: **NJ** | Fiscal Year End: **1231**
Type: **10-K** | Act: **34** | File No.: **001-08176** | Film No.: **99574081**
SIC: **5130** Apparel, piece goods & notions

Mailing Address

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BOULEVARD
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Business Address

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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

F O R M 1 0 - K

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

<TABLE>
<S> FOR THE FISCAL YEAR ENDED DECEMBER 31, 1998 OR COMMISSION FILE NUMBER 1-8176
<C>
</TABLE>

[] TRANSITION REPORT PURSUANT TO SECTION 13
OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE TRANSITION PERIOD FROM TO .

LITTLEFIELD, ADAMS & COMPANY
(Exact name of Registrant as specified in its charter)

<TABLE>
<S> NEW JERSEY 22-1469846
(State or other jurisdiction (I.R.S. Employer Identification No.)
of incorporation or organization)

6262 EXECUTIVE BLVD., HUBER HEIGHTS, OHIO 45424
(Address or principal executive offices) (Zip Code)
</TABLE>

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE: (937) 236-0660

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT: NONE

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

TITLE OF EACH CLASS

COMMON STOCK, \$1.00 PAR VALUE

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

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

The aggregate market value of voting stock held by non-affiliates of
the registrant at March 17, 1999, was approximately \$6,163,000. On such date,
the last sale price of registrant's common stock was \$3.75 per share. Solely for
the purposes of this calculation, shares beneficially owned by directors and
officers of the registrant and persons owning 5% or more of the registrant's
common stock have been excluded in that such persons may be deemed to be
affiliates of the registrant. Such exclusion should not however be deemed a
determination or admission by the registrant that such individuals are, in fact,
affiliates.

Indicate number of shares outstanding of each of the registrant's
classes of common stock, as of March 17, 1999.

<TABLE>
<CAPTION>

CLASS	OUTSTANDING ON MARCH 17, 1999
-----	-----
<S> Common Stock, par value \$1.00 per share <C>	<C> 2,790,057

DOCUMENTS INCORPORATED BY REFERENCE PART OF THE FORM 10-K INTO WHICH

Definitive Proxy Statement to Shareholders
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Part III, Items 10, 11, 12, and 13

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LITTLEFIELD, ADAMS & COMPANY

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This document incorporates into a single document the requirements of the Securities and Exchange Commission for the Annual Report to Shareholders and the Form 10-K.

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PART I

ITEM 1: BUSINESS

GENERAL INFORMATION

Littlefield, Adams & Company (the "Registrant", the "Company" or "Littlefield") is a New Jersey corporation which was organized in 1949. The Registrant is principally engaged in the design, imprinting and distribution of young men's and boys' active wear products under various license agreements. The Company also designs and markets apparel products with generic and proprietary artwork. The accompanying financial statements include the accounts of Littlefield, Adams & Company and its now dissolved subsidiaries, Medical Sales Associates, Inc., Cornerstone Laboratories, Inc., and NUTECH, Inc. In January 1996, the three former wholly owned subsidiaries, Medical Sales Associates, Inc., Cornerstone Laboratories, Inc., and NUTECH, Inc., were dissolved. Neither Medical Sales Associates, Inc., Cornerstone Laboratories, Inc. nor NUTECH, Inc., conducted any business subsequent to 1995. Two other former wholly owned

subsidiaries, Collegiate Pacific Company and Sports Imprints, Inc. (Littlefield acquired Sports Imprints, Inc. in January, 1993), were merged into the Company effective June 30, 1995. The Company closed its Collegiate Pacific operations on August 31, 1995.

The Registrant's principal executive offices and production facilities are located at 6262 Executive Boulevard, Huber Heights, Ohio 45424. The Company's telephone number is (937) 236-0660.

The Company also maintains an administrative office and sales showroom in the Empire State Building, New York, New York.

Substantially all of the Company's operations are conducted in one industry segment which is the design, imprinting and distribution of young men's and boys' active wear products. Substantially all of the Company's sales are to customers within the United States. See the accompanying Financial Statements for more complete information regarding the Company's revenues, operating profit or loss and assets.

PRODUCTS

Littlefield's products include imprinted and embroidered T-shirts, sweatshirts, boxer shorts and related sportswear. The Company produces its own art designs which are transferred to apparel by the direct textile printing method generally referred to as "screen printing" (the application of plastisol inks directly to garments using polyester mesh screens).

Littlefield is continuously developing new graphics, designs, logos and other art using modern computer equipment and technology; seeking new licenses; researching different methods of applying artwork to garments and seeking newer and faster methods for production of the artwork.

The following table discloses the percentage of total product sales contributed by the classes of products which accounted for the total product sales during each of the past three fiscal years:

<TABLE>

<CAPTION>

PRODUCT CLASS	PERCENTAGE OF TOTAL PRODUCT SALES		
	1998	1997	1996
<S>	<C>	<C>	<C>
T-shirts	97%	98%	88%
Fleece Wear	2%	2%	12%
Boxer Shorts	1%	--	--

</TABLE>

TRADEMARKS

The Company is the owner of the trademark "FunWear", which is registered with the U.S. Patent and Trademark Office, registration number 1,952,545. This registration is due for renewal in 2006. The Company is also in the process of applying to register several other trademarks, as follows:

<TABLE>

<CAPTION>

Trademark	Application Number
<S>	<C>
"TacoBat"	75/231,960
"Stix-n-Stones"	75/304,749
"Stix-n-Bones"	75/304,741

</TABLE>

LICENSES

Refer to Note 1 of the Notes to the Financial Statements.

MARKETS AND CUSTOMERS

The markets for Littlefield's products are principally retail chain stores, specialty stores and department stores.

Littlefield sells its products through Company employed sales

personnel, and, to a lesser degree, through a sales force of independent representatives.

An important part of the Company's ability to compete in the imprinting industry is its ability to create marketable art designs. The Company has its own art staff for that purpose, that uses modern computer equipment and technology. As needed, Littlefield utilizes free-lance artists in various capacities to assist in that effort.

Sales to two customers during 1998 individually exceeded 10% of the total sales for the year. Sales to Wal-Mart and Kmart during 1998 amounted to 60% and 28%, respectively, of annual product sales. Refer to Note 1 of the Notes to the Financial Statements.

Other major customers include: Target, Roses, JC Penney, Meijer, Ames Department Stores, Sears, Duckwall-Alco Stores, Inc., Fred Meyer, Pamida, Inc., and Army and Air Force Exchange Service.

INVENTORY, BACKLOG AND PRODUCTION

The Company maintained an inventory adequate to meet anticipated demands during a 64 day period in 1998, compared to a 84 day period in 1997 and a 69 day period in 1996. The total value of such inventory as of December 31, 1998, was \$3,157,000. During calendar years 1998, 1997 and 1996, \$46,000, \$11,000 and \$56,000, respectively, in merchandise, was returned to the Company by customers.

As of December 31, 1998, 1997 and 1996, the Company had backlogs which consisted of bookings for orders amounting to approximately \$744,000, \$123,000 and \$26,000, respectively. From January 1, 1999 through March 23, 1999, the Company received additional bookings from customers for approximately \$4,243,000. Not all "bookings" constitute contractual commitments, and may therefore be subject to cancellation or modification by customers.

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From time to time, the Company has utilized the services of outside screen printing contractors. Due to the significant increase in demand for the Company's products in 1998, the utilization of outside screen printing contractors became increasingly necessary. Approximately 84% of the goods produced in 1998 were through the services of contract screen printers. The boxer shorts sold in 1998 were purchased as finished products and drop shipped directly to the customer from an outside contractor.

Generally, Littlefield requires payment for goods within 30 to 60 days after delivery; however, exceptions are made on a case by case basis depending on circumstances such as sizes of orders, anticipated future business and past credit experience. As of December 31, 1998, the Company had combined trade and factored net receivables of \$7,815,000, with an average aging period, from delivery, of 17 days.

SUPPLIERS

The Company currently purchases T-shirts, sweatshirts, sweatpants and boxer shorts from various mills and other sources, including outside screen printing contractors. Availability of required garments is usually plentiful, with some short-term shortages of particularly popular styles and/or colors. Good relationships with suppliers are very important, and the Company believes its relationships with its major suppliers are excellent. During 1998, three suppliers individually provided 10% or more of the Company's total garment purchases, with one supplier accounting for approximately 65% of apparel goods purchased in 1998.

EMPLOYEES

As of December 31, 1998, the Company had approximately 50 full time employees, and the Company believes that employee relations are good.

COMPETITION

The Company competes against a large number of national and regional manufacturers of similar products and does not have a dominant market share in the imprinted young men's and boys' active wear industry. The Company believes that competition is based on popularity of a particular licensed brand, price, quality of merchandise, artistic creativity and service, including timeliness of delivery.

There are a significant number of major participants in the imprinted young men's and boys' active wear industry. Trau & Loevner, Freeze/Central Mills, Giant Merchandising, Logotel, Inc., Changes, Stanley Desantis, Inc., Winterland Productions, Wild Oats, and Red Sun Printed Apparel are among the Company's most significant competitors.

COST AND EFFECT OF COMPLIANCE WITH ENVIRONMENTAL REGULATIONS

To the best of management's knowledge, the Company will not be required to directly incur material expenses in conjunction with federal, state and local environmental regulations; however, like all other companies, there are many incalculable indirect expenses associated with compliance by other entities that affect the prices paid by the Company for goods and services.

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ITEM 2: PROPERTIES

The following tables set forth information with respect to the material real property owned or leased by the Registrant as of December 31, 1998. For more detailed information, refer to Note 15 of the Notes to the Financial Statements.

<TABLE>

<CAPTION>

LOCATION	GENERAL CHARACTER AND USE OF PROPERTY	OWNERSHIP OR EXPIRATION DATE OF LEASE
<S>	<C>	<C>
Huber Heights, Ohio	64,000 square feet, used for administration and graphics design, imprinting and shipping.	1999 *
New York, New York	2,000 square feet in the Empire State Building, used as a sales showroom and for administration.	2004

</TABLE>

* Management is evaluating whether to seek a renewal on the lease for its Ohio facilities. The lease expires December 31, 1999. Management believes that either the current lease will be renewed, or a lease for an alternate facility will be finalized by August 31, 1999.

As of December 31, 1998, the Registrant's facilities and the equipment located therein were in good working condition and adequate for its needs and any contemplated future expansion.

ITEM 3: LEGAL PROCEEDINGS

The Company is not involved in any litigation or other reportable legal proceedings.

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

During the fourth quarter of 1998, no matters were submitted to a vote of security holders, through the solicitation of proxies or otherwise.

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PART II

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

Since September 8, 1997, Littlefield's Common Stock has traded on the NASD's OTC Electronic Bulletin Board ("OTC BB") under the symbol "FUNW". The symbol reflects FUNWEAR, a registered trademark used by the Company. Prior to September 8, 1997, the Company's Common Stock was traded on the American Stock Exchange (the "AMEX") under the symbol "LFA". Because Littlefield did not fully satisfy all of the guidelines of the AMEX for continued listing, the Company consented to the removal of its Common Stock from the AMEX. September 5, 1997

was the last day of trading for the Company's Common Stock on the AMEX.

The high and low trading prices of the Registrant's Common Stock, as reported on the AMEX up to and including September 5, 1997, and as reported on the OTC BB subsequent to that date, during each of the last two fiscal years, were as follows:

	1998		1997	
	High ----	Low ---	High ----	Low ---
<S>	<C>	<C>	<C>	<C>
First Quarter	2	1/8	3 3/8	1 1/8
Second Quarter	5 5/16	15/16	3	1
Third Quarter	5 7/16	2 1/2	1 1/4*	3/16**
Fourth Quarter	6 1/8	3 7/8	5/8	1/8

* Occurred prior to September 5, 1997 while the Registrant's Common Stock was traded on the AMEX.

** Occurred subsequent to September 8, 1997 while the Registrant's Common Stock was traded on the OTC BB.

Over-the-Counter (Electronic Bulletin Board) quotations reflect inter-dealer prices, without retail mark-ups, mark-downs or commissions and may not necessarily represent actual transactions.

The Registrant has not paid any dividends on its common stock during the last two fiscal years and does not expect to pay any cash dividends in the foreseeable future. The Company's credit facility with The Provident Bank prohibits the payment of dividends without their consent (see Note 6 of the Notes to the Financial Statements). There were approximately 542 holders of record of the Registrant's common stock as of December 31, 1998, including several holders who are nominees for an undetermined number of beneficial owners. The Registrant believes there are approximately 1,300 beneficial owners of the Registrant's common stock.

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ITEM 6: SELECTED FINANCIAL DATA

The selected financial data presented below are derived from the audited consolidated financial statements of the Company. The data presented below for the fiscal years ended December 31, 1998, 1997 and 1996, should be read in conjunction with the financial statements, the notes thereto, and the other financial information included in this report.

LITTLEFIELD, ADAMS & COMPANY					
OPERATING RESULTS (1)	1998	1997	1996	1995	1994
-----	----	----	----	----	----
<S>	<C>	<C>	<C>	<C>	<C>
Total revenues	\$25,917	\$ 2,471	\$12,036	\$14,735	\$24,557
Income (loss) before income taxes	2,599	(1,966)	769	(1,006)	951
Income tax benefit (provision)	(133)	29	30	14	(294)
Net income (loss) before extraordinary gain	2,466	(1,937)	799	(992)	657
Extraordinary gain, net	--	--	94	--	--
Net income (loss)	2,466	(1,937)	893	(992)	657
Basic earnings per share:					
Weighted average common shares outstanding	2,785,536	2,780,057	2,774,169	2,275,701	2,229,321
Net income (loss) per common share:					
Before extraordinary gain	0.89	(0.70)	0.29	(0.44)	0.29
Extraordinary gain	--	--	0.03	--	--
Net income (loss) per common share	0.89	(0.70)	0.32	(0.44)	0.29
	====	=====	=====	=====	=====
Diluted earnings per share:					
Weighted average common shares and common					

share equivalents outstanding	4,177,919	2,780,057	2,967,812	2,275,701	2,230,391
Net income (loss) per common share:					
Before extraordinary gain	0.60	(0.70)	0.27	(0.44)	0.29
Extraordinary gain	--	--	0.03	--	--
	----	-----	----	-----	----
Net income (loss) per common share	0.60	(0.70)	0.30	(0.44)	0.29
	=====	=====	=====	=====	=====

FINANCIAL POSITION (1)

Working capital	\$ 5,548	\$ 21	\$ 1,336	\$ (295)	\$ 605
Working capital ratio	1.93/1	1.02/1	1.36/1	.94/1	1.09/1
Property, plant and equipment, net	486	416	558	1,109	1,254
Total assets	12,009	1,498	6,120	6,676	9,232
Long term debt, less current portion	3,137	18	1	119	219
Shareholders' investment	2,867	384	2,321	24	1,172

</TABLE>

(1) Dollars in thousand except for per share amounts.

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

The following discussion provides information which management believes is relevant to assessing and understanding the Registrant's results of operations and financial condition. This discussion should be read in conjunction with the financial statements included in this report on Form 10-K and their accompanying notes.

RESULTS OF OPERATIONS

The following table sets forth, for the years indicated, certain items related to the Company's results of operations as a percentage of net product sales.

<TABLE>
<CAPTION>

FOR THE YEARS ENDED DECEMBER 31,			
	1998	1997	1996
<S>	<C>	<C>	<C>
Net product sales (in thousands)	\$25,917 100.0%	\$2,436 100.0%	\$11,884 100.0%
Add: Other revenues	--	1.4%	1.3%
Less: Cost of products sold	69.3%	114.3%	70.7%
Selling and administrative expenses	19.1%	81.9%	27.3%
Impairment loss	0.1	15.3%	--
	-----	-----	-----
Income (loss) from operations	11.5%	(110.1)%	3.3%
	=====	=====	=====

</TABLE>

In years prior to 1997, the Company was substantially dependent on sales of Harley-Davidson Motor Co. (Harley-Davidson) licensed products to generate cash flow from operations and provide funds to meet the Company's obligations as they became due. The Company's Harley-Davidson license agreement expired on December 31, 1996, and was not renewed by Harley-Davidson. Consequently, the Company's product sales in 1997 were dramatically reduced from levels attained in 1996 and before, and the Company incurred a net loss of \$1,937,000 for the year ended December 31, 1997.

The diminished revenues experienced by the Company during 1997 and the first quarter of 1998 had a material adverse effect on its results of operations and financial condition. In April 1998, the Company finalized a multi-year license agreement with World Championship Wrestling, Inc. ("WCW"). Littlefield started shipping WCW licensed products during late April 1998. Demand for the

WCW licensed products exceeded management's expectations, and sales rapidly increased. With net sales of \$2,908,000, \$12,274,000 and \$10,319,000 in the 1998 second, third and fourth quarters, respectively, the Company generated income from operations of \$188,000, \$1,858,000 and \$1,284,000 in the respective quarters. Management believes the significant increase in revenues during the second, third and fourth quarters of 1998, plus the utilization of the \$1,200,000 in proceeds from the Company's private offering of 7% Convertible Subordinated Debentures completed on April 24, 1998, are providing sufficient cash flows for the Company to satisfy its obligations as they become due.

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1998 COMPARED TO 1997

Net Product Sales

Net sales increased sharply in 1998, rising from \$2,436,000 in 1997 to \$25,917,000 in 1998. This represents an increase of 964% in net sales from 1997 to 1998. The nearly \$26 million in revenues in 1998 places the Company's annual revenues at their highest level since 1982. During April 1998, the Company and World Championship Wrestling, Inc., a Time Warner Company, finalized a merchandising license agreement for the names, likenesses, characters, trademarks, and/or copyrights of World Championship Wrestling ("WCW") and the New World Order (the "nWo"). Sales of WCW and nWo (collectively, "WCW") licensed products exceeded management expectations. Sales of WCW licensed products accounted for 94% of total 1998 sales.

The Company's WCW licensed products, featuring artwork depicting professional wrestlers, were extremely popular in 1998. Buyers from the Company's major customers placed large initial orders without utilizing the "test order" process common to the industry. Point of sale data from Littlefield's largest customers indicated that the initial orders for WCW licensed products were sold at record rates by retailers. The Company's average selling price for goods sold in 1998 was 21.1% higher than the average selling price in 1997.

During 1998, sales of "The Simpsons" and "King of the Hill" (Twentieth Century Fox) licensed products totaled \$1,342,000, or approximately 5% of 1998 net sales. In May 1998, the Company entered the boxer shorts segment of the apparel industry with shipments of approximately \$160,000 of boxer shorts. All boxer shorts sold in 1998 were under the Company's license for The Simpsons. The boxer shorts sold in 1998 were purchased as finished products and drop shipped directly to the customer from an outside contractor.

The Company has participated in several special promotions with WCW, including live appearances by professional wrestlers. Additional promotions involving live appearances by professional wrestlers are anticipated during 1999. Littlefield is also working with Twentieth Century Fox to develop in-store advertising promotions for licensed products in 1999. There are no assurances, however, that such promotions will in fact be conducted, or that the impact, if any, on the Company's sales of licensed products will be favorable.

Management is assessing the feasibility of utilizing the internet for marketing and selling "Stix-n-Stones" apparel, the Company's proprietary screen printed sportswear. There are no assurances, however, that such internet marketing and sales efforts will in fact be conducted, or that the impact, if any, on the Company's profits will be favorable.

Cost of Products Sold

In 1998, the cost of products sold rose significantly, reflecting the large increase in sales. Gross profit margin, as a percentage of net sales, was 31% in 1998. Management elected to utilize the services of contract screen printers to increase the Company's manufacturing capacity in response to the demand for WCW licensed products, as an alternative to investing capital to increase Littlefield's internal manufacturing capacity. Approximately 77% of the total 1998 cost of products sold relates to work performed by contractors, with one contractor individually accounting for 76% of the total 1998 cost of goods sold. The large volume of additional production needed was taken into consideration when management negotiated the contract printing rates. Overall, management believes the cost relating to contract screen printing utilized in 1998 was competitive with the cost of internal production, and did not burden the Company with additional infrastructure.

The 1998 gross profit margin of 31% compares to (14)% in 1997. With the diminished amount of total net sales experienced in 1997, the cost of products sold in 1997 exceeded net product sales due to unabsorbed overhead. Certain

expenses required to be included in cost of products sold are more fixed in nature, and do not necessarily increase or decrease with changes in sales volume.

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Other Revenues

Littlefield did not have any other revenues in 1998. The \$35,000 of other revenue in 1997 was from the sale of rights to the trademark "Collegiate Pacific". The Company does not expect to receive any material amounts of other revenues in 1999.

Selling and Administrative Expenses

In 1998, selling and administrative expenses were \$2,961,000 greater than during 1997, increasing from \$1,995,000 to \$4,956,000. Royalty expenses increased by \$2,798,000 in 1998 compared with 1997 due to the increase in the sales of licensed products. Included in 1998 selling and administrative expenses is \$105,000 for executive officers' incentive bonuses which are based on profitability. Decreases in various overhead accounts moderated the net increase in selling and administrative expenses, which increased by only \$163,000 excluding royalties. As a percentage of net sales, selling and administrative expenses were 19% in 1998 as compared to 82% in 1997. Lack of sales leverage in 1997 caused the percentage reported to be abnormally high.

Impairment Loss

The Company has assessed, under the guidelines set forth in SFAS No. 121, the recoverability of its investment in long-lived assets. During 1998, the Company recorded an impairment loss of \$34,000 relating to assets held for sale. The \$34,000 impairment loss is included in the calculation of the income from operations in 1998 (see Note 2 of the Notes to the Financial Statements).

In 1997, the Company determined that the recognition of an impairment loss, under the guidelines set forth in SFAS No. 121, was required as of December 31, 1997. Such assessment required the Company to make certain estimates of future sales volumes and prices which were expected to occur over the remaining useful lives of its long-lived assets. Based on this analysis, the Company recognized an impairment loss as of December 31, 1997, in the amount of \$374,000, which eliminated the carrying amount of identified goodwill. The impairment loss is included in the calculation of the loss from operations in 1997 (see Note 2 of the Notes to the Financial Statements).

Interest Expense

Interest expense on short-term debt increased by \$176,000 in 1998 compared to 1997 due to increased borrowings to support the substantial increase in revenues and resulting substantial increases in inventory purchases. Additionally, interest expense of \$58,000 on the 7% Convertible Subordinated Debentures which were issued on April 24, 1998, and \$8,000 on the long-term revolving promissory note signed on December 10, 1998, was recorded. Interest rates on short-term debt experienced by the Company in 1998 and 1997 did not vary significantly. The interest rate of 7% on the Debentures is considerably lower than the interest rates experienced by the Company on short-term debt. The interest rate in effect during December 1998 for the long-term revolving promissory note was 10.75%.

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Income Taxes

The Company records estimated local, state and federal income taxes, including alternative minimum taxes. For the year ended December 31, 1998, the Company reported a net income tax provision of \$133,000. For the year ended December 31, 1997, the Company reported a net income tax benefit of \$29,000. The net tax benefit of \$29,000 for 1997 was to adjust certain estimates of income taxes recorded as of December 31, 1996. A summary of income taxes reported for 1998 and 1997 is as follows:

<TABLE>
<CAPTION>

	For the Years Ended December 31,	
	1998	1997
<S>	<C>	<C>
Estimated combined current year income tax expense	\$ (133,000)	\$ --
Refunds and credits reversed	--	29,000
Total 1998 and 1997 income tax (expense) benefit	\$ (133,000)	\$ 29,000

</TABLE>

As of December 31, 1998, the Company had net operating loss (NOL) carryforwards of approximately \$7,550,000 for federal income tax purposes available to reduce future taxable income. In addition, the Company had an AMT credit carryforward of \$72,000 available to reduce future tax payments. The NOL carryforwards expire in 2002 through 2012 if not utilized. The Company's ability to use its NOL carryforwards to offset future taxable income is subject to restrictions enacted in the Internal Revenue Code of 1986 as amended (the "Code"). These restrictions provide for limitations on the Company's utilization of its NOL carryforwards following certain ownership changes described in the Code. As a result of ownership changes in 1993, \$280,000 of the Company's existing NOL carryforwards are subject to the limitation of which the maximum amount which can be utilized is \$61,000 per year (see Note 16 of the Notes to the Financial Statements).

Accounts Receivable

Net trade and factor receivables increased from \$187,000 at December 31, 1997 to \$7,815,000 at December 31, 1998. The significant increase in sales volume during 1998, and in particular, the net sales in the fourth quarter, produced the great increase in receivables. Net product sales during the fourth quarters of 1997 and 1998 were approximately \$616,000 and \$10,319,000, respectively. Customer payment terms did not change significantly from 1997 to 1998. During the 1998 third and fourth quarters, the Company negotiated early payments, at a discount, from its largest customers in order to stay within borrowing restraints in place at the time. The Company entered into a revolving promissory note effective December 10, 1998, which has substantially increased the Company's borrowing ability (see Note 1 of the Notes to the Financial Statements).

Inventories

Purchases of new inventories required to support the significant increases in sales volume during 1998 caused an increase in the level of inventories. The balance of net inventories increased \$2,516,000 from December 31, 1997 to December 31, 1998. The annualized inventory turnover rate for the year ended December 31, 1998 was up to 5.7 turns per year compared to an annualized rate of 4.3 turns per year for the year ended December 31, 1997. The 964% increase in annual net product sales volume was primarily responsible for the increase in annualized inventory turns, although the 1998 inventory turnover rate was negatively affected by 1998 purchases of inventories for fulfillment of 1999 orders. At December 31, 1998, the net inventories balance was \$3,157,000. Approximately \$2,241,000, or 71%, are blank garments to be utilized in the screen printing process. The largest component of the blank garment inventories is approximately \$1,902,000 of T-shirts (and similar style garments) with sewn-in WCW labels for use in the screen printing of WCW licensed products (see Notes 2 and 3 of the Notes to the Financial Statements).

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Accounts Payable

The balance of accounts payable went from \$117,000 as of December 31, 1997 to \$1,653,000 as of December 31, 1998, an increase of \$1,536,000. The majority of the increase was due to the purchases of inventories in the 1998 fourth quarter and the overall increase in expenditures required to support the significant increase in revenues in 1998.

Accrued Expenses

The balance of accrued expenses went from \$337,000 as of December 31,

1997 to \$1,235,000 as of December 31, 1998, an increase of \$898,000. The significant portion of the increase was due to the increase in accrued royalties from the sales of licensed products (see Note 5 of the Notes to the Financial Statements).

1997 COMPARED TO 1996

Net Product Sales

Net product sales for 1997 were \$2,436,000, a decline of \$9,448,000 (80%) compared to 1996. This substantial decrease is due primarily to the expiration of the Company's Harley-Davidson license on December 31, 1996. Also contributing to the decrease was the difficulty the Company had faced in 1997 when trying to gain customer acceptance of its then currently licensed products. Customers were reluctant to place orders for licensed apparel products which were previously unproven at their stores. Buyers at the Company's major customers generally evaluate new products by utilizing small test orders and then assessing point of sale data generated from the retail sales of such products. Only products which perform well statistically in their test are generally then reordered by the customer. The competition for retail sales dollars in the screen printed novelty T-shirts business was fierce in 1997. Weak overall sales of screen printed novelty T-shirts at the discount retailers, combined with other factors facing the industry, such as excessive inventory levels, put great downward pressure on average selling prices. The Company's average selling price for goods sold in 1997 was 19.4% lower than the average selling price in 1996.

Cost of Products Sold

With the significant decline in sales during 1997, the cost of products sold in 1997 exceeded net product sales due to unabsorbed overhead. Certain expenses required to be included in cost of products sold are more fixed in nature, and do not necessarily increase or decrease with changes in sales volume. Gross profit margin, as a percentage of net sales, was 29% in 1996 as compared to (14)% in 1997. This decline is reflective of the sizable decrease in sales volume and resultant lack of leverage on fixed costs and a much lower average selling price.

Other Revenues

Other revenues declined from \$152,000 in 1996 to \$35,000 in 1997. The decrease is due to the winding-up, in 1996, of a sub-lease agreement from which the Company had received monthly revenues. The \$35,000 of other revenue in 1997 was from the sale of rights to the trademark "Collegiate Pacific".

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Selling and Administrative Expenses

Selling and administrative expenses, as a percentage of net sales, were 82% in 1997, up from 27% in 1996 due to the lack of sales leverage. Selling and administrative expenses were \$1,995,000 in 1997 compared to \$3,242,000 in 1996. Royalty expenses related to the sales of licensed products amounted to \$168,000 and \$671,000 in 1997 and 1996, respectively. The change in royalties relates to the lower sales volume. Total professional fees amounted to approximately \$163,000 and \$475,000 in 1997 and 1996, respectively, a reduction of 66%. Professional fees have declined primarily due to the settlement of numerous lawsuits.

Impairment Loss

The Company has assessed, under the guidelines set forth in SFAS No. 121, the recoverability of its investment in long-lived assets. These long-lived assets consist primarily of property, plant and equipment to be held and used in operations, and prior to its write-off at December 31, 1997, goodwill. The Company determined that the recognition of an impairment loss was required as of December 31, 1997. Such assessment required the Company to make certain estimates of future sales volumes and prices which were expected to occur over the remaining useful lives of its long-lived assets. Based on this analysis, the Company recognized an impairment loss as of December 31, 1997, in the amount of \$374,000, which eliminated the carrying amount of identified goodwill. The impairment loss was included in the calculation of the loss from operations in 1997 (see Note 2 of the Notes to the Financial Statements).

Interest Expense

Decreased average borrowings because of lower inventory levels and reduced selling and administrative spending allowed interest expense to fall to \$120,000 for 1997, compared to \$235,000 in 1996, a decrease of 49%. Interest rates experienced by the Company in 1997 and 1996 did not play a significant role in the reduction of interest expense.

Income Taxes

The Company records estimated local, state and federal income taxes, including federal alternative minimum taxes. For the year ended December 31, 1997, the Company reported a net income tax benefit of \$29,000. For the year ended December 31, 1996, the Company reported a net income tax benefit of \$30,000 before the extraordinary gain. The extraordinary gain of \$94,000 reported in 1996 is net of \$9,000 of estimated income tax expense. The net tax benefits for 1997 and 1996 were due to the reversal of excess prior period accruals of \$29,000 and \$61,000, respectively, based on the refunds and credits requested on the Company's 1996 and 1995 income tax returns (see Note 16 of the Notes to the Financial Statements). A summary of income taxes reported for 1997 and 1996 is as follows:

<TABLE>

<CAPTION>

	For the Years Ended December 31,	
	1997	1996
	-----	-----
<S>	<C>	<C>
Estimated combined current year income tax expense before extraordinary gain	\$ --	\$ (31,000)
Refunds and credits reversed	29,000	61,000
	-----	-----
Net income tax benefit before extraordinary gain	29,000	30,000
Estimated income tax on extraordinary gain	--	(9,000)
	-----	-----
Total 1997 and 1996 income tax benefit	\$ 29,000	\$ 21,000
	=====	=====

</TABLE>

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Inventories

Management was successful in its efforts to reduce inventory during 1997. The balance of net inventories fell \$938,000 (59%) from 1996 to 1997. Purchases of new inventory were tightly controlled and unneeded blank goods were sold to provide working capital for operations. The annualized inventory turnover rate for 1997 decreased to 4.3 turns per year compared to 5.3 turns per year for 1996. The 80% decline in sales volume was primarily responsible for the decrease in annualized inventory turns, even with the 59% reduction in net inventories (see Notes 2 and 3 of the Notes to the Financial Statements).

Accrued Expenses

The Company was previously a party to a license agreement which expired on December 31, 1996. In conjunction with the termination of that license agreement, the Company entered into a Settlement Agreement dated March 1, 1996. The Company had unpaid royalties of approximately \$853,000 relating to sales of these licensed products which were accrued in periods prior to March 1, 1996. Management believes that the Company's liability for these unpaid royalties was discharged under the Settlement Agreement, and that the likelihood of the licensor successfully asserting a claim for such royalties is remote. The Company therefore has reversed the accrual of these unpaid royalties and reported the reversal, net of related estimated legal expenses, as a gain on claims settlement in the fourth quarter of 1997 (see Note 5 of the Notes to the Financial Statements).

LIQUIDITY AND CAPITAL RESOURCES

Littlefield signed a \$10,000,000 Revolving Promissory Note (the "Note") with The Provident Bank ("Provident") on December 10, 1998. The outstanding principal balance is due and payable on December 10, 2000. Accrued interest is payable monthly. The Note is secured by accounts receivable arising from sales to Wal-Mart, Kmart, and Target stores, and inventory. The Note bears interest at prime plus an applicable margin. The initial margin is 3%. The prime rate in effect at December 31, 1998 was 7.75%. The Note provides for possible reductions in the interest rate charged, down to a rate as low as prime plus 1%. To achieve such reductions, Littlefield must successfully meet specified financial milestones. The Company can borrow amounts up to 80% of the outstanding eligible receivables, plus 40% of eligible inventories (not to exceed \$750,000 in borrowings against inventory), plus a \$100,000 compensating balance the Company is required to maintain at Provident. The total amount outstanding at any time cannot exceed \$10,000,000. Collection of payments on eligible receivables are directed to a lock box at Provident. The servicing of the covered accounts receivable is done by Littlefield. The Note contains certain covenants which include restrictions on the payment of dividends, and the Company maintaining: (i) a minimum amount of tangible net worth, (ii) a maximum debt to equity ratio, and (iii) a minimum debt service ratio. As of December 31, 1998, Littlefield was in compliance with such covenants. As of December 31, 1998, the outstanding balance of \$3,125,000 is classified as a long-term liability. The remaining borrowing availability from Provident as of December 31, 1998, was \$2,519,000.

Effective January 25, 1996, the Company entered into a Discount Factoring Agreement with Merchant Factors Corp. On December 1, 1998, Littlefield and Merchant Factors Corp. entered into an Addendum to the Discount Factoring Agreement (the "Addendum"). The Addendum amends the Discount Factoring Agreement to provide that: (a) all of the Company's accounts receivable except for those arising from sales to Wal-Mart, Kmart, and Target stores will be factored; (b) the effective rate of interest shall be prime plus 2%; (c) the Company may receive advances of up to 80% of the net amount of outstanding approved receivables assigned; (d) payments received against assigned receivables are held for five business days before being applied against outstanding advances; (e) the minimum annual amount of factoring commissions is \$50,000, payable monthly; and (f) the Discount Factoring Agreement, as amended, shall continue in effect until December 31, 2000. Accounts receivable which Merchant Factors Corp. approves for credit are being factored at the rate of 1 1/8%. Accounts that are credit approved by Merchant Factors Corp. are at its risk, which minimizes the Company's credit risk. The Company, at its option, can factor at a rate of 1 1/8%, with recourse, accounts that Merchant Factors Corp. does not approve for credit. The servicing of all factored accounts is done by Merchant Factors Corp. Borrowings are secured by the

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assigned accounts receivable. At December 31, 1998 and 1997, the Company had factored receivables amounting to \$2,050,000 and \$182,000, respectively, most of which had been approved for credit by Merchant Factors Corp. The remaining borrowing availability from Merchant Factors Corp. as of December 31, 1998, was approximately \$479,000, as compared to approximately \$138,000 at December 31, 1997.

For the year ended December 31, 1998, operating activities used net cash of \$5,325,000, while net cash of \$233,000 was used in investing activities. The Company borrowed a total of \$25,882,000 during 1998, and repaid \$20,286,000. Additionally, the Company received \$12,000 from the sale of common stock upon exercise of stock options. This resulted in net cash provided by financing activities of \$5,608,000. During 1998, there was a net increase in cash of \$50,000.

At December 31, 1998, the Company had working capital of \$5,548,000 and a working capital ratio of 1.93/1. This compares to December 31, 1997, when the Company had net working capital of \$21,000 and a working capital ratio of 1.02/1.

A major source of trade credit in 1998 was provided by utilizing arrangements for turn-key contract screen printing services. The negotiated cost of these services included the contractor providing the necessary garments. The printing work performed by one such third-party contractor represented 76% of the Company's total apparel production in 1998. The contractor billed the Company for services when all work required had been completed, and the finished products were ready for shipment to Littlefield's customer. In most cases, the goods were shipped to the Company's customer prior to the required payment date of the contractor's invoice. This allowed Littlefield to borrow against the newly created receivables to obtain funds to pay the contractor and provide working capital for normal operations.

As of December 31, 1998, the Company had a backlog which consisted of bookings for orders amounting to approximately \$744,000. From January 1, 1999 through March 23, 1999, the Company received additional bookings from customers

for approximately \$4,243,000. Not all "bookings" constitute contractual commitments, and may therefore be subject to cancellation or modification by customers.

The availability of cash flow from operations subsequent to December 31, 1998 is dependent on the ability of the Company to acquire and sell licensed and proprietary products throughout 1999 and beyond. In order to generate the funds needed to acquire and develop the Company's new license with WCW and support general operations, management raised \$1.2 million with a private offering of 7% Convertible Subordinated Debentures (the "Debentures") which was completed on April 24, 1998. Based on the Company's estimates which include the funds from the Debentures, as well as the sales and bookings subsequent to December 31, 1998 discussed above, the Company believes it can sustain itself for the foreseeable future.

On September 16, 1998, Twentieth Century Fox granted one year extensions to the original terms of the Company's licenses for The Simpsons and King of the Hill. The Simpsons license now expires on December 31, 2000, while the King of the Hill license now concludes on December 31, 2001.

On November 2, 1998, World Championship Wrestling, Inc. (a Time Warner company), in conjunction with its exclusive licensing agent Leisure Concepts, Inc. (the licensing division of 4 Kids Entertainment, Inc.) presented the Company with the first annual "Golden Goldberg" award to signify Littlefield, Adams & Company being named the WCW licensee of the year for 1998.

The Company continues to pursue new licensed property opportunities along with developing in-house proprietary and generic artwork. During January 1999, the Company finalized license agreements with World Championship Wrestling and Warner Brothers to cross-license "WCW" and "nWo" with Looney Tunes cartoon characters. In February 1999, Littlefield finalized three new license agreements for characters in the comic strips "Hagar the Horrible", "Free for All", and "Zits" with Hearst Entertainment, Inc. The comic strips are nationally syndicated by King Features Syndicate.

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The Company manufactures and sells imprinted apparel primarily to national and regional retail discount chains. The success of the Company's licensed product sales with World Championship Wrestling, World Championship Wrestling and Warner Brothers' Looney Tunes cross-license, The Simpsons, King of the Hill, Pepsi and Mountain Dew, Hagar the Horrible, Free for All, Zits and Kawasaki Motors Corp., U.S.A. is an integral part of that effort. The Company gained entry into the boxer shorts segment of the apparel industry with the delivery of approximately \$160,000 of Simpsons' boxer shorts in May 1998. The Company coordinates the development of marketing and sales strategies with its licensors and customers whenever possible.

Purchases and Sales of Property, Plant and Equipment

During 1998, the Company acquired \$241,000 of additional property, plant and equipment. Of the total \$241,000, approximately 34% was for office furniture, fixtures and data processing equipment, 2% was for leasehold improvements, and 64% was for production equipment. During 1998, the Company sold fixed assets, with a net book value of \$24,000, for \$11,000, resulting in a reported net loss of \$13,000. The proceeds were used as working capital and reduced borrowings.

The Company has a 1999 capital expenditures budget of \$250,000.

Legal Matters

The Company is not involved in any litigation or other reportable legal proceedings.

YEAR 2000 READINESS

The Year 2000 Issue exists because many computer systems and applications currently use a two-digit year field to represent a four-digit year, such as 98 to represent 1998. Computer systems that incorrectly process dates occurring for the year 2000 and beyond can either fail or yield unreliable and erroneous information. The Company is continuing to assess its Year 2000 readiness with regards to information technology ("IT") systems, which include the Company's computer systems and applications that provide accounting and

financial reporting, and its non-IT systems, which include the Company's production, shipping and office equipment.

<TABLE>

<CAPTION>

	Year 2000 Readiness Status -----	Projected Year 2000 Readiness Date -----	Estimated Cost of Year 2000 Readiness -----
IT Systems:			

<S>	<C>	<C>	<C>
Computer Hardware	Not ready	May 1999	\$ 2,000 - \$ 25,000
Operating software	Not ready	May 1999	\$ 5,000 - \$ 15,000
Application software	Not ready	May 1999	\$ 2,000 - \$ 50,000
Non-IT Systems:			

Production equipment	Ready		
Shipping equipment	Ready		
Office Equipment	Assessing	June 1999	\$ 0 - \$ 20,000

</TABLE>

In the fourth quarter of 1998, the Company tested, in conjunction with one of its customers and a third-party network provider, it's Electronic Data Interchange ("EDI") systems. The EDI systems are used to transact business electronically with the Company's larger customers. The Company received confirmation from its third-party network provider that the Company's EDI systems are Year 2000 ready.

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In addition to the Company's internal Year 2000 readiness, the Company initiated, in the fourth quarter of 1998, a communication process with third parties including its lending and financial institutions and its largest customers and vendors, to assess their Year 2000 readiness and the potential risk to the Company. The Company's largest customers have established Year 2000 readiness plans and have communicated their expected readiness. A majority of the Company's other customers, vendors and third-parties including its lending and financial institutions have communicated to the Company that they are either Year 2000 ready or expect to be Year 2000 ready and that they do not anticipate an interruption in their ability to accept and provide goods and services and to timely pay for them.

Although the Company expects its critical systems to be compliant by December 31, 1999, there is no assurance these results will be achieved. However, the impact of a failure of any of the Company's information systems would be mitigated to the extent that other alternate processes, including manual processes, were able to meet processing requirements. Presently, Littlefield expects alternate procedures would be able to meet the Company's processing needs.

Littlefield relies on third parties for raw materials, utilities, transportation and other key services. In addition, the Company is dependent upon its customers for cash flow. As described above, the Company has initiated formal communications with its significant suppliers and large customers to determine the extent to which the Company is vulnerable to those third parties' failure to eliminate their own Year 2000 Issues. During the 1999 second quarter, the Company expects to have identified significant customers and suppliers of goods and services which have either indicated to the Company that they will not be able to eliminate Year 2000 Issues which may negatively impact Littlefield, or have not responded to the Company request for information regarding Year 2000 Issues. At that time, Littlefield will begin developing contingency plans for potential non-compliance by these identified third parties. Year 2000 Issues that adversely impact these third parties could also effect the operations of the Company. There can be no assurance the systems of other companies on which the Company's systems rely will be timely converted, or that a failure to convert by another company, or a conversion that is incompatible with the Company's systems, would not have a material adverse effect on the Company.

The Company has evaluated its Year 2000 Issues, and has provided in the table above an estimated range of the costs that may be incurred in order to eliminate any Year 2000 Issues. The total costs that will be incurred by Littlefield in connection with resolving its Year 2000 Issues will be impacted by the Company's ability to successfully identify its Year 2000 Issues, the level of effort required to remediate the issue and the ability of third parties to successfully address their own Year 2000 Issues. Total costs incurred to date relative to the remediation of the Company's Year 2000 Issues have been expensed as incurred and have not been material.

The costs of the project and the date on which the Company plans to complete its Year 2000 assessment and remediation are based on management's estimates, which were derived utilizing numerous assumptions of future events including the continued availability of certain resources, third party modification plans and other factors. However, there can be no assurance that these estimates will be achieved, and actual results could differ significantly from those plans. Specific factors that might cause differences from management's estimates include, but are not limited to, the availability and cost of personnel trained in this area, the ability to locate and correct relevant computer codes, and similar uncertainties. Management believes the Company is devoting the necessary resources to identify and resolve significant Year 2000 Issues in a timely manner.

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CERTAIN FACTORS THAT MAY AFFECT THE COMPANY'S BUSINESS OR FUTURE OPERATING RESULTS

This report contains various forward looking statements and information that are based on management's beliefs as well as assumptions made by and information currently available to management. When used in this report, the words "anticipate", "estimate", "expect", "predict", "project", and similar expressions are intended to identify forward looking statements. Such statements are subject to certain risks, uncertainties and assumptions. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those anticipated, expected or projected. Among the key factors that may have a direct bearing on the Company's results are set forth below.

Future trends for revenues and profitability remain difficult to predict. The Company continues to face many risks and uncertainties, including: general and specific market economic conditions; lack of diversity in licensed products revenues with 94% of 1998 revenues coming from sales of World Championship Wrestling licensed products, reliance on one third-party contractor for a significant portion (76%) of goods produced in 1998, and overall competitive factors which includes the possibility that the Company's competitors may acquire other licenses which prove to have greater consumer demand than any of the Company's active licenses and therefore, reduce the Company's market share.

The general economic condition in the United States could affect the overall consumer buying patterns at the discount retailers. Management believes most consumers purchase screen printed novelty T-shirts as an impulse buy. Discretionary purchases of this type could decrease if the consumer viewed the overall economy as worsening. The price of blank T-shirts bears some relationship to the commodity price of cotton. Unforeseen factors causing a material increase or decrease in the price of cotton could cause an increase or decrease in cost of the Company's primary raw materials. Management is uncertain if any significant price increases could be passed on to its customers.

Management evaluates potential new licenses based on the anticipated popularity of the licensed products and other assumptions such as the number of other existing licensees which would compete with the Company. The Company must also consider the cost required to secure a license, and limit consideration to those licenses which management believes are not too costly. If underlying assumptions prove incorrect, revenues generated from a specific license may not be sufficient to recover the acquisition costs and minimum royalties which may be part of the license agreement. Consumer demand for a certain licensed product is very difficult to predict, and procurement of a specific license does not guarantee sales. Retailers are reluctant to try for a second time, licensed products which failed to deliver acceptable sales results when first tested.

The largest potential market for the Company's products is with the discount retailers. Competition for "open-to-buy" dollars (sales orders) from the buyers at these retailers is extremely intense. The Company competes directly with many other screen printers including some garment mills which are also in the screen printing business. Some of the competitors are larger companies with more financial resources than Littlefield, Adams & Company. Companies supplying products to discount retailers must be able to provide customer required ancillary services such as the ability to transact business electronically ("EDI"), and generally must absorb the related expenses as part of the cost of doing business with the discount retailers. The Company is currently providing the required services, but predicting potential new requirements which may be placed on the Company in the future, along with the related costs, is extremely difficult. Competitors with greater financial resources than the Company would be able to fulfill potential new requirements more readily if the implementation costs of such new services were to be substantial.

ITEM 7A: QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

As of December 31, 1998, Littlefield had financial instruments which were sensitive to changes in interest rates. These financial instruments consisted of: (1) a \$10,000,000 line of credit facility with The Provident Bank; (2) a Discount Factoring Agreement with Merchant Factors Corp.; (3) two promissory notes with The Bank of Floyd; (4) 7% Convertible Subordinated Debentures; (5) other immaterial debt consisting of notes payable and a capital lease; and (6) factored accounts receivable. Items (1), (2) and (3) have variable rates of interest based on the "prime rate" plus a specified margin. Items (4) and (5) have fixed interest rates. On item (6), the Company pays factoring fees of 1.125% of the amounts factored. The Company believes the average collection period for factored receivables is approximately 35 days. The prime rate in effect as of December 31, 1998 was 7.75%. Given today's general economic conditions, management does not believe there will be significant changes in interest rates in the near future; however, no assurances can be given that economic conditions or interest rates will remain stable for any particular period.

INTEREST RATE SENSITIVITY

The table below provides information as of December 31, 1998, about the Company's financial instruments, primarily debt obligations, that are sensitive to changes in interest rates. The table presents principal cash flows and related weighted average interest rates by expected maturity dates. The information is presented in U.S. dollars, which is the Company's reporting currency.

<TABLE>
<CAPTION>

	Expected maturity date			Total	Fair value
	1999	2000	2001		
	----	----	----	----	-----
Liabilities					
Short-term Debt:					
<S>	<C>	<C>	<C>	<C>	<C>
Fixed Rate	\$ 1,241,000	\$ --	\$ --	\$ 1,241,000	\$ 1,241,000
Average interest rate	7.05%	--	--	7.05%	
Variable Rate	1,327,000	--	--	1,327,000	1,327,000
Average interest rate	9.75%	--	--	9.75%	
Long-term Debt:					
Fixed Rate	\$ 25,000	\$ 9,000	\$ 3,000	\$ 37,000	\$ 37,000
Average interest rate	10.44%	13.50%	13.50%	11.43%	
Variable Rate	482,000	3,125,000	--	3,607,000	3,607,000
Average interest rate	8.81%	9.75%	--	9.62%	

</TABLE>

ITEM 8: FINANCIAL STATEMENTS

The financial statements of the Company and the related report of the Company's independent public accountants thereon are included in this report at the page indicated.

<TABLE>
<CAPTION>

	PAGE

<S>	<C>
REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS	F-1
FINANCIAL STATEMENTS:	
Balance Sheets at December 31, 1998 and 1997	F-2
Statements of Operations for the Years Ended December 31, 1998, 1997 and 1996	F-3

Statements of Shareholders' Investment for the Years Ended December 31, 1998, 1997 and 1996	F-4
Statements of Cash Flows for the Years Ended December 31, 1998, 1997 and 1996	F-5
Notes to Financial Statements	F-7

</TABLE>

ITEM 9: CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT

None

PART III

ITEM 10: DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information required is set forth under the captions "Management - Directors and Executive Officers" in the Company's Definitive Proxy Statement to be filed pursuant to Regulation 14A and is incorporated herein by reference.

ITEM 11: EXECUTIVE COMPENSATION

The information required is set forth under the captions "Management Compensation" and "Certain Transactions" in the Company's definitive Proxy Statement to be filed pursuant to Regulation 14A and is incorporated herein by reference.

ITEM 12: SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required is set forth under the caption "Security Ownership of Certain Beneficial Owners" in the Company's definitive Proxy Statement to be filed pursuant to Regulation 14A and is incorporated herein by reference.

ITEM 13: CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

The information required is set forth under the caption "Certain Transactions" in the Company's definitive Proxy Statement to be filed pursuant to Regulation 14A and is incorporated herein by reference.

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PART IV

ITEM 14: FINANCIAL STATEMENTS, EXHIBITS AND REPORTS ON FORM 8-K

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

(1) Financial Statements

Report of Independent Public Accountants
Balance Sheets at December 31, 1998 and 1997
Statements of Operations For the Years Ended December 31, 1998, 1997
and 1996
Statements of Shareholders' Investment For the Years Ended
December 31, 1998, 1997 and 1996
Statements of Cash Flows For the Years Ended December 31, 1998, 1997
and 1996
Notes to Financial Statements

(2) Exhibits

NUMBER	DESCRIPTION OF EXHIBIT
-----	-----
3.1	Composite copy of the Certificate of Incorporation of the Registrant. Incorporated by reference to Exhibit 3.4 to the Registrant's 1994 Annual Report on Form 10-K, filed March 1995.
3.2	By-laws of the Registrant, as amended. Incorporated by reference to Exhibit 3.5 to the Registrant's 1995 Annual Report on Form 10-K, filed April 1996.

- 4 Form of 7% Convertible Subordinated Debenture dated April 24, 1998. Incorporated by reference to Exhibit 10.4 to the Registrant's March 31, 1998 Quarterly Report on Form 10-Q, filed May 1998.
- 10.1 Form of Subscription Agreement for private offering of \$1.2 million in principal amount of 7% Convertible Subordinated Debentures. Incorporated by reference to Exhibit 10.3 to the Registrant's March 31, 1998 Quarterly Report on Form 10-Q, filed May 1998.
- 10.2 Revolving Promissory Note for up to \$10,000,000, dated December 10, 1998, loan number 1016490-1, payable to The Provident Bank, an Ohio banking corporation.
- 10.3 Loan and Security Agreement (Asset Based), dated December 10, 1998, relating to loan number 1016490-1 with The Provident Bank, an Ohio banking corporation.
- 10.4 Discount Factoring Agreement with Merchant Factors Corp., dated January 25, 1996. Incorporated by reference to Exhibit 10.9 to the Registrant's 1994 Annual Report on Form 10-K, filed March 1995.
- 10.5 Amendment to Discount Factoring Agreement with Merchant Factors Corp., dated July 15, 1997. Incorporated by reference to Exhibit 10.1 to the Registrant's June 30, 1997 Quarterly Report on Form 10-Q, filed August 1997.
- 10.6 Addendum to Discount Factoring Agreement with Merchant Factors Corp., dated December 1, 1998, amending the January 25, 1996 Discount Factoring Agreement.
- 10.7 Intercreditor Agreement relating to Littlefield, Adams & Company, dated December 3, 1998, between Merchant Factors Corp. and The Provident Bank.

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NUMBER	DESCRIPTION OF EXHIBIT
-----	-----
10.8	Promissory Note for \$142,634.32, dated February 1, 1997, loan number 0105592300, payable to The Bank of Floyd, Floyd, Virginia. Incorporated by reference to Exhibit 10.17 to the Registrant's 1996 Annual Report on Form 10-K, filed March 1997.
10.9	Business Loan Agreement, effective as of February 1, 1997, relating to loan number 0105592300, with The Bank of Floyd, Floyd, Virginia. Incorporated by reference to Exhibit 10.18 to the Registrant's 1996 Annual Report on Form 10-K, filed March 1997.
10.10	Promissory Note for \$468,483.83, dated January 31, 1997, loan number 5312501, payable to The Bank of Floyd, Floyd, Virginia. Incorporated by reference to Exhibit 10.19 to the Registrant's 1996 Annual Report on Form 10-K, filed March 1997.
10.11	Business Loan Agreement, effective as of January 31, 1997, relating to loan number 5312501, with The Bank of Floyd, Floyd, Virginia. Incorporated by reference to Exhibit 10.20 to the Registrant's 1996 Annual Report on Form 10-K, filed March 1997.
10.12	Commercial Security Agreement, dated January 31, 1997, relating to loan numbers 0105592300 and 5312501, with The Bank of Floyd, Floyd, Virginia. Incorporated by reference to Exhibit 10.21 to the Registrant's 1996 Annual Report on Form 10-K, filed March 1997.
10.13	Littlefield, Adams & Company Incentive Plan, as amended, Incorporated by reference to Appendix A of the definitive Proxy Statement (DEF 14A) filed April

1998.

- 10.14 License Agreement with PepsiCo, Inc., dated as of February 1, 1996. Incorporated by reference to Exhibit 10.9 to the Registrant's 1995 Annual Report on Form 10-K, filed April 1996.
- 10.15 Amendment of License Agreement with PepsiCo, Inc., dated October 1, 1996. Incorporated by reference to Exhibit 10.9 to the Registrant's 1996 Annual Report on Form 10-K, filed March 1997.
- 10.16 Renewal and Amendment of License Agreement, dated February 1, 1998, to the Merchandising License Agreement with PepsiCo, Inc., dated as of February 1, 1996. This amendment renews the term for an additional two years, to be from February 1, 1998 through January 31, 2000.
- 10.17 Collateral Product License Agreement with Miller Brewing Company, dated October 31, 1996. Incorporated by reference to Exhibit 10.10 to the Registrant's 1996 Annual Report on Form 10-K, filed March 1997.
- 10.18 Merchandising Licensing Agreement with the Twentieth Century Fox Licensing and Merchandising unit of Fox, Inc. for "The Simpsons," dated July 15, 1997. Incorporated by reference to Exhibit 10.1 to the Registrant's September 30, 1997 Quarterly Report on Form 10-Q, filed November 1997.
- 10.19 Amendment Number 1, dated September 16, 1998, to the Merchandising License Agreement dated July 15, 1997 with the Twentieth Century Fox Licensing and Merchandising unit of Fox, Inc. for "The Simpsons". This amendment extends the original term of the license for The Simpsons by one year until December 31, 2000. Incorporated by reference to Exhibit 10.1 to the Registrant's September 30, 1998 Quarterly Report on Form 10-Q, filed November 1998.

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NUMBER	DESCRIPTION OF EXHIBIT
-----	-----
10.20	Merchandising Licensing Agreement with the Twentieth Century Fox Licensing and Merchandising unit of Fox, Inc. for "King of the Hill," dated August 7, 1997. Incorporated by reference to Exhibit 10.11 to the Registrant's 1997 Annual Report on Form 10-K, filed March 1998.
10.21	Amendment Number 1, dated September 16, 1998, to the Merchandising License Agreement dated August 7, 1997 with the Twentieth Century Fox Licensing and Merchandising unit of Fox, Inc. for "King of the Hill". This amendment extends the original term of the King of the Hill license by one year until December 31, 2001. Incorporated by reference to Exhibit 10.2 to the Registrant's September 30, 1998 Quarterly Report on Form 10-Q, filed November 1998.
10.22	Merchandising License Agreement with World Championship Wrestling, Inc. dated February 27, 1998. Incorporated by reference to Exhibit 10.2 to the Registrant's March 31, 1998 Quarterly Report on Form 10-Q, filed May 1998.
10.23	Amendment to the Merchandising License Agreement with World Championship Wrestling, Inc. dated as of February 27, 1998. The Amendment is effective January 22, 1999. This amendment adds denim and chambray shirts to the Authorized Articles.
10.24	Employment Agreement with Stanley I. Halbreich, dated November 16, 1992. Incorporated by reference to Exhibit 10.14 to the Registrant's 1996 Annual Report on Form 10-K, filed March 1997.
10.25	Amendment to Employment Agreement with Stanley I.

Halbreich, dated January 4, 1993. Incorporated by reference to Exhibit 10.15 to the Registrant's 1996 Annual Report on Form 10-K, filed March 1997.

- 10.26 Employment Agreement with Warren L. Rawls, dated June 21, 1996. Incorporated by reference to Exhibit 10.16 to the Registrant's 1996 Annual Report on Form 10-K, filed March 1997.
- 23 Consent of Arthur Andersen LLP
- 27 Financial Data Schedule.

(b) REPORTS ON FORM 8-K:

None

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ADDITIONAL INFORMATION

CORPORATE HEADQUARTERS

6262 Executive Boulevard
Huber Heights, OH 45424
(937) 236-0660

INDEPENDENT PUBLIC ACCOUNTANTS

ARTHUR ANDERSEN LLP
Suite 400
Courthouse Plaza SW
Dayton, OH 45402-1873

TRANSFER AGENT

FIRST CITY TRANSFER COMPANY
Suite 303
505 Thornall Street
Edison, New Jersey 08837
(732) 906-9227

Exhibits to the Form 10-K will be provided to shareholders of the Company upon written request addressed to Warren L. Rawls, Secretary, Littlefield, Adams & Company, 6262 Executive Boulevard, Huber Heights, OH 45424. Any exhibits furnished are subject to a reasonable photocopying charge.

THE SECURITIES AND EXCHANGE COMMISSION HAS NOT APPROVED OR DISAPPROVED THIS FORM 10-K AND ANNUAL REPORT TO SHAREHOLDERS, NOR HAS IT PASSED UPON ITS ACCURACY OR ADEQUACY.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities

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

LITTLEFIELD, ADAMS & COMPANY

By: /s/ MICHAEL B. BALBER

Michael B. Balber
President and Chief Executive Officer
March 26, 1999

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

<TABLE>

<S> /s/ MARTIN B. SHIFRIN ----- Martin B. Shifrin	<C> Chairman of the Board of Directors	<C> March 26, 1999
/s/ MICHAEL B. BALBER ----- Michael B. Balber	President and Chief Executive Officer (principal executive officer) Director	March 26, 1999
/s/ WARREN L. RAWLS ----- Warren L. Rawls	Chief Financial Officer, Treasurer and Secretary (principal financial and accounting officer) Director	March 26, 1999
/s/ WILLIAM E. GOETTELMAN ----- William E. Goettelman	Director	March 26, 1999

</TABLE>

Littlefield, Adams & Company 1998 Form 10-K, Page 24

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ARTHUR ANDERSEN LLP

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors and Shareholders of
Littlefield, Adams & Company:

We have audited the accompanying balance sheets of Littlefield, Adams & Company (a New Jersey corporation) as of December 31, 1998 and 1997, and the related statements of operations, shareholders' investment and cash flows for each of the three years in the period ended December 31, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain

reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Littlefield, Adams & Company as of December 31, 1998 and 1997, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles.

Dayton, Ohio
February 25, 1999

/S/ ARTHUR ANDERSEN LLP

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LITTLEFIELD, ADAMS & COMPANY
BALANCE SHEETS

ASSETS

<TABLE>
<CAPTION>

	DECEMBER 31,	
	1998	1997
	(DOLLARS IN THOUSANDS)	
CURRENT ASSETS:		
<S>	<C>	<C>
Cash and cash equivalents	\$ 107	\$ 57
Accounts receivable:		
Trade, net of allowances of \$352 and \$11, for 1998 and 1997, respectively	5,765	5
Due from factor, net of allowances of \$208 and \$0 for 1998 and 1997, respectively	2,050	182
Other	33	33
Inventories	3,157	641
Prepaid expenses and other	399	155
Total current assets	11,511	1,073
PROPERTY, PLANT AND EQUIPMENT, NET	486	416
OTHER ASSETS	12	9
TOTAL ASSETS	\$ 12,009	\$ 1,498

LIABILITIES AND SHAREHOLDERS' INVESTMENT

CURRENT LIABILITIES:		
Notes payable	\$ 41	\$ 17
Factor borrowings	1,327	11
Current portion of long-term debt	507	570
Convertible subordinated debentures	1,200	--
Accounts payable	1,653	117
Accrued expenses	1,235	337
Total current liabilities	5,963	1,052
LONG-TERM DEBT, LESS CURRENT PORTION	12	18
LONG-TERM REVOLVING LINE OF CREDIT	3,125	--
DEFERRED COMPENSATION	42	44
Total Liabilities	9,142	1,114

COMMITMENTS AND CONTINGENCIES (NOTE 15)

SHAREHOLDERS' INVESTMENT:

Common stock, \$1.00 par; authorized 25,000,000;

issued 2,808,221 and 2,798,221 for 1998 and 1997, respectively;
 outstanding 2,790,057 and 2,780,057 for 1998 and 1997, respectively
 Capital in excess of par value
 Accumulated deficit

2,808	2,798
6,325	6,318
(6,153)	(8,619)

-----	-----
2,980	497

Treasury stock, at cost - shares of 18,164 for 1998 and 1997

(113)	(113)
-------	-------

-----	-----
2,867	384
-----	-----

TOTAL LIABILITIES AND SHAREHOLDERS' INVESTMENT

\$ 12,009	\$ 1,498
=====	=====

</TABLE>

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

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LITTLEFIELD, ADAMS & COMPANY
 STATEMENTS OF OPERATIONS

<TABLE>
 <CAPTION>

For the Years Ended December 31,

	1998	1997	1996
	(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)		
	<C>	<C>	<C>
<S>			
Revenues:			
Net product sales	\$ 25,917	\$ 2,436	\$ 11,884
Other revenues	--	35	152
	-----	-----	-----
Total revenues	25,917	2,471	12,036
	-----	-----	-----
Costs and expenses:			
Cost of products sold	17,953	2,785	8,403
Selling and administrative	4,956	1,995	3,242
Impairment loss (Note 2)	34	374	--
	-----	-----	-----
Total costs and expenses	22,943	5,154	11,645
	-----	-----	-----
Income (loss) from operations	2,974	(2,683)	391
Other income (expense):			
Gain (loss) on sale of property and equipment	(13)	(1)	218
Gain on claims settlement (Note 5)	--	843	--
Litigation settlements, net	--	(5)	395
Interest	(362)	(120)	(235)
	-----	-----	-----
Net other income (expense)	(375)	717	378
	-----	-----	-----
Income (loss) before income taxes	2,599	(1,966)	769
Income tax (provision) benefit	(133)	29	30
	-----	-----	-----
Net income (loss) before extraordinary gain	2,466	(1,937)	799
Extraordinary gain, net of income tax provision	--	--	94
	-----	-----	-----
Net income (loss)	\$ 2,466	\$ (1,937)	\$ 893
	=====	=====	=====
Weighted average common shares for:			
Basic earnings per share	2,785,536	2,780,057	2,774,169
Diluted earnings per share	4,177,919	2,780,057	2,967,812

Basic earnings per common share:			
Net income (loss) before extraordinary gain	\$ 0.89	\$ (0.70)	\$ 0.29
Extraordinary gain	--	--	0.03
Net income (loss) per share	\$ 0.89	\$ (0.70)	\$ 0.32
Diluted earnings per common share:			
Net income (loss) before extraordinary gain	\$ 0.60	\$ (0.70)	\$ 0.27
Extraordinary gain	--	--	0.03
Net income (loss) per share	\$ 0.60	\$ (0.70)	\$ 0.30

</TABLE>

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

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LITTLEFIELD, ADAMS & COMPANY
STATEMENTS OF SHAREHOLDERS' INVESTMENT
FOR THE YEARS ENDED DECEMBER 31, 1998, 1997 AND 1996

<TABLE>
<CAPTION>

	Common Stock				
	Shares	Amount	Capital in Excess of Par Value	Accumulated Deficit	Treasury Stock
	(DOLLARS IN THOUSANDS)				
Balances at December 31, 1995	2,296,145	\$ 2,296	\$ 5,406	\$ (7,575)	\$ (103)
Acquisition of 1,666 unvested, forfeited shares originally granted to a former outside director	--	--	--	--	(10)
Purchase of rights to shares due a former officer and director as a contingent acquisition consideration	--	--	(36)	--	--
Accrual of approximately 495,000 shares to be issued in settlement of litigation	--	--	1,450	--	--
Net income	--	--	--	893	--
Balances at December 31, 1996	2,296,145	2,296	6,820	(6,682)	(113)
Issuance of 502,076 shares in settlement of litigation	502,076	502	(502)	--	--
Net loss	--	--	--	(1,937)	--
Balances at December 31, 1997	2,798,221	2,798	6,318	(8,619)	(113)
Sale of 10,000 shares of common stock in conjunction with the exercise of stock options	10,000	10	2	--	--
Issuance of 2,500 stock options to a third-party contractor	--	--	5	--	--
Net income	--	--	--	2,466	--
Balances at December 31, 1998	2,808,221	\$ 2,808	\$ 6,325	\$ (6,153)	\$ (113)

</TABLE>

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

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LITTLEFIELD, ADAMS & COMPANY
STATEMENTS OF CASH FLOWS

<TABLE>
<CAPTION>

	For the Years Ended December 31,		
	1998	1997	1996
	(DOLLARS IN THOUSANDS)		
<S>	<C>	<C>	<C>
Cash flows from operating activities:			
Net income (loss)	\$ 2,466	\$ (1,937)	\$ 893
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	113	209	266
Impairment loss	34	374	--
(Gain) loss on sale of property and equipment	13	1	(218)
Extraordinary gain on debt extinguishment	--	--	(109)
Stock options granted for contractor services	5	--	--
Changes in operating assets and liabilities:			
Accounts and other receivables, net	(7,628)	3,093	(2,260)
Inventories, net	(2,516)	938	1,753
Prepaid expenses and other	(244)	(13)	21
Accounts payable	1,536	(857)	(67)
Accrued expenses and other	896	(1,366)	(54)
Net cash provided by (used in) operating activities	(5,325)	442	225
Cash flows from investing activities:			
Proceeds from sale of property and equipment	11	28	663
Purchase of property, plant and equipment	(241)	(21)	(95)
Notes receivable and other assets	(3)	16	229
Net cash provided by (used in) investing activities	(233)	23	797
Cash flows from financing activities:			
Proceeds from (payments of) line of credit and factor borrowings, net	1,316	(425)	(849)
Proceeds from long-term line of credit, net	3,125	--	--
Proceeds from bank and other notes payable	396	130	80
Payments of bank and other notes payable	(441)	(167)	(404)
Proceeds from sale of convertible subordinated debentures	1,200	--	--
Proceeds from sale of common stock	12	--	--
Purchase of rights to stock	--	--	(36)
Net cash provided by (used in) financing activities	5,608	(462)	(1,209)
Net increase (decrease) in cash	50	3	(187)
Cash at beginning of year	57	54	241
Cash at end of year	\$ 107	\$ 57	\$ 54

</TABLE>

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

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LITTLEFIELD, ADAMS & COMPANY
STATEMENTS OF CASH FLOWS

<TABLE>

	1998	1997	1996
	(DOLLARS IN THOUSANDS)		
<S>	<C>	<C>	<C>
Supplemental disclosures of cash flows information:			
Cash paid during the year for interest	\$ 342	\$ 125	\$ 243
Cash paid during the year for income taxes	\$ 77	\$ 25	\$ 31
</TABLE>			

Supplemental schedule of noncash investing and financing activities:

In 1997, the Company issued 502,076 shares in settlement of litigation (Note 1).

In 1996, the Company accrued 495,000 shares of common stock to be issued in the settlement of litigation which represented \$1,450 of capital in excess of par value (Note 1).

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

LITTLEFIELD, ADAMS & COMPANY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1998, 1997 AND 1996
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

Note 1: The Company

The Company is principally engaged in the imprinting and distribution of young men's and boys' active wear products under various license agreements.

In years prior to 1997, the Company was substantially dependent on sales of Harley-Davidson Motor Co. (Harley-Davidson) licensed products to generate cash flow from operations and provide funds to meet the Company's obligations as they became due. The Company's Harley-Davidson license agreement expired on December 31, 1996 and was not renewed by Harley-Davidson. Consequently, the Company's product sales in 1997 were dramatically reduced from levels attained in 1996 and before, and the Company incurred a net loss of \$1,937 for the year ended December 31, 1997.

The diminished revenues experienced by the Company during 1997 and the first quarter of 1998 had a material adverse effect on its results of operations and financial condition. In April 1998, the Company finalized a multi-year license agreement with World Championship Wrestling, Inc. ("WCW"). Littlefield started shipping WCW licensed products during late April 1998. With net sales of \$2,908, \$12,274 and \$10,319 in the 1998 second, third and fourth quarters, respectively, the Company generated income from operations of \$188, \$1,858 and \$1,284 in the respective quarters (the quarterly financial information provided is unaudited). The significant increase in revenues during the second, third and fourth quarters of 1998, plus the utilization of the \$1,200 in proceeds from the Company's private offering of 7% Convertible Subordinated Debentures completed on April 24, 1998, provided sufficient cash flows for the Company to satisfy its obligations as they became due.

The Company's customers are primarily national and regional discount retail chains. Effective December 10, 1998, the Company signed a revolving promissory note with a bank which is secured by the accounts receivable arising from sales to three of the Company's largest customers, and inventories. Littlefield services these three accounts and also assumes the credit risk. All of the Company's other accounts are factored under a discount factoring agreement dated January 25, 1996, as amended effective December 1, 1998. Accounts that are credit approved by the factor are at the factor's risk, which minimizes the Company's credit risk. The Company, at its option and its credit

risk, can factor accounts receivable that the factor does not approve for credit (Note 6). Historically, bad debt expense has been minimal.

Sales to customers which individually exceeded 10% of total net product sales were as follows:

<TABLE>
<CAPTION>

	1998	1997	1996
	----	----	----
<S>	<C>	<C>	<C>
Customer 1	60%	4%	56%
Customer 2	28%	48%	16%
	---	---	---
Total	88%	52%	72%
	====	====	====

</TABLE>

Trade and factored receivable balances relating to these two customers were approximately \$5,513 and \$1,964 at December 31, 1998. The trade and factored receivable balances relating to the two customers were \$14 and \$16 at December 31, 1997.

(Continued)

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LITTLEFIELD, ADAMS & COMPANY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1998, 1997 AND 1996
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

During 1998, three suppliers individually provided 10% or more of the Company's total garment purchases, with one supplier accounting for approximately 65% of apparel goods purchased in 1998. The largest supplier is an outside screen printing contractor which individually produced approximately 76% of the Company's total production in 1998.

During 1998, the Company had one significant license which individually accounted for more than 10% of net product sales. Sales of World Championship Wrestling, Inc. licensed products were 94% of 1998 sales. During 1997, the Company had two active licenses which individually accounted for more than 10% of net product sales. Sales of PepsiCo, Inc. and Miller Brewing Company (which expired December 31, 1998) licensed products were 23% and 20%, respectively, of 1997 sales. Approximately 29% of 1997 revenues were attributable to 1996 Harley-Davidson licensed products, representing sales that were contractually consummated prior to December 31, 1996, but the accounting recognition of which was deferred to the first quarter of 1997 in accordance with generally accepted accounting principles. During 1996, the Company had one significant license, Harley-Davidson, which expired on December 31, 1996. Harley-Davidson licensed sales accounted for 90% of net product sales in 1996.

Current licenses and their respective expiration dates are as follows:

<TABLE>
<CAPTION>

LICENSE	EXPIRATION
-----	-----
<S>	<C>
WCW and nWo (World Championship Wrestling, Inc.)	March 2001
WCW and nWo/Looney Tunes cross-license (World Championship Wrestling, Inc. and Warner Brothers)	October 1999
The Simpsons (Twentieth Century Fox)	December 2000
King of the Hill (Twentieth Century Fox)	December 2001
Pepsi and Mountain Dew (PepsiCo, Inc.)	January 2000
Hagar the Horrible (Hearst Entertainment, Inc.)	December 2000
Free for All (Hearst Entertainment, Inc.)	December 2000
Zits (Hearst Entertainment, Inc.)	December 2000
Kawasaki Motorcycles (Kawasaki Motors Corp., U.S.A.)	February 2000

</TABLE>

The Company continues to pursue new licensed property opportunities along with developing in-house proprietary and generic artwork. During January 1999, the Company finalized license agreements with World Championship Wrestling and Warner Brothers to cross-license "WCW" and "nWo" with Looney Tunes cartoon characters. In February 1999, Littlefield finalized three new license agreements

for characters in the comic strips "Hagar the Horrible", "Free for All", and "Zits" with Hearst Entertainment, Inc.

As of December 31, 1998, the minimum royalties to be paid in future years are:

<S>	<C>
1999	\$ 100
2000	40

	\$ 140
	===

</TABLE>

(Continued)

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LITTLEFIELD, ADAMS & COMPANY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1998, 1997 AND 1996
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

Note 2: Summary of Significant Accounting Policies

Basis of Presentation -

The accompanying financial statements include the accounts of Littlefield, Adams & Company and its now dissolved subsidiaries, Medical Sales Associates, Inc., Cornerstone Laboratories, Inc. and NUTECH, Inc. ("the Company" and "Littlefield"). Medical Sales Associates, Inc., Cornerstone Laboratories, Inc., and NUTECH, Inc., were dissolved in January 1996, and had no significant operations in the year ended December 31, 1996, and had no consolidated assets or liabilities as of December 31, 1996. All significant intercompany accounts and transactions have been eliminated.

Reclassifications -

Certain reclassifications have been made to prior year amounts to conform to current year presentations.

Cash Equivalents -

The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Inventories -

Inventories are stated at the lower of cost (determined by the first-in, first-out method) or market (net realizable value). Costs include direct materials, direct labor and certain indirect manufacturing overhead expenses (Note 3).

Property, Plant and Equipment -

Property, plant and equipment are carried at historical cost less accumulated depreciation and amortization. Depreciation is generally recorded on the straight-line basis over the estimated useful lives of the related assets. These are as follows:

Leasehold improvements	10-30 years
Machinery and equipment	3-10 years

Leasehold improvements are amortized on a straight-line basis over the shorter of the terms of the respective leases or their estimated useful lives. Major renewals and betterments are capitalized. Maintenance and repairs which do not extend the useful lives of property, plant and equipment are expensed as incurred. When property, plant and equipment are retired or otherwise disposed of, related cost and accumulated depreciation and amortization are removed from the accounts, and any gain or loss is reflected in the determination of income (Note 4).

(Continued)

LITTLEFIELD, ADAMS & COMPANY
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 1998, 1997 AND 1996
 (DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

During the 1998 third quarter, the Company removed from day-to-day operations certain equipment used in its manufacturing process. For the most part, this equipment was replaced with newly acquired equipment of a type more suited to the Company's current manufacturing needs. Management has decided to sell all the equipment removed from operations. The Company has assessed, under the guidelines set forth in SFAS No. 121, the carrying value of its assets held for sale. The Company determined that the recognition of an impairment loss was required as of September 30, 1998. Such assessment required the Company to make certain estimates of amounts to be recovered from the future sale of these assets. Based on this analysis, the Company recognized an impairment loss as of September 30, 1998, in the amount of \$34. The \$34 impairment loss is included in the calculation of the income from operations for 1998.

The assessment of the recoverability of its investment in long-lived assets at December 31, 1997, required the Company to make certain estimates of future sales volumes and prices which were expected to occur over the remaining useful lives of its long-lived assets. Based on this analysis, the Company recognized an impairment loss as of December 31, 1997, in the amount of \$374, which eliminated the carrying amount of identified goodwill. The \$374 impairment loss is included in the calculation of the loss from operations for 1997.

Although the Company believes it has a reasonable basis for its estimates of the fair value of its long-lived assets, it is reasonably possible that the actual fair value of its long-lived assets could materially differ from such estimates. Management believes that if such estimates are not confirmed, revisions to the estimated fair value of long-lived assets could result in the recognition of an additional impairment loss on its long-lived assets constituting all or a material portion of the carrying value of the Company's property, plant and equipment which was \$486 at December 31, 1998.

Goodwill -

The Company had previously classified as goodwill the cost in excess of the fair value of the net assets of Sports Imprints, Inc., acquired in a purchase transaction in 1993. Through 1997, goodwill was being amortized on a straight-line basis over 10 years. The Company assessed that the recoverability of this long-lived asset was impaired. An impairment loss of \$374 was recognized as of December 31, 1997, which eliminated the carrying amount of identified goodwill.

Income Taxes -

The provision for income taxes includes federal, state and local income taxes currently payable and those deferred because of temporary differences between the financial statement and tax bases of assets and liabilities (Note 16).

Treasury Stock -

The purchase of the Company's treasury stock is recorded using the cost method. Issuances of treasury stock are recorded at average cost (Note 13).

(Continued)

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LITTLEFIELD, ADAMS & COMPANY
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 1998, 1997 AND 1996
 (DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

Revenue Recognition -

Revenues are generally recognized when products are shipped or legal ownership of the products otherwise passes to the customer, and are presented net of sales returns and allowances.

Net Income (Loss) Per Share -

Effective October 1, 1997, the Company adopted SFAS No. 128, "Earnings Per Share". Basic earnings per share are computed by dividing net income by the weighted average number of common shares outstanding during the period. Diluted earnings per share are computed by dividing net income (as adjusted for the net effect of the reduction in interest expense from the assumed conversion of the convertible subordinated debentures) by the sum of the weighted average number of shares outstanding during the period and the weighted average impact of potential shares applicable to stock options and the convertible subordinated debentures. Basic and diluted earnings per share for 1996 reflect the approximate 495,000 shares of the Company's stock to be issued in the securities class action and derivative action settlements. In May 1997, the Company issued a total of 502,076 shares in settlement of the class and derivative actions. Such shares were considered to be outstanding during all of 1997 for purposes of determining net loss per share (Note 14).

Estimates in the Financial Statements -

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

Note 3: Inventories

Inventories at December 31 are summarized as follows:

		1998	1997
		----	----
<S>	<C>		<C>
	Raw materials	\$ 2,735	\$ 700
	Finished goods	622	46
	Allowance for inventory obsolescence	(200)	(105)
		-----	-----
		\$ 3,157	\$ 641
		=====	=====

(Continued)

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LITTLEFIELD, ADAMS & COMPANY
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 1998, 1997 AND 1996
 (DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

Note 4: Property, Plant and Equipment

Property, plant and equipment at December 31 is summarized as follows:

		1998	1997
		----	----
<S>	<C>		<C>
	Leasehold improvements	\$ 267	\$ 265
	Machinery and equipment	969	823
		-----	-----
		1,236	1,088
	Less: Accumulated depreciation and amortization	(750)	(672)
		-----	-----
		\$ 486	\$ 416
		=====	=====

Note 5: Accrued Expenses

Included in accrued expenses at December 31, 1998, are \$686 of accrued royalties.

Included in accrued expenses at December 31, 1997, are \$89 of accrued professional fees. The Company was previously a party to a license agreement which expired on December 31, 1996. In conjunction with the termination of that license agreement, the Company entered into a Settlement Agreement dated March 1, 1996. The Company had unpaid royalties of approximately \$853 relating to sales of these licensed products which were accrued in periods prior to March 1, 1996. Management believes that the Company's liability for these unpaid royalties was discharged under the Settlement Agreement, and that the likelihood of the licensor successfully asserting a claim for such royalties is remote. The Company therefore has reversed the accrual of these unpaid royalties and reported the reversal, net of related estimated legal expenses, as a gain on claims settlement in the fourth quarter of 1997.

Note 6: Revolving Lines of Credit

Littlefield signed a \$10,000 Revolving Promissory Note (the "Note") with The Provident Bank ("Provident") on December 10, 1998. The outstanding principal balance is due and payable on December 10, 2000. Accrued interest is payable monthly. The Note is secured by accounts receivable arising from sales to Wal-Mart, Kmart, and Target stores, and inventory. The Note bears interest at prime plus an applicable margin. The initial margin is 3%. The prime rate in effect at December 31, 1998 was 7.75%. The Note provides for possible reductions in the interest rate charged, down to a rate as low as prime plus 1%. To achieve such reductions, Littlefield must successfully meet specified financial milestones. The Company can borrow amounts up to 80% of the outstanding eligible receivables, plus 40% of eligible inventories (not to exceed \$750 in borrowings against inventory), plus a \$100 compensating balance the Company is required to maintain at Provident. The total amount outstanding at any time cannot exceed \$10,000. Collection of payments on eligible receivables are directed to a lock box at Provident. The servicing of the covered accounts receivable is done by Littlefield. The Note contains certain covenants which include restrictions on the payment of dividends, and the Company maintaining: (i) a minimum amount of tangible net worth, (ii) a maximum debt to equity ratio, and (iii) a minimum debt service ratio. As of December 31, 1998, Littlefield was in compliance with such covenants. As of December 31, 1998, the outstanding balance of \$3,125 is classified as a long-term liability. The remaining borrowing availability from Provident as of December 31, 1998, was \$2,519.

(Continued)

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LITTLEFIELD, ADAMS & COMPANY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1998, 1997 AND 1996
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

Effective January 25, 1996, the Company entered into a Discount Factoring Agreement with Merchant Factors Corp. On December 1, 1998, Littlefield and Merchant Factors Corp. entered into an Addendum to the Discount Factoring Agreement (the "Addendum"). The Addendum amends the Discount Factoring Agreement to provide that: (a) all of the Company's accounts receivable except for those arising from sales to Wal-Mart, Kmart, and Target stores will be factored; (b) the effective rate of interest shall be prime plus 2%; (c) the Company may receive advances of up to 80% of the net amount of outstanding approved receivables assigned; (d) payments received against assigned receivables are held for five business days before being applied against outstanding advances; (e) the minimum annual amount of factoring commissions is \$50, payable monthly; and (f) the Discount Factoring Agreement, as amended, shall continue in effect until December 31, 2000. Accounts receivable which Merchant Factors Corp. approves for credit are being factored at the rate of 1 1/8%. Accounts that are credit approved by Merchant Factors Corp. are at its risk, which minimizes the Company's credit risk. The Company, at its option, can factor at a rate of 1 1/8%, with recourse, accounts that Merchant Factors Corp. does not approve for credit. The servicing of all factored accounts is done by Merchant Factors Corp. Borrowings are secured by the assigned accounts receivable. At December 31, 1998 and 1997, the Company had factored receivables amounting to \$2,050 and \$182, respectively, most of which had been approved for credit by Merchant Factors Corp. The remaining borrowing availability from Merchant Factors Corp. as of December 31, 1998, was approximately \$479.

The weighted average interest rates on short-term borrowings were 11.6%, 11.4% and 11.0% as of December 31, 1998, 1997 and 1996, respectively.

Outstanding balances are as follows:

<TABLE>
<CAPTION>

	December 31,	
	1998	1997
	----	----
<S>	<C>	<C>
The Provident Bank - long-term revolving line of credit	\$ 3,125	\$ --
Merchant Factors Corp. - factor borrowings	1,327	11
	-----	-----
Total	\$ 4,452	\$ 11
	=====	=====

</TABLE>

(Continued)

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LITTLEFIELD, ADAMS & COMPANY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1998, 1997 AND 1996
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

Note 7: Long-Term Debt

Long-term debt balances are as follows:

<TABLE>
<CAPTION>

	December 31,	
	1998	1997
	----	----
<S>	<C>	<C>
Note payable to a bank, principal callable on demand; interest at prime plus 1.0%, prime at December 31, 1998 was 7.75%; payable monthly at 0.25% of the outstanding principal balance plus accrued interest; collateralized by machinery and equipment and furniture and fixtures.	\$ 442	\$ 455
Note payable to a bank, principal callable on demand; due September 1, 1999, interest at prime plus 1.0%, adjusted once each year, prime at the last adjustment was 8.5%; payable monthly; collateralized by machinery and equipment and furniture and fixtures	40	96
Other	37	37
	-----	-----
Total debt	519	588
Less - current portion	507	570
	-----	-----
	\$ 12	\$ 18
	=====	=====

</TABLE>

The non-current portion of long-term debt of \$12 is payable as follows -- \$9 in 2000, and \$3 in 2001.

Note 8: Convertible Subordinated Debentures

On April 24, 1998, Littlefield completed a private offering of \$1,200 in principal amount of 7% Convertible Subordinated Debentures (the "Debentures"). The participants in the private offering included four officers and directors of the Company and several accredited investors. General terms of the Debentures include the right to convert, after a period of one year, into shares of Littlefield common stock at a rate of one and one-third shares of stock for each dollar of principal amount of the Debentures. Any unconverted Debentures are payable on demand after eighteen months. Interest is payable semi-annually on the last day of March and September. The Company, with sixty days notice, may call the Debentures for a premium beginning one year after issuance. The required premium amount declines over time such that as of April 1, 2003, and thereafter, the Company may call the Debentures at face value. If all of the Debentures are converted into stock, the additional 1,600,000 shares of common stock would have represented an increase of 58% in the number of

shares outstanding on the date the Debentures were issued. During the sixty days prior to April 24, 1998, Littlefield's common stock traded for as low as \$0.21 per share and as high as \$2.00 per share as reported on the NASD's OTC Electronic Bulletin Board. The last sale price of the Company's common stock as reported on the NASD's OTC Electronic Bulletin Board on December 31, 1998, was \$4.5625 per share.

The \$1,200 balance was classified as a long-term liability as of June 30, 1998 and September 30, 1998. As of December 31, 1998, the balance is classified as a current liability because any unconverted debentures are payable on demand beginning October 24, 1999.

(Continued)

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LITTLEFIELD, ADAMS & COMPANY
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 1998, 1997 AND 1996
 (DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

Note 9: Creditor's Debt Settlement

In December 1991, Sports Imprints, Inc., (the Company's former wholly owned subsidiary acquired in 1993) entered into a plan of reorganization with its creditors and a bank pursuant to Chapter 11 of the U.S. Bankruptcy Code. As a result, Sports Imprints, Inc., negotiated a payment plan with its creditors that included extending payments through 1996.

In July 1996, an order was entered by a court relieving the Company of \$109 of liability for the settlement of the creditors' debt. As a result, an extraordinary gain from the extinguishment of debt was recognized in 1996 as follows:

	<C>
Extinguishment of debt	\$ 109
Legal costs	(6)

	103
Income taxes	(9)

Extraordinary gain, net	\$ 94
	===

</TABLE>

Note 10: Deferred Compensation

The Company has deferred compensation agreements with certain retired employees under which the Company agreed to pay certain amounts annually over a ten-year period subsequent to retirement. The present value of such payments was charged ratably to expense over the years of active employment. In addition, the Company has incentive plans for which charges to operations have been made generally based upon certain defined levels of income before taxes. The plan has been frozen and no additional benefits are accruing. The accrued but unfunded liability at December 31, 1998 and 1997, amounted to \$72 and \$76, respectively. The amount currently due of \$30 is included in accrued expenses at December 31, 1998.

Note 11: Related-Party Transactions

In March, 1998, certain individuals, which included some officers and shareholders of the Company, loaned an aggregate of \$240 to the Company. These loans were non-interest bearing and payable on demand. The individuals making these loans were offered the opportunity to participate in a private offering of 7% Convertible Subordinated Debentures, which was completed on April 24, 1998. In April, 1998, all of the loans were either converted into such Debentures or repaid (Note 8).

(Continued)

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LITTLEFIELD, ADAMS & COMPANY
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 1998, 1997 AND 1996
 (DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

Note 12: Common Stock

As of December 31, 1998, the Company had issued a total of 2,808,221 shares of its common stock. Treasury stock consisted of 18,164 shares, making a total of 2,790,057 shares outstanding. The Company sold 10,000 shares of common stock in June, 1998 in conjunction with the exercise of stock options granted to an employee.

Note 13: Sales and Repurchases of Treasury Stock

During 1996, the Company reacquired 1,666 unvested, forfeited shares which were originally granted to an outside director.

Note 14: Earnings Per Share

Effective October 1, 1997, the Company adopted SFAS No. 128, "Earnings Per Share". All periods prior to October 1, 1997, have been restated to conform with the requirements of SFAS No. 128. The adoption of SFAS No. 128 affected previously reported earnings per share as follows:

<TABLE>
 <CAPTION>

	For the Year Ended December 31,
Earnings Per Share (EPS):	1996
<S> Primary EPS as previously reported	<C> \$ 0.30
Effect of SFAS No. 128	0.02
Basic EPS as restated	\$ 0.32
Fully diluted EPS as previously reported	\$ 0.30
Effect of SFAS No. 128	--
Diluted EPS as restated	\$ 0.30

</TABLE>

(Continued)

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LITTLEFIELD, ADAMS & COMPANY
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 1998, 1997 AND 1996
 (DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

Diluted earnings per share have been calculated as follows:

<TABLE>
 <CAPTION>

	For the Years Ended December 31,		
	1998	1997 (a)	1996
Earnings:			
<S> Net income (loss) applicable to common stock:	<C>	<C>	<C>
Before extraordinary gain	\$ 2,466	\$ (1,937)	\$ 799
Net effect of assumed conversion:			

Interest applicable to debentures	55	--	--
	-----	-----	-----
Net income (loss) before extraordinary gain for diluted earnings per share	2,521	(1,937)	799
Extraordinary gain	--	--	94
	-----	-----	-----
Net income (loss) for diluted earnings per share	\$ 2,521	\$ (1,937)	\$ 893
	=====	=====	=====
Shares:			
Weighted average number of shares of common stock outstanding	2,785,536	2,780,057	2,279,169
Weighted average impact of potential common shares applicable to:			
Stock options	287,725	--	193,643
Shares to be issued in settlement of litigation	--	--	495,000
Convertible subordinated debentures	1,104,658	--	--
	-----	-----	-----
Weighted average shares used for computation	4,177,919	2,780,057	2,967,812
	=====	=====	=====
Diluted earnings per common share:			
Net income (loss) applicable to common stock -			
Before extraordinary gain	\$ 0.60	\$ (0.70)	\$ 0.27
Extraordinary gain	--	--	0.03
	-----	-----	-----
Net income (loss) per common share	\$ 0.60	\$ (0.70)	\$ 0.30
	=====	=====	=====

</TABLE>

(a) The stock options have an antidilutive effect on net loss per share in 1997 and are, therefore, excluded from the computation of diluted earnings per share.

Securities that could potentially dilute basic earnings per share in the future that were not included in the computation of dilutive earnings per share because to do so would have been antidilutive were as follows:

<TABLE>
<CAPTION>

	As of December 31,		
	1998	1997	1996
	-----	-----	-----
<S> Outstanding options to purchase common stock	<C> 32,500	<C> 759,000	<C> 60,000
Range of exercise prices per share	\$6.13 to \$6.88	\$1.00 to \$6.88	\$3.38 to \$6.88

</TABLE>

(Continued)

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LITTLEFIELD, ADAMS & COMPANY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1998, 1997 AND 1996
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

Note 15: Leases

In March 1987, the Company shut down its Gardena, California facility, and in conjunction therewith, sold the machinery and equipment at that location to an unrelated third party through a "sales type" lease agreement. Under this agreement, the Company would receive payments of approximately \$2 per month for 10 years. The Company also renegotiated its lease of the California facility. The agreement provided for annual rentals of \$72 over a ten-year period beginning July 1, 1987. The Company also entered into another agreement to sublease the facility at \$188 annually over the same period of the principal lease. Rental income under these agreements (before payments to the lessor) was \$111 in 1996.

In June 1996, the Company and the sub-lessee agreed to a settlement of the remaining payments owed under the sub-lease agreement. The settlement required the sub-lessee to deliver \$100 of blank T-shirts to the Company, which were delivered to the Company in 1996.

In August 1996, the Company and the lessor agreed to a settlement of the lease agreement for \$36, payable in twelve equal monthly payments, without interest. Payment of the settlement amount was completed in May, 1997.

The Company leases production, office and warehouse space in Huber Heights, Ohio. Lease payments are \$202 for 1999.

The Company leases showroom and office space in the Empire State Building, New York, New York, with payments of \$61 per year through 2003 and \$56 in 2004.

Total rent expense was \$258, \$250 and \$313 for 1998, 1997 and 1996, respectively.

Following are the future minimum lease payments under non-cancelable operating leases as of December 31, 1998:

<TABLE>

<S>	<C>
1999	\$ 263
2000	61
2001	61
2002	61
2003	61
Thereafter	56

Total	\$ 563
	=====

</TABLE>

(Continued)

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LITTLEFIELD, ADAMS & COMPANY
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 1998, 1997 AND 1996
 (DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

Note 16: Income Taxes

Composition of the income tax (provision) benefit consisted of the following:

<TABLE>

<CAPTION>

<S>	Years Ended December 31,		
	1998	1997	1996
Federal -	<C>	<C>	<C>
Current	\$ (72)	\$ 5	\$ (3)
Deferred	--	--	--
	-----	-----	-----
	(72)	5	(3)
	-----	-----	-----
Local and State -			
Current	(61)	24	33
Deferred	--	--	--
	-----	-----	-----
	(61)	24	33
	-----	-----	-----
Total -			
Current	(133)	29	30
Deferred	--	--	--

\$ (133)	\$ 29	\$ 30
----------	-------	-------

</TABLE>

The following summarizes the estimated tax effect of significant cumulative temporary differences which comprise the deferred tax assets:

<TABLE>
<CAPTION>

	December 31,	
	1998	1997
<S>	<C>	<C>
Differences in depreciation and amortization	\$ 77	\$ 77
Accruals and reserves not deducted for tax purposes until paid	316	35
Net operating loss and AMT credit carryforwards	2,639	3,763
Deferred tax assets	3,032	3,875
Valuation allowance	(3,032)	(3,875)
	\$ --	\$ --

</TABLE>

(Continued)

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LITTLEFIELD, ADAMS & COMPANY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1998, 1997 AND 1996
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

The Company has recorded valuation allowances for the net amount of deferred income tax assets and net operating loss carryforwards and AMT credit carryforwards at December 31, 1998 and 1997. As of December 31, 1998, the Company had net operating loss (NOL) carryforwards of approximately \$7,550 for federal income tax purposes available to reduce future taxable income. In addition, the Company had an AMT credit carryforward of \$72 available to reduce future tax payments. The NOL carryforwards expire in 2002 through 2012 if not utilized.

The Company's ability to use its NOL carryforwards to offset future taxable income is subject to restrictions enacted in the Internal Revenue Code of 1986 as amended (the "Code"). These restrictions provide for limitations on the Company's utilization of its NOL carryforwards following certain ownership changes described in the Code. As a result of ownership changes in 1993, \$280 of the Company's existing NOL carryforwards are subject to the limitation of which the maximum amount which can be utilized is \$61 per year.

The reconciliation of the U.S. statutory tax rate to the effective income tax rate is as follows:

<TABLE>
<CAPTION>

	Years Ended December 31,		
	1998	1997	1996
<S>	<C>	<C>	<C>
United States statutory rate	34.0%	(34.0)%	34.0%
Amortization of goodwill	--	1.2	3.2
Impairment and other	0.6	6.7	1.5
State income taxes	2.4	(1.2)	(4.3)
NOL benefit (recognized) unrecognized	(31.9)	25.8	(38.3)
	5.1%	(1.5)%	(3.9)%

</TABLE>

In July 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income" ("SFAS 130"). SFAS 130 establishes standards for reporting and display of comprehensive income and its components in a full set of financial statements. The objective of SFAS 130 is to report a measure of all changes in the equity of an enterprise that result from transactions and other economic events of the period other than transactions with shareholders. Comprehensive income is the total of net income and all other non-shareholder changes in equity. Effective January 1, 1998, the Company adopted SFAS 130. The Company has no items of other comprehensive income in any period presented in these financial statements.

(Continued)

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LITTLEFIELD, ADAMS & COMPANY
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 1998, 1997 AND 1996
 (DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

Note 18: Incentive Plan (the "Plan")

During 1994, the Company adopted the Littlefield, Adams & Company Incentive Plan (the "Plan"). All options referred to herein were granted, and are governed, under the Plan. There are a maximum of 1,000,000 shares of the Company's common stock available for issuance under the Plan. Under the Plan, incentive stock options, nonstatutory stock options, performance units, restricted stock awards, stock appreciation rights, and cash and stock bonus awards may be granted to key employees, directors, and certain consultants and advisors of the Company. Awards granted are approved by a committee of the Company's Board of Directors. Each award will vest pursuant to individual award agreements. Through December 31, 1998, stock options granted pursuant to the Plan to employees and directors have been one hundred percent vested on the date of grant. Unexercised stock options will expire at the end of the term set forth pursuant to the individual option agreements, or ten years from the date of grant, whichever is sooner. The exercise price allowable for stock options granted under the Plan depends on the type of option but, in any case, may not be less than the greater of either (a) the par value per share of the stock, or (b) fifty percent of the fair market value (as defined in the Plan) per share of the stock on the date of grant. Through December 31, 1998, stock options granted to employees and directors pursuant to the Plan have had an exercise price equal to one hundred percent of the fair market value (as defined in the Plan) per share of the stock on the date of grant, or par value, whichever was greater. During the year ended December 31, 1998, stock options were granted to a third-party contractor pursuant to the Plan with an exercise price greater than one hundred percent of the fair market value (as defined in the Plan) per share of the stock on the date of grant, and with a provision that the options could not be exercised for a period of one year from the date of grant.

A summary of the status of options granted pursuant to the Plan at December 31, 1998, 1997 and 1996, and changes during the years then ended, is presented below:

<TABLE>
 <CAPTION>

	1998		1997		1996	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Outstanding at beginning of year	759,000	\$ 1.90	684,000	\$ 1.50	352,500	\$ 6.02
Granted	12,500	4.47	302,000	2.69	645,000	1.22
Exercised	(10,000)	1.20	--	--	--	--
Forfeited	(6,000)	1.17	(227,000)	1.73	(313,500)	6.01
Expired	--	--	--	--	--	--
Outstanding at end of year	755,500	1.96	759,000	1.90	684,000	1.50
Exercisable at end of year	753,000	\$ 1.95	759,000	\$ 1.90	684,000	\$ 1.50
Weighted average fair value of options granted	\$ 2.24		\$ 1.33		\$ 0.68	

</TABLE>

(Continued)

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LITTLEFIELD, ADAMS & COMPANY
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 1998, 1997 AND 1996
 (DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

The following table summarizes information about stock options outstanding at December 31, 1998:

<TABLE>

<CAPTION>

Grant Date	Exercise Price	Options Outstanding			Options Exercisable	
		Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable at December 31, 1998	Weighted Average Exercise Price
<S>	<C>	<C>	<C>	<C>	<C>	<C>
October 21, 1994	\$ 6.13	25,000	5.8 years	\$ 6.13	25,000	\$ 6.13
May 9, 1995	6.88	5,000	6.4 years	6.88	5,000	6.88
December 2, 1995	2.19	10,000	6.9 years	2.19	10,000	2.19
May 28, 1996	1.25	200,000	7.4 years	1.25	200,000	1.25
June 4, 1996	2.00	5,000	7.4 years	2.00	5,000	2.00
August 5, 1996	1.00	225,000	7.6 years	1.00	225,000	1.00
December 4, 1996	3.38	25,000	7.9 years	3.38	25,000	3.38
January 23, 1997	3.25	150,000	8.1 years	3.25	150,000	3.25
March 8, 1997	2.44	27,000	8.2 years	2.44	27,000	2.44
April 11, 1997	2.50	15,000	8.3 years	2.50	15,000	2.50
December 9, 1997	1.00	56,000	8.9 years	1.00	56,000	1.00
June 12, 1998	4.05	10,000	9.4 years	4.05	10,000	4.05
September 28, 1998	6.15	2,500	3.5 years	6.15	--	--
		755,500	7.7 years	\$ 1.96	753,000	\$ 1.95

</TABLE>

The Company accounts for the Plan under APB Opinion No. 25, under which no compensation cost has been recognized for stock options granted to employees and directors under the Plan. Had compensation cost for stock options granted to employees and directors under the Plan been determined consistent with SFAS Statement No. 123, the Company's net income (loss) and net income (loss) per share would have been the following pro forma amounts:

<TABLE>

<CAPTION>

		1998	1997	1996
<S>	<C>	<C>	<C>	<C>
Net income (loss)	As reported	\$ 2,466	\$ (1,937)	\$ 893
	Pro forma	\$ 2,449	\$ (2,140)	\$ 511
Net income (loss) per share:				
Basic earnings per share	As reported	\$ 0.89	\$ (0.70)	\$ 0.32
	Pro forma	\$ 0.88	\$ (0.77)	\$ 0.18
Diluted earnings per share	As reported	\$ 0.60	\$ (0.70)	\$ 0.30
	Pro forma	\$ 0.60	\$ (0.77)	\$ 0.17

</TABLE>

(Continued)

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LITTLEFIELD, ADAMS & COMPANY AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 DECEMBER 31, 1996, 1995 AND 1994
 (DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

The fair value of each grant is estimated on the date of the grant using the Modified Black-Scholes American option pricing model with the following weighted average assumptions used:

<TABLE> <CAPTION>		1998	1997	1996
		----	----	----
<S>	<C>		<C>	<C>
	Risk free interest rate	5.2%	6.1%	6.1%
	Estimated dividend yield	0.0%	0.0%	0.0%
	Estimated expected lives	4.0 years	3.3 years	3.2 years
	Estimated expected volatility	67%	83%	77%

</TABLE>

During 1998, 1997 and 1996 no compensation expense was recorded for options granted to employees and directors because the exercise price was equal to or greater than fair market value on such measurement date. During 1998, the Company recorded \$5 in expense relating to 2,500 options granted pursuant to the Plan to a third-party contractor. The expense of \$5 was determined by estimating the fair value of these options using the Modified Black-Scholes American option pricing model as discussed above.

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EXHIBIT INDEX REQUIRED BY ITEM 601 OF REGULATION S-K

NUMBER	DESCRIPTION OF EXHIBIT
-----	-----
3.1	Composite copy of the Certificate of Incorporation of the Registrant. Incorporated by reference to Exhibit 3.4 to the Registrant's 1994 Annual Report on Form 10-K, filed March 1995.
3.2	By-laws of the Registrant, as amended. Incorporated by reference to Exhibit 3.5 to the Registrant's 1995 Annual Report on Form 10-K, filed April 1996.
4	Form of 7% Convertible Subordinated Debenture dated April 24, 1998. Incorporated by reference to Exhibit 10.4 to the Registrant's March 31, 1998 Quarterly Report on Form 10-Q, filed May 1998.
10.1	Form of Subscription Agreement for private offering of \$1.2 million in principal amount of 7% Convertible Subordinated Debentures. Incorporated by reference to Exhibit 10.3 to the Registrant's March 31, 1998 Quarterly Report on Form 10-Q, filed May 1998.
10.2	Revolving Promissory Note for up to \$10,000,000, dated December 10, 1998, loan number 1016490-1, payable to The Provident Bank, an Ohio banking corporation.
10.3	Loan and Security Agreement (Asset Based), dated December 10, 1998, relating to loan number 1016490-1 with The Provident Bank, an Ohio banking corporation.
10.4	Discount Factoring Agreement with Merchant Factors Corp., dated January 25, 1996. Incorporated by reference to Exhibit 10.9 to the Registrant's 1994 Annual Report on Form 10-K, filed March 1995.
10.5	Amendment to Discount Factoring Agreement with Merchant Factors Corp., dated July 15, 1997. Incorporated by reference to Exhibit 10.1 to the Registrant's June 30, 1997 Quarterly

- 10.6 Addendum to Discount Factoring Agreement with Merchant Factors Corp., dated December 1, 1998, amending the January 25, 1996 Discount Factoring Agreement.
- 10.7 Intercreditor Agreement relating to Littlefield, Adams & Company, dated December 3, 1998, between Merchant Factors Corp. and The Provident Bank.
- 10.8 Promissory Note for \$142,634.32, dated February 1, 1997, loan number 0105592300, payable to The Bank of Floyd, Floyd, Virginia. Incorporated by reference to Exhibit 10.17 to the Registrant's 1996 Annual Report on Form 10-K, filed March 1997.
- 10.9 Business Loan Agreement, effective as of February 1, 1997, relating to loan number 0105592300, with The Bank of Floyd, Floyd, Virginia. Incorporated by reference to Exhibit 10.18 to the Registrant's 1996 Annual Report on Form 10-K, filed March 1997.
- 10.10 Promissory Note for \$468,483.83, dated January 31, 1997, loan number 5312501, payable to The Bank of Floyd, Floyd, Virginia. Incorporated by reference to Exhibit 10.19 to the Registrant's 1996 Annual Report on Form 10-K, filed March 1997.
- 10.11 Business Loan Agreement, effective as of January 31, 1997, relating to loan number 5312501, with The Bank of Floyd, Floyd, Virginia. Incorporated by reference to Exhibit 10.20 to the Registrant's 1996 Annual Report on Form 10-K, filed March 1997.

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EXHIBIT INDEX REQUIRED BY ITEM 601 REGULATION S-K

NUMBER

DESCRIPTION OF EXHIBIT

- 10.12 Commercial Security Agreement, dated January 31, 1997, relating to loan numbers 0105592300 and 5312501, with The Bank of Floyd, Floyd, Virginia. Incorporated by reference to Exhibit 10.21 to the Registrant's 1996 Annual Report on Form 10-K, filed March 1997.
- 10.13 Littlefield, Adams & Company Incentive Plan, as amended, Incorporated by reference to Appendix A of the definitive Proxy Statement (DEF 14A) filed April 1998.
- 10.14 License Agreement with PepsiCo, Inc., dated as of February 1, 1996. Incorporated by reference to Exhibit 10.9 to the Registrant's 1995 Annual Report on Form 10-K, filed April 1996.
- 10.15 Amendment of License Agreement with PepsiCo, Inc., dated October 1, 1996. Incorporated by reference to Exhibit 10.9 to the Registrant's 1996 Annual Report on Form 10-K, filed March 1997.
- 10.16 Renewal and Amendment of License Agreement, dated February 1, 1998, to the Merchandising License Agreement with PepsiCo, Inc., dated as of February 1, 1996. This amendment renews the term for an additional two years, to be from February 1, 1998 through January 31, 2000.
- 10.17 Collateral Product License Agreement with Miller Brewing Company, dated October 31, 1996. Incorporated by reference to Exhibit 10.10 to the Registrant's 1996 Annual Report on Form 10-K, filed March 1997.
- 10.18 Merchandising Licensing Agreement with the Twentieth Century Fox Licensing and Merchandising unit of Fox, Inc. for "The Simpsons," dated July 15, 1997. Incorporated by reference to Exhibit 10.1 to the Registrant's September 30, 1997 Quarterly Report on Form 10-Q, filed November 1997.
- 10.19 Amendment Number 1, dated September 16, 1998, to the Merchandising License Agreement dated July 15, 1997 with the Twentieth Century Fox Licensing and Merchandising unit of Fox, Inc. for "The Simpsons". This amendment extends the original

term of the license for The Simpsons by one year until December 31, 2000. Incorporated by reference to Exhibit 10.1 to the Registrant's September 30, 1998 Quarterly Report on Form 10-Q, filed November 1998.

10.20 Merchandising Licensing Agreement with the Twentieth Century Fox Licensing and Merchandising unit of Fox, Inc. for "King of the Hill," dated August 7, 1997. Incorporated by reference to Exhibit 10.11 to the Registrant's 1997 Annual Report on Form 10-K, filed March 1998.

10.21 Amendment Number 1, dated September 16, 1998, to the Merchandising License Agreement dated August 7, 1997 with the Twentieth Century Fox Licensing and Merchandising unit of Fox, Inc. for "King of the Hill". This amendment extends the original term of the King of the Hill license by one year until December 31, 2001. Incorporated by reference to Exhibit 10.2 to the Registrant's September 30, 1998 Quarterly Report on Form 10-Q, filed November 1998.

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EXHIBIT INDEX REQUIRED BY ITEM 601 OF REGULATION S-K

NUMBER	DESCRIPTION OF EXHIBIT
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10.22	Merchandising License Agreement with World Championship Wrestling, Inc. dated February 27, 1998. Incorporated by reference to Exhibit 10.2 to the Registrant's March 31, 1998 Quarterly Report on Form 10-Q, filed May 1998.
10.23	Amendment to the Merchandising License Agreement with World Championship Wrestling, Inc. dated as of February 27, 1998. The Amendment is effective January 22, 1999. This amendment adds denim and chambray shirts to the Authorized Articles.
10.24	Employment Agreement with Stanley I. Halbreich, dated November 16, 1992. Incorporated by reference to Exhibit 10.14 to the Registrant's 1996 Annual Report on Form 10-K, filed March 1997.
10.25	Amendment to Employment Agreement with Stanley I. Halbreich, dated January 4, 1993. Incorporated by reference to Exhibit 10.15 to the Registrant's 1996 Annual Report on Form 10-K, filed March 1997.
10.26	Employment Agreement with Warren L. Rawls, dated June 21, 1996. Incorporated by reference to Exhibit 10.16 to the Registrant's 1996 Annual Report on Form 10-K, filed March 1997.
23	Consent of Arthur Andersen LLP
27	Financial Data Schedule.

Littlefield, Adams & Company 1998 Annual Report on Form 10-K

REVOLVING PROMISSORY NOTE

\$10,000,000

Dayton, Ohio

December 10, 1998

The undersigned, for value received, promises to pay to the order of THE PROVIDENT BANK (the "Bank"), at any of its offices, the principal sum of TEN MILLION DOLLARS (\$10,000,000) (the "Maximum Credit"), or so much thereof as may be outstanding from time to time pursuant to the provisions hereof, together with interest until demand or maturity at the rate provided in the Loan and Security Agreement of even date herewith between Bank and the undersigned, as the same may be amended from time to time (the "Loan Agreement"). Accrued interest shall be due and payable on the 1st day of each month, commencing January 1, 1999, and at maturity. Principal shall be due and payable on December 10, 2000.

The undersigned hereby state(s) that the purpose of the loan evidenced by this Note is workingcapital.

This Note is the Revolving Note referred to in the Loan Agreement and is subject to the terms and conditions set forth in the Loan Agreement. Payment of this Note is secured as provided in the Loan Agreement. This Note shall be subject to mandatory prepayment under the circumstances described in the Loan Agreement.

If an Event of Default (as defined in the Loan Agreement) occurs and is continuing, the principal amount of this Note and all accrued interest shall, at the option of the holder, become immediately due and payable, without demand or notice.

There will be a minimum finance charge of \$50.00 for each billing period. If any payment of principal or interest is not paid when due or if the undersigned otherwise defaults in the performance of its obligations hereunder or under any other note or agreement with the holder, and if such failure to pay or failure to perform extends beyond any applicable grace period, the holder at its option, may charge and collect, or add to the unpaid balance hereof, a late charge of up to \$250 for each such delinquency to cover the extra expense incident to handling delinquent accounts, and/or increase the interest rate on the unpaid balance to the Default Rate (as defined in the Loan Agreement). The holder may charge interest at the rate provided herein on all interest and other amounts owing hereunder which are not paid when due.

The undersigned and all endorsers authorize any attorney at law, including an attorney engaged by the holder, to appear in any court of record in the State of Ohio or any other State or Territory of the United States, after

the indebtedness evidenced hereby, or any part thereof, becomes due and waive the issuance and service of process and confess judgment against any one or more than one of the undersigned and all endorsers in favor of the holder, for the amount then appearing due, together with costs of suit and, thereupon, to release all errors and waive all rights of appeal and stay of execution, but no such judgment or judgments against any one of the undersigned shall be a bar to a subsequent judgment or judgments against any one or more than one of such persons against whom judgment has not been obtained hereon. This warranty of attorney to confess judgment is a joint and several warrant of attorney. The foregoing warrant of attorney shall survive any judgment; and if any judgment be vacated for any reason, the holder hereof nevertheless may thereafter use the foregoing warrant of attorney to obtain an additional judgment or judgments against the undersigned and all endorsers or any one or more of them. The undersigned and all endorsers hereby expressly waive any conflict of interest that the holder's attorney may have in confessing such judgment against such parties and expressly consent to the confessing attorney receiving a legal fee from the holder for confessing such judgment against such parties.

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THE PROVISIONS OF THIS NOTE SHALL BE GOVERNED BY AND INTERPRETED IN ACCORDANCE WITH THE LAWS OF OHIO. AS A SPECIFICALLY BARGAINED INDUCEMENT FOR THE HOLDER TO EXTEND CREDIT TO THE UNDERSIGNED AND AFTER HAVING THE OPPORTUNITY TO CONSULT COUNSEL, THE UNDERSIGNED AND ALL ENDORSERS HEREBY EXPRESSLY WAIVE THE RIGHT TO TRIAL BY JURY IN ANY LAWSUIT OR PROCEEDING RELATED TO THIS NOTE OR ARISING IN ANY WAY FROM ANY INDEBTEDNESS OR OTHER TRANSACTIONS INVOLVING THE HOLDER AND THE UNDERSIGNED. THE UNDERSIGNED HEREBY DESIGNATE(S) ALL COURTS OF RECORD SITTING IN MONTGOMERY COUNTY OR HAMILTON COUNTY, OHIO AND HAVING JURISDICTION OVER THE SUBJECT MATTER, STATE AND FEDERAL, AS FORUMS WHERE ANY ACTION, SUIT OR PROCEEDING IN RESPECT OF OR ARISING FROM OR OUT OF THIS NOTE, ITS MAKING, VALIDITY OR PERFORMANCE, MAY BE PROSECUTED AS TO ALL PARTIES, THEIR SUCCESSORS AND ASSIGNS, AND BY THE FOREGOING DESIGNATION THE UNDERSIGNED CONSENT(S) TO THE JURISDICTION AND VENUE OF SUCH COURTS.

WARNING - BY SIGNING THIS PAPER, YOU GIVE UP YOUR RIGHT TO NOTICE AND COURT TRIAL. IF YOU DO NOT PAY ON TIME, A COURT JUDGMENT MAY BE TAKEN AGAINST YOU WITHOUT YOUR PRIOR KNOWLEDGE, AND THE POWERS OF A COURT CAN BE USED TO COLLECT FROM YOU REGARDLESS OF ANY CLAIMS YOU MAY HAVE AGAINST THE CREDITOR WHETHER FOR RETURNED GOODS, FAULTY GOODS, FAILURE ON HIS PART TO COMPLY WITH THE AGREEMENT OR ANY OTHER CAUSE.

LITTLEFIELD, ADAMS & COMPANY

By: /s/ Warren L. Rawls
Name: Warren L. Rawls
Title: CFO, Treasurer and Secretary

Address:
6262 Executive Boulevard
Huber Heights, OH 45424

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ASSET BASED

LOAN AND SECURITY AGREEMENT

THIS AGREEMENT is made this 10th day of December, 1998 between LITTLEFIELD, ADAMS & COMPANY, a New Jersey corporation ("Borrower") whose mailing address is 6262 Executive Boulevard, Huber Heights, Ohio 45424, and THE PROVIDENT BANK ("Bank"), an Ohio banking corporation whose mailing address is One East Fourth Street, Cincinnati, Ohio 45202.

1. Definitions. As used herein, the following terms, when initial capital letters are used, shall have the respective meanings set forth below. In addition, all terms defined in the Uniform Commercial Code as adopted in Ohio shall have the meanings given therein unless otherwise defined herein.

"Accounts" means all of Borrower's accounts (as that term is defined in the Uniform Commercial Code), accounts receivable, chattel paper, contract rights, documents and instruments; all other obligations or indebtedness owed to Borrower from whatever source arising; all guarantees of any of the foregoing and all security therefor; all of the right, title and interest of Borrower in and with respect to the goods, services or other property which gave rise to or which secure any of the foregoing and all insurance policies and proceeds relating thereto; all of the foregoing whether now owned by Borrower or hereafter acquired or in existence.

"Affiliate" means any person, company or business entity controlling, controlled by or under common control with, Borrower, whether such common control is direct or indirect, and all of the officers and directors of Borrower and such entities.

"Applicable Margin" has the meaning given in Section 2.2.

"Borrowing Base Certificate" has the meaning given in Section 2.1.

"Cash Collateral Account" means that deposit account(s) maintained by Borrower at Bank into which all collections on the collateral shall be deposited and over which Bank shall have the sole power of withdrawal.

"Change of Control" means the acquisition by any person, or two or more person acting in concert, of "beneficial ownership" (as defined for purposes of Rule 13d-3 adopted under the Securities Exchange Act of 1934) of 25% or more of the voting power of Borrower's outstanding capital stock.

"Collateral" means (a) all of Borrower's Accounts, Equipment, General Intangibles, Inventory and all other items of personal property now owned or hereafter acquired by Borrower or in which Borrower has granted or may in the future grant a security interest to Bank hereunder or in any supplement hereto or otherwise; (b) all of Borrower's right, title and interest in and to all goods or other property represented by or securing any of the Accounts, including all goods that may be reclaimed or repossessed from or returned by Debtors; (c) all of Borrowers rights as an unpaid seller, including stoppage in transit, detinue and reclamation; (d) all additional amounts due to Borrower from any Debtor, irrespective of whether such additional amounts have been specifically assigned to Bank; (e) all guaranties, or other agreements or property securing or relating to any of the items referred to in (a) above, or acquired for the purpose of securing and enforcing any of such items; (f) all instruments, documents, securities, cash, property, deposit accounts (including but not limited to deposits made to Borrower's Cash Collateral Account), and the

proceeds of any of the foregoing, owned by Borrower or in which Borrower has an interest, which are now or may hereafter be in the possession or control of Bank or in transit by mail or carrier to or from Bank, or

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in possession of any third party acting on behalf of Bank, without regard to whether Bank received same in pledge, for safekeeping, as agent for collection or transmission or otherwise or whether Bank had conditionally released the same; (g) all ledger sheets, files, records, documents, blueprints, drawings and instruments (including, without limitation, computer programs, tapes and related electronic data processing sol. are) evidencing an interest in or relating to the foregoing; and (h) all proceeds and products of the collateral described above, including, without limitation, all claims against third parties for damage to or loss or destruction of any of the foregoing, including insurance proceeds, and accounts, contract rights, chattel paper and general intangibles arising out of any sale, lease or other disposition of any of the foregoing.

"Debtor" means the account debtor with respect to any of Borrower's Accounts.

"Default Rate" has the meaning given in Section 2.2.

"Designated Accounts" means Accounts arising from sales by Borrower to: (i) the Wal-Mart store operations of Wal-Mart Stores, Inc. and its Affiliates, (ii) the Target store operations of Dayton Hudson Corporation and its Affiliates, and (iii) the Kmart store operations of Kmart Corporation and its Affiliates.

"Eligible Accounts" means such of the Designated Accounts as to which each of the following is accurate, to the reasonable satisfaction of Bank: (i) Bank has a perfected first priority security interest in such Account; (ii) delivery of the merchandise or the rendition of services giving rise to such Account has been completed; (iii) such merchandise or services t have been finally accepted by the customer and are not subject to return or rejection; (iv) such Account continues to be in full conformity with the representations and warranties made by Borrower to Bank with respect thereto; (v) no more than 90 days have elapsed from the invoice date with respect to such Account; and (vi) Bank is and continues to be satisfied with the credit standing of the Debtor in relation to the amount of credit extended. A Designated Account shall not be considered eligible to the extent of: (i) any return, rejection or repossession of the merchandise or services the provision of which gave rise to the Account, and (ii) any dispute, offset, defense or counterclaim of the customer with respect to the Account or the merchandise or services giving rise to the Account.

"Eligible Inventory" means such of Borrower's Inventory as to which each of the following. is accurate, to the reasonable satisfaction of Bank: (i) such Inventory consists of unprinted shirts; (ii) such Inventory is located at Borrower's facility at 6262 Executive Boulevard, Huber Heights, Ohio; (iii) Bank has a perfected security interest in such Inventory; and (iv) such Inventory is and at all times continues to be acceptable to Bank in its sole discretion.

"Equipment" means all of Borrower's equipment (as that term is defined in the Uniform Commercial Code), including, without limitation, all furniture, fixtures, machinery and other equipment of any kind and all substitutions and replacements thereof and accessories and parts therefor, all whether now owned or hereafter acquired by Borrower.

"Event of Default" means any event described in Section 10.1.

"Floyd Consent" means consent of The Bank of Floyd to the transactions

contemplated by this Agreement, which shall be in form and substance satisfactory to Bank, in its sole discretion.

"GAAP" means U.S. generally accepted accounting principles, consistently applied.

"General Intangibles" means all of Borrower's general intangibles (as that term is defined in the Uniform Commercial Code), including, without limitation, all goodwill, patents, formulas, blueprints, proprietary manufacturing processes, trademarks, trade names, licenses (but only to the extent that Borrower has the right to assign its rights under the license or to grant a security interest therein), franchises, beneficial interests in trusts, joint venture interests, partnership interests, rights to tax refunds, rights to

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insurance proceeds, causes of action, pension plan overfundings, literary rights and other contractual rights of Borrower, all whether now owned or hereafter acquired by Borrower.

"Intercreditor Agreement" means an agreement between Bank, Borrower and Merchant Factors Corp. in form and substance acceptable to Bank in its sole discretion.

"Inventory" means all of Borrower's inventory (as that term is defined in the Uniform Commercial Code), including, without limitation, all goods, merchandise and other personal property which are held for sale or lease, or are furnished or to be furnished under any contract of service by Borrower, or are raw materials, work-in-progress, supplies or materials used or consumed in Borrower's business, and all products thereof, and all substitutions, replacements, additions and accessories thereto, all whether now owned or hereafter acquired by Borrower, and all of Borrower's right, title and interest in and to any leases or rental agreements for such inventory.

"Leverage Ratio" means the ratio calculated as provided in Section 5.17(b) as of the specified date.

"Loan Documents" means this Agreement, the Note and the other agreements and documents contemplated by either of the foregoing.

"Loans" means the Revolving Loans.

"Material Adverse Affect" means a material adverse affect on Borrower's assets, liabilities, business, properties, prospects, financial condition or results of operations, as reasonably determined by Bank.

"Maximum Loan Amount" has the meaning set forth in Section 2.1.

"Next Agreement" means the Agreement dated October 15, 1998 between Next, Inc. and Borrower.

"Note" means the Revolving Note, as defined in Section 2.1.

"Obligations" means, without limitation, all Loans and all other debts, obligations, or liabilities of every kind and description of Borrower to Bank, now due or to become due, direct or indirect, absolute or contingent, presently existing or hereafter arising, joint or several, secured or unsecured, whether for payment or performance, regardless of how the same arise or by what instrument, agreement or book account they may be evidenced, or whether

evidenced by any instrument, agreement or book account, including, without limitation, all loans (including any loan by renewal or extension), all overdrafts, all guarantees, all bankers acceptances, all agreements, all letters of credit issued by Bank for Borrower and the applications relating thereto, all indebtedness of Borrower to Bank, all undertakings to take or refrain from taking any action and all indebtedness, liabilities and obligations owing from Borrower to others which Bank may obtain by purchase, negotiation, discount, assignment or otherwise. Obligations also shall include all interest and other charges chargeable to Borrower or due from Borrower to Bank from time to time and all costs and expenses referred to in Section 11.

"Permitted Equipment Lien" means the security interest and lien of The Bank of Floyd in the equipment of Borrower, which secures obligations of Borrower to The Bank of Floyd (as such obligations may be modified, amended or extended, but not increased in principal amount) in a principal amount which does not exceed \$518,000 in the aggregate.

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"Permitted Factor Lien" means the security interest and lien of Merchant Factors Corp. pursuant to the Permitted Factoring Agreement, as modified by the Intercreditor Agreement.

"Permitted Factoring Agreement" means the Factoring Agreement dated January 25, 1996, as amended, between Borrower and Merchant Factors Corp.

"Permitted Liens" means the liens and interests in favor of Bank granted in connection herewith and the following:

(i) liens arising by operation of law for taxes and assessments not yet due and payable;

(ii) statutory liens of mechanics, materialmen, shippers and warehousemen for services or materials for which payment is not yet due;

(iii) liens incurred or deposits made in the ordinary course of business in connection with workers' compensation, unemployment insurance and other types of social security;

(iv) the Permitted Factor Lien;

(v) the Permitted Equipment Lien;

(vi) liens, if any, specifically permitted by Bank from time to time in writing; and

(vii) the following if the validity or amount thereof is being contested in good faith and by appropriate and lawful proceedings promptly initiated and diligently conducted of which Borrower has given prior notice to Bank and for which appropriate reserves (in Bank's reasonable judgment) have been established and so long as levy and execution have been and continue to be stayed: claims and liens for taxes and assessment due and payable and claims of mechanics, materialmen, shippers, warehousemen, carriers and landlords.

"Prime Rate" has the meaning given in Section 2.2.

"Revolving Loans" has the meaning given in Section 2.1.

"Subordinated Debentures" means Borrower's 7% Convertible Subordinated Debentures issued on April 24, 1998 in an aggregate principal amount not exceeding \$1,200,000.

"Systems" has the meaning given in Section 4.16.

"Termination Date" means the earlier of: (i) December 10, 2000, (ii) the date as of which Borrower has terminated Bank's commitment to make additional Revolving Loans pursuant to Section 2.6, or (iii) the date on which an Event of Default occurs, unless the termination of Bank's commitment in connection with such Event of Default is waived in writing by Bank.

"WCW License" means the License Agreement dated as of February 27, 1998 between Borrower and World Championship Wrestling, Inc. with respect to the names, likenesses, characters, trademarks and/or copyrights of World Championship Wrestling and New World Order.

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2. Loans and Interest

2.1 Revolving Loans. So long as no Event of Default has occurred and is continuing, Bank shall make revolving loans ("Revolving Loans") to Borrower from time to time from the date hereof through the Termination Date in an aggregate amount outstanding at any time not to exceed the lesser of (i) \$10,000,000, or (ii) the sum of (a) 80% of the outstanding amount of Eligible Accounts, plus (b) the lesser of (x) \$750,000, or (y) 40% of the lower of the cost or market value of Eligible Inventory, plus (c) 100% of the balance of the Cash Collateral Account (the lesser of (i) or (ii) hereinafter being referred to as the "Maximum Loan Amount"). Bank may require Borrower from time to time and, in any event, prior to the making of a Revolving Loan and at least once each week (or, if Bank so determines, once each day) while any Revolving Loans are outstanding to deliver to Bank a certificate (a "Borrowing Base Certificate") in a form satisfactory to Bank which sets forth a current calculation of the Maximum Loan Amount and such other matters as Bank reasonably may specify. Should the aggregate amount of outstanding Revolving Loans at any time exceed the Maximum Loan Amount, Borrower immediately shall repay such excess amount. Revolving Loans may be made in excess of the Maximum Loan Amount in the sole discretion of Bank. The Revolving Loans shall be evidenced by a promissory note executed by the Borrower (the "Revolving Note") in form satisfactory to Bank.

2.2 Interest. The Revolving Loans shall bear interest on the principal balance from time to time outstanding at a rate per annum equal to Bank's Prime Rate plus the Applicable Margin until maturity, whether by acceleration or otherwise, and thereafter at a rate equal to 4.5% per annum plus the rate otherwise prevailing hereunder (the "Default Rate"), but in no event to exceed the maximum rate permitted to be paid by Borrower or received by Bank with respect to the Revolving Loans under applicable law. Interest shall be payable to the extent then accrued on the first day of each consecutive calendar month, commencing on January 1, 1999, and at maturity (whether by acceleration or otherwise) and from and after such maturity, on demand. The rate of interest borne by the Revolving Loans shall change as and when the Bank's Prime Rate changes and if, as and when the Applicable Margin changes.

"Prime Rate" is that annual percentage rate of interest which is established by Bank from time to time as its prime rate, whether or not such rate is publicly announced, and which provides a base to which loan rates may be referenced. Prime Rate is not necessarily the lowest lending rate of Bank. A rate based on Prime Rate will change each time and as of the date that Prime Rate changes.

"Applicable Margin" shall be 3% per annum; provided, however, that the Applicable Margin shall be adjusted in accordance with all of the following provisions:

(i) If Borrower's Leverage Ratio as of the end of any fiscal quarter ending on or after a date (a "Reference Date") set forth in the first column of the following table (the "Margin Table") is less than the ratio set forth in the second column of the Margin Table opposite such Reference Date, the Applicable Margin shall be reduced to the percentage set forth in the third column of the Margin Table opposite such Reference Date and ratio.

<TABLE>
<CAPTION>

MARGIN TABLE

Reference Date <S>	Leverage Ratio Less Than <C>	Applicable Margin <C>
December 31, 1998	2.00 to 1	2.5%
March 31, 1999	1.50 to 1	2.0%
June 30, 1999	1.25 to 1	1.5%
December 31, 1999	1.00 to 1	1.0%

</TABLE>

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(ii) If as of the end of any fiscal quarter (x) the Applicable Margin is less than 3%, and (y) Borrower's Leverage Ratio is not less than the ratio set forth in the second column of the Margin Table opposite the Applicable Margin which then is in effect, the Applicable Margin shall be increased to the rate per annum set forth in the third column of the Margin Table opposite the highest ratio in the second column which is less than Borrower's Leverage Ratio; provided, however, that if as of the end of any fiscal quarter Borrower's Leverage Ratio is 2.00 to 1 or greater, the Applicable Margin shall, as the case may be, continue at, or shall be increased to, 3% per annum.

(iii) Each adjustment to the Applicable Margin pursuant to clause (i) or (ii) above shall become effective as of the first day of the first month following the month in which Borrower delivers to Bank financial statements pursuant to Section 5.5 or 5.6 establishing that Borrower's Leverage Ratio requires an adjustment pursuant to such clause.

(iv) If as of the end of any fiscal quarter (x) the Applicable Margin is less than 3%, and (y) Borrower fails to deliver financial statements with respect to such fiscal quarter within the applicable time period specified in Section 5.5 or 5.6, the Applicable Margin shall be increased to 3% per annum, effective the first day following the end of such applicable time period.

(v) In no event shall the Applicable Margin be reduced, as the result of any single adjustment, to a percentage which is less than the lesser of: (i) 0.5% less than the Applicable Margin which was in effect immediately prior to such adjustment, or (ii) the lowest Applicable Margin which was in effect hereunder at any time prior to such adjustment.

(vi) The Applicable Margin shall not be reduced unless at the time of such reduction no Event of Default has occurred and is continuing.

In case of any change in law or governmental rules, regulations, guidelines or orders (or any interpretations thereof) or the introduction of new

laws, regulations or guidelines, which require Bank to reserve for unfunded credit commitments, Bank may charge Borrower an additional fee which will compensate Bank for complying with such requirements in connection with this Agreement.

2.3 Loan Payments. All payments of interest, principal and all other amounts owing hereunder or under the Note shall be made by Borrower to Bank in immediately available funds at its principal office in Cincinnati, Ohio or at such other place as Bank may designate in writing, at such times as shall be set forth herein or in the Note. Borrower hereby authorizes Bank, at Bank's option, to charge any account or charge or increase any Loan balance of Borrower at Bank for the payment or repayment of any interest or principal of the Loans or any fees, charges or other amounts due to Bank hereunder (after giving effect to any applicable grace periods hereunder).

2.4 Conditions to Initial Loan. As a condition to Bank's obligation to make the initial Loan under this Agreement, Borrower shall deliver the following to Bank:

- (i) the executed Revolving Note;
- (ii) an executed Borrowing Base Certificate;
- (iii) executed UCC-1 financing statements in form satisfactory to

Bank;

- (iv) the executed Intercreditor Agreement and the executed Floyd Consent;

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- (v) the Articles or Certificate of Incorporation of Borrower, certified by the Secretary of State (or other equivalent officer) of the jurisdiction of Borrower's incorporation;

- (vi) the By-laws or other similar governing document of Borrower, together with all amendments thereto, certified as true and complete by the Secretary or an Assistant Secretary of Borrower;

- (vii) a certificate issued by the Secretary of State (or other equivalent officer) of the state in which Borrower is incorporated and by the Secretary of State (or other equivalent officer) of Ohio and each other state in which Borrower is qualified to do business, with respect to the good standing of such Borrower in each such state;

- (viii) resolutions adopted by the Board of Directors (or other body performing a similar function) of Borrower authorizing execution, delivery and performance of the Loan Documents by Borrower, certified as true and correct and in full force and effect by the Secretary or an Assistant Secretary of Borrower;

- (ix) an opinion of counsel to Borrower in form reasonably acceptable to Bank;

- (x) a closing fee in the amount of \$50,000 (less the \$10,000 previously paid by Borrower) plus \$1,000 as the Collateral monitoring fee for December 1998 which is payable pursuant to Section 8.

- (xi) such other documents and instruments as Bank reasonably may request.

2.5 Conditions to Subsequent Loans. Bank's obligation under Section 2.1

to make subsequent Loans after the initial Loan under this Agreement shall be conditioned upon satisfaction of all of the following additional conditions: (i) Borrower shall have delivered to Bank an executed Borrowing Base Certificate as of the date of such subsequent Loan, (ii) no Event of Default shall have occurred and be continuing, (iii) Borrower shall be in compliance with all of its covenants under Sections 5 and 6, and (iv) the representations and warranties set forth in Section 4 shall be true and correct in all material respects as of the date of such subsequent Loan, except to the extent such representations and warranties expressly relate to an earlier date..

2.6 Termination Fee. Borrower may terminate Bank's commitment to make any additional Revolving Loans by doing all of the following: (i) Borrower shall give Bank 30 days prior written notice of Borrower's intention to do so as of a specified date at least 30 days after the date such notice is given, (ii) Borrower shall pay all principal, interest and other amounts due to Bank under this Agreement, the Note and all other Loan Documents through the specified date of termination, and (iii) Borrower shall pay to Bank a termination fee in the amount of \$200,000, if the specified date of termination is prior to December 10, 2000.

3. Grant of Security Interest. To secure the payment and performance of all of the Obligations, as herein defined, Borrower hereby grants to Bank a continuing security interest in and assigns to Bank all of the Collateral.

4. Representations and Warranties. Borrower hereby represents and warrants to Bank that:

4.1 Organization and Authority. (a) Borrower is a corporation duly organized, validly existing and in good standing under the laws of the state of its incorporation and has the corporate power and authority to conduct its business as now conducted and as proposed to be conducted; (b) the execution and delivery of this Agreement, the Note and the other Loan Documents to which Borrower is a party and the performance of the transactions contemplated hereby and thereby are within the authority of Borrower and have been duly authorized by all proper and necessary action on the part of Borrower; (c) the execution and delivery by Borrower of this Agreement, the Note and the other Loan Documents to which Borrower is a party and the

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performance by Borrower of the transactions contemplated hereby and thereby will not violate or contravene any provisions of law or the articles or certificate of incorporation or the bylaws or any other governing document of Borrower or result in a breach or default in respect of the terms of any other agreement to which Borrower is a party or by which it or any of its property is bound (which breach or default would have a Material Adverse Effect; and (d) Borrower is duly qualified to transact business and is in good standing in every jurisdiction where the nature of its properties or the conduct of its business requires such qualification.

4.2 Binding Effect of Documents. This Agreement, the Note and the other Loan Documents to which Borrower is a party are legal and binding obligations of Borrower enforceable in accordance with their respective terms, except as such enforceability may be limited by applicable bankruptcy, insolvency, reorganization or other similar laws affecting creditors' rights generally and by general principles of equity (regardless of whether enforcement is sought in equity or at law).

4.3 Consents. The execution and delivery of this Agreement, the Note and the other Loan Documents to which Borrower is a party by Borrower and the

performance by Borrower of the transactions contemplated hereby and thereby do not require any approval or consent of any governmental agency or authority or of any other party other than such approvals or consents as have been obtained and remain in full force and effect.

4.4 Financial Statements. Borrower has delivered to Bank copies of its consolidated and consolidating financial statements as of and for the year ending December 31, 1997 and as of and for each of the three fiscal quarters ended thereafter (collectively, the "Financial Statements"). All of the Financial Statements have been prepared in accordance with GAAP applied on a basis consistent with prior periods and fairly present the financial condition of Borrower and the results of its operations as at the dates thereof and for the periods then ended, except that the quarterly statements included in the Financial Statements are subject to normal year-end adjustments.

4.5 No Change in Financial Condition. Since December 31, 1997, there has been no change in the assets, liabilities, financial condition or operation of Borrower, other than changes in the ordinary course of business which, individually or in the aggregate, do not have a Material Adverse Effect.

4.6 No Other Liabilities. Except: (i) to the extent reflected in the most recent financial statements delivered by Borrower to Bank pursuant to this Agreement prior to the time this representation and warranty is made, (ii) liabilities and obligations incurred in the ordinary course of business since the date of such most recent financial statements, (iii) liabilities and obligations to Bank under this Agreement and, to the extent permitted by this Agreement, liabilities and obligations to Merchant Factors Corp. and to The Bank of Floyd, (iv) liabilities and obligations under the Next Agreement, and (v) liabilities and obligations which, individually or in the aggregate, do not have a Material Adverse Effect, there is no basis for the assertion against Borrower of any liabilities or obligations of any nature, direct or indirect, accrued, absolute or contingent (including, without limitation, liabilities for taxes then due or to become due whether incurred in respect of or measured by the income of Borrower for any period prior to the time this representation and warranty is made or arising out of transactions entered into, or any state of facts existing prior to, the time this representation and warranty is made).

4.7 Taxes. Borrower has filed all federal, state, local and other tax returns and reports required to be filed by it and such returns and reports are true and correct in all material respects. Borrower has paid all taxes, assessments and other governmental charges lawfully levied or imposed on or against it or its properties, other than: (i) those presently payable without penalty or interest, and (ii) those being contested in good faith by Borrower and for which Borrower has posted a bond or other security required by applicable law and has accrued a reserve on its books and in its financial statements in accordance with GAAP.

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4.8 No Litigation. Except as described on Schedule 4.8 or as Borrower otherwise may have disclosed in writing to Bank prior to the time this representation and warranty is made, there is no litigation or proceeding or governmental investigation pending or, to the knowledge of Borrower, threatened against or relating to Borrower or any of its properties or business.

4.9 Compliance with Laws. Borrower is not in violation of or default under any statute, regulation, license, permit, order, writ, injunction or decree of any government, governmental department, commission, board, bureau,

agency, instrumentality or court, which violation or default could have a Material Adverse Effect.

4.10 No Default. Borrower is not in default under any order, writ, judgment, injunction, decree, indenture, agreement, lease or other instrument or contract, which default would have a Material Adverse Effect. No holder of any indebtedness of Borrower has given notice of any asserted default thereunder; and no liquidation or dissolution of Borrower, and no receivership, insolvency, bankruptcy, reorganization or other similar proceedings relative to Borrower or any of its properties is pending or, to the knowledge of Borrower, is threatened against Borrower or any of its properties.

4.11 Location of Collateral. Borrower maintains places of business only at 6262 Executive Boulevard, Huber Heights, Ohio 45424 and 350 Fifth Avenue, Suite 4213, New York City, New York 10118-1188. Borrower maintains its books of account and records (including all records concerning Collateral) only at, and maintains its chief executive office at, 6262 Executive Boulevard, Huber Heights, Ohio 45424.

4.12 Title to Collateral. With respect to the Collateral, at the time the Collateral becomes subject to Bank's security interest, Borrower is and at all times will be the sole owner of and have good and marketable title to the Collateral, free from all liens, encumbrances and security interests in favor of any person, other than Permitted Liens, and has full right and power to grant Bank a security interest therein. All information furnished to Bank concerning the Collateral is and will be complete, accurate and correct in all material respects when furnished. The Permitted Equipment Lien covering the equipment of Borrower secures the obligations of Borrower to The Bank of Floyd in a principal amount which does not exceed \$518,000 in the aggregate.

4.13 Accounts. As to each and every Designated Account which Borrower has shown as an Eligible Receivable on the most recent Borrowing Base Certificate delivered to Bank: (a) such Designated Account is a valid bona fide existing obligation of the Debtor for a sum certain for sales of goods shipped or delivered, or goods leased, or services rendered in the ordinary course of business; (b) all supporting documents, instruments, chattel paper and other evidence of indebtedness, if any, delivered to Bank are complete and correct and valid and enforceable in accordance with their terms, and all signatures and endorsements that appear thereon are genuine, and all signatories and endorsers have full capacity to contract; (c) the Debtor is liable for the amount expressed in such Account according to its terms, and such Debtor has no right to reject or return the goods the sale of which gave rise to such Account to Borrower for a refund or discount; (d) such Account is subject to no discount, allowance or special terms of payment without the prior approval of Bank; (e) such Account is subject to no dispute, defense or offset, real or claimed; (f) such Account is subject to no prohibition or limitation upon assignment; and (g) Borrower has full right and power to grant Bank a security interest therein, and the security interest granted in such Account to Bank pursuant to Section 3 is a valid first priority security interest inuring to the benefit of Bank without further action. The warranties set out herein shall be deemed to have been made with respect to each and every Designated Account shown by Borrower as an Eligible Account on any Borrowing Base Certificate hereafter delivered to Bank by Borrower.

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4.14 Rights of Borrower in Inventory. Except as otherwise provided in Schedule 4.14, all of the Inventory (a) is of good and merchantable quality,

free from defects, and (b) is stored at Borrower's facility at 6262 Executive Boulevard, Huber Heights, Ohio.

4.15 Employee Benefit Plans. Other than the plans described on Schedule 4.15 (the "Plans"), Borrower maintains no plans which are subject to regulation under the Employee Retirement Income Security Act of 1974, as amended ("ERISA"). Borrower has not received any notice to the effect that it is not in full compliance with any of the requirements of ERISA, and no fact or situation, including but not limited to any "Reportable Event," or "Prohibited Transaction," as such terms are defined in ERISA, exists which is a violation of ERISA in connection with any Plan. Borrower has complied with all applicable provisions of ERISA, including minimum funding requirements; has made all filings required to be made by Borrower or any Plans (now or at any time in the past maintained) under ERISA; has no application pending for any extension of time in which to make contributions to any Plan maintained by it or to which it is, or has been, required to contribute; has timely made all contributions and paid all premiums required to be paid to the Pension Benefit Guaranty Corporation; and no matters are presently pending before the United States Labor Department or the Internal Revenue Service concerning any Plan maintained (now or at any time in the past) by Borrower or to which it is or was required to contribute. Each employee pension benefit plan (as defined in Section 3(2) of ERISA) maintained by Borrower is qualified and tax exempt under the Internal Revenue Code. Borrower has never had any obligation or liability with respect to a multi-employer plan, as defined in Section 3(37) of ERISA.

4.16 Year 2000 Compatibility. (a) Except as would not have a Material Adverse Effect: (i) all date-sensitive hardware, software, processes, procedures, interfaces and operating systems and core business functions (jointly referred to as "Systems") used within the Borrower's operations contain acceptable design and performance specifications so that such Systems will not abruptly end or provide invalid or incorrect results during the operation of Borrower's business on or after January 1, 2000, and (ii) all such Systems have been designed to ensure year 2000 compatibility including, but not be limited to: date data century recognition, calculations that accommodate same century and multi-century formulas and date values, date data interface values that reflect the century, and which include year 2000 leap year calculations.

(b) Borrower has confirmed with all of its material suppliers that all data-sensitive hardware, software, processes, procedures, interfaces and operating Systems used within the supplier's operations relevant to Borrower contain acceptable design and performance specifications so that such Systems will not abruptly end or provide invalid or incorrect results during the operation of Borrower's business on or alter January 1, 2000 and that all such Systems have been designed to ensure year 2000 compatibility including, but not be limited to: date data century recognition, calculations that accommodate same century and multi-century formulas and date values, date data interface values that reflect the century, and which include year 2000 leap year calculations.

4.17 Accuracy of Representations. No representation or warranty by or with respect to Borrower contained herein or in any certificate or other document furnished by Borrower pursuant hereto contains any untrue statement of a material fact or omits to state a material fact necessary to make such representation or warranty not misleading in light of the circumstances under which it was made.

4.18 Representations as Inducement to Bank. The foregoing representations and warranties are made by Borrower with the knowledge and intention that Bank will rely thereon, and shall survive the execution and delivery of this Agreement and the making of all Loans hereunder. The receipt by Borrower of a Loan advance shall constitute a representation and warranty by Borrower that the representations and warranties contained in this Section 4 are true and correct in all material respects as of the date of such Loan

advance, except to the extent such representations and warranties expressly relate to an earlier date.

5. Affirmative Covenants. Borrower covenants and agrees that, until all of the Obligations have been paid in full, unless Bank otherwise consents in writing, Borrower shall, and shall cause each of its subsidiaries, if any, to:

5.1 Books and Records. Maintain complete and accurate books of account and records pertaining to the Collateral and the operations of Borrower and all such books of account and records shall be kept and maintained at the location specified in Section 4.11. Borrower shall not move such books of account and records or change its chief executive office without giving Bank at least 30 days prior written notice. Prior to moving any of such books of account and records or changing the location of such chief executive office, Borrower shall execute and deliver to Bank financing statements satisfactory to Bank. All financial statements and reports furnished to Bank shall be maintained and prepared in accordance with GAAP applied on a basis consistent with prior periods.

5.2 Access to Information. Grant Bank, or its representatives, full and complete access to the Collateral and to all books of account, records, correspondence and other papers relating to the Collateral during normal business hours and without undue disruption to the operation of Borrower's business and the right to inspect, examine, verify and make abstracts from the copies of such books of account, records, correspondence and other papers, and to investigate such other records, activities and business of Borrower as they reasonably may deem necessary or appropriate at the time.

5.3 Year 2000 Compliance. Provide Bank with such certifications, test results and other assurances reasonably requested by Bank showing all of Borrower's core and material Systems to be year 2000 compliant, as represented and warranted by Borrower in Section 4.16, and provide any representative of Bank with access during all business hours to, and permit any such representative to examine, copy or make excerpts from, any and all books, records and documents of or in the possession of Borrower to inspect any Systems and properties of Borrower or to project-test Systems (at Bank's expense) to determine if they are year 2000 compliant in the integrated environment.

5.4 Evidence of Accounts. Upon the creation of Accounts, or from time to time as Bank may require, deliver to Bank schedules of all outstanding Accounts. Such schedules shall be in form satisfactory to Bank and shall show the age of such Accounts in intervals of not more than 30 days, and contain such other information and be accompanied by such supporting documents as Bank from time to time reasonably may prescribe. Borrower also shall deliver to Bank copies of Debtors' invoices, evidences of shipment or delivery and such other schedules and information as Bank may reasonably request. The items to be provided under this section are to be prepared and delivered to Bank from time to time solely for its convenience in maintaining records of the Collateral, and Borrower's failure to give any of such items to Bank shall not affect, terminate, modify or otherwise limit Bank's security interest granted herein.

5.5 Annual Financial Information. Deliver to Bank not more than 95 days after the close of each fiscal year of Borrower annual consolidated and consolidating financial statements of Borrower, including a balance sheet and related income statement, prepared in accordance with GAAP together with, in the case of such consolidated financial statements, the unqualified opinion of Borrower's independent certified public accountants (who shall be reasonably acceptable to Bank) with respect thereto.

5.6 Interim Financial Information. Deliver to Bank not more than 50 business days after the end of each fiscal quarter (or, if Bank so requests, as of the end of each calendar month), consolidated and consolidating financial statements of Borrower as of the end of such quarter (or such month, if Bank has requested monthly statements) and for such period and the portion of the fiscal year then ended, including a balance sheet with related profit and loss statement, prepared in accordance with GAAP (subject to normal

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year end audit adjustments) and certified as true and correct in all material respects by the chief financial officer of Borrower.

5.7 Other Information. Promptly furnish to Bank (a) copies of all reports, statements, registration statements and other documents filed by Borrower with the Securities and Exchange Commission or any stock exchange on which its securities may be traded, (b) copies of all communications sent generally by Borrower to its security holders, and (c) such other financial and business information and reports in form and substance reasonably satisfactory to Bank as and when Bank from time to time reasonably may request.

5.8 Maintenance of Existence and Licenses. While this Agreement remains in effect and until the Obligations have been paid in full: (a) maintain its corporate existence in good standing; (b) make no material change in the nature or character of its business or engage in any business which is materially different from a business in which it was engaged on the date of this Agreement; (c) maintain and keep in full force and effect all licenses and permits necessary to the proper conduct of its business and (d) qualify as a foreign corporation and obtain all requisite licenses and permits in each state (other than the state of its incorporation) in which Borrower does business, unless the failure so to qualify or to obtain any such license or permit would not have a Material Adverse Effect.

5.9 Maintenance and Insurance of Properties. Maintain and keep all of its properties, real and personal, in good working order, condition and repair (ordinary wear and tear excepted) and insure and keep insured all such properties at all times against loss of damage by fire, theft, and such other risks and hazards, and in such amounts, as are customarily insured against by businesses in similar circumstances with insurers reasonably acceptable to Bank. If Borrower fails to do so, Bank may obtain such insurance and charge the cost thereof to Borrower's account and add it to the Obligations. If any insured loss should occur, the proceeds of all such insurance policies may be applied to the payment of all or any part of the Obligations, as Bank may direct. Bank shall be named loss payee on such insurance policies to the extent that such policies insure the Collateral. All policies shall provide for at least 30 days prior written notice of cancellation to Bank. Borrower shall deliver at least annually to Bank, or more frequently if requested by Bank, certificates of insurance evidencing Borrower's compliance herewith. Bank or Bank's designated agent is hereby irrevocably constituted and appointed attorney-in-fact for Borrower (either in the name of Borrower or in the name of Bank), during the continuance of an Event of Default, to make adjustments of all insurance losses, sign all applications, releases and other papers necessary for the collection of any such loss, make settlements and endorse and collect all instruments payable to Borrower or issued in connection therewith.

5.10 Liability Insurance. At all times, maintain in full force and effect such liability insurance with respect to its activities and business interruption and other insurance as may be required by Bank, such insurance to

be provided by insurer(s) reasonably acceptable to Bank, and if requested by Bank, such insurance shall name Bank as an additional insured. Borrower shall deliver at least annually to Bank, or more frequently if requested by Bank, certificates of insurance evidencing Borrower's compliance herewith.

5.11 Notice of Certain Events. Give prompt notice in writing to Bank of any Event of Default hereunder, or of any condition which with the passage of time or the giving of notice or both would give rise to an Event of Default, and of any development, financial or otherwise, which could have a Material Adverse Effect or which otherwise might adversely affect the ability or obligation of Borrower to perform this Agreement or any of the other Loan Documents.

5.12 Payment of Taxes. Pay all taxes, assessments and governmental charges lawfully levied or imposed on or against it and its properties prior to the date when such taxes, assessments or charges shall become delinquent, unless Borrower is contesting the validity thereof in good faith and has posted any bond or other security required by applicable law against payment thereof.

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5.13 Dealings in Inventory. With respect to the Inventory (a) sell or dispose of Inventory only to buyers in the ordinary course of business, (b) promptly notify Bank of any change in location of any of the Inventory and, prior to any such change, execute and deliver to Bank such financing statements satisfactory to Bank as Bank may request and (c) report, in form satisfactory to Bank and with such frequency as reasonably determined by Bank, such information as Bank reasonably may request regarding the Inventory.

5.14 Claims Against Borrower. Promptly upon learning thereof, report to Bank any reclamation, return or repossession of goods, any claim or dispute asserted by any Debtor and any other matters affecting the value and enforceability or collectibility of any of the Collateral.

5.15 Defense of Collateral. Defend the Collateral against all claims and demands (other than Permitted Liens) of all persons at any time claiming the same or any interest therein and pay all costs and expenses (including attorneys' fees) incurred in connection with such defense.

5.16 Financing Statements. At the request of Bank, execute and deliver such financing statements, documents and instruments, and perform all other acts as Bank reasonably deems necessary or desirable to carry out and perform the intent and purpose of this Agreement, and pay, upon demand, all expenses (including attorneys' fees) incurred by Bank in connection therewith. If Borrower refuses or is unable to execute an appropriate financing statement promptly upon demand by Bank, a photocopy of this Agreement shall be sufficient as a financing statement and may be filed in any appropriate office in lieu thereof.

5.17 Financial Covenants. Maintain at all times:

(a) Consolidated Tangible Net Worth greater than the greater of: (i) the following amounts from and after the dates indicated:

<TABLE>
<CAPTION>

Date	Amount
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<C>

December 1, 1998	\$2,750,000
January 1, 1998	\$3,250,000
July 1, 1999	\$3,500,000
January 1, 2000	\$3,750,000

</TABLE>

or (ii) the highest Consolidated Tangible Net Worth of Borrower as of the end of any fiscal quarter ending after the date of this Agreement and prior to the date of determination, less \$400,000;

(b) A ratio of Consolidated Liabilities to Consolidated Tangible Net Worth of not more than 2.75 to 1; and

(c) A ratio of (i) the sum of Borrower's net income plus non-cash expenses plus interest expense for the most recently-ended four consecutive fiscal quarters to (ii) the sum of Borrower's interest expense plus all principal paid or due to be paid on any indebtedness of Borrower during the same four consecutive fiscal quarters, all determined in accordance with GAAP, of not less than 1.50 to 1.

The following terms shall have the following meaning when used herein:

"Consolidated Liabilities" mean all indebtedness, obligations and other liabilities of Borrower and its subsidiaries, whether matured or unmatured, liquidated or unliquidated, direct or contingent or joint or several, that should, in accordance with GAAP, be classified as liabilities on a consolidated balance sheet of Borrower, but excluding the Subordinated Debentures.

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"Consolidated Tangible Net Worth" means, at any time, Stockholder's Equity, less the sum of (i) any surplus resulting from any write-up of assets subsequent to December 31, 1997, (ii) goodwill, including any amounts, however designated on a consolidated balance sheet of Borrower and its subsidiaries, representing the excess of the purchase price paid for assets or stock acquired over the value assigned thereto on the books of Borrower, (iii) patents, trademarks, tradenames and copyrights, (iv) any amount at which shares of capital stock of Borrower appear as an asset on Borrower's consolidated balance sheet, (v) deferred expenses and (vi) any other amount in respect of an intangible that should be classified as an asset on a consolidated balance sheet of Borrower in accordance with GAAP.

"Stockholder's Equity" means, at any time, the aggregate of the following amounts set forth on a consolidated balance sheet of Borrower prepared in accordance with GAAP: (i) the par or stated value of all outstanding capital stock, (ii) capital surplus (iii) retained earnings, and (iv) all indebtedness which is subordinated to the Loans in a manner satisfactory to Bank, in its sole discretion.

5.18 Maintenance of Bank Accounts. Maintain its primary banking relationship with Bank and maintain combined collected balances in a demand deposit account with Bank of at least \$100,000. The amount of any deficiency in such balance shall bear interest at the Prime Rate plus 3% per annum and shall be payable in arrears within 30 days of the end of the month in which the deficiency occurs. The collected balances in Borrower's demand deposit account shall earn interest credits according to Bank's customary method of calculation, which interest credits may be applied by Borrower only to offset service charges due from Borrower with respect to activity in its demand deposit account.

5.19 Termination of Financing Statements. Within 60 days after the date of this Agreement, provide Bank with evidence reasonably satisfactory to Bank of the termination of all current financing statements of record showing Borrower (or Fun Wear or Sports Imprints) as debtor and which evidence any lien or security interest other than the security interest created under this Agreement, the Permitted Factor Lien and the Permitted Equipment Lien.

6. Negative Covenants. Until the Obligations have been paid in full, unless Bank shall consent in advance in writing, Borrower shall not, and shall not permit any subsidiary, if any, to:

6.1 Sale of Assets or Merger. Discontinue its business or liquidate, sell, transfer, assign or otherwise dispose of a material part of its assets or of the Collateral, by sale, merger, consolidation or otherwise, provided, however, that it may: (i) sell Inventory in the ordinary course of business, and (ii) continue to sell Accounts which are not Designated Accounts in accordance with the Permitted Factoring Agreement.

6.2 Liens and Encumbrances. Sell, assign, pledge, grant or suffer to exist a security interest, lien, mortgage or other encumbrance on any of the Collateral to any person other than Bank, or permit any lien, encumbrance or security interest to attach to any of the Collateral, except Permitted Liens.

6.3 Contingent Liabilities. Endorse, guarantee or become surety for the obligations of any person, firm or corporation, except: (i) pursuant to the Next Agreement, and (ii) Borrower may endorse checks and negotiable instruments for collection or deposit in the ordinary course of business.

6.4 Loans. Make any loan to any Affiliate of Borrower or repay any existing loan made to it by any such Affiliate.

6.5 Distributions. Declare or pay any dividends or make any other payments on its capital stock, redeem, repurchase or retire any of its capital stock, or make any other distribution to its stockholders.

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6.6 Dealings with Accounts. Compromise or discount any Account except for: (i) ordinary trade discounts or allowances for prompt payment and other discounts and compromises made in the ordinary course of business, and (ii) the sale of Accounts which are not Designated Accounts in accordance with the Permitted Factoring Agreement.

6.7 Investments. (a) Change its name or consolidate or merge with any other entity or acquire or purchase for cash any equity interest in any other entity, including shares of stock of other corporations, or acquire or purchase any assets or assume any obligations of any other entity the value of which exceeds 10% of Borrower's Eligible Accounts (whether in one transaction or in a series of transactions), except that Borrower may own notes and other receivables acquired in the ordinary course of business.

(b) Subscribe for any stock or other equity interest in or otherwise organize or form any subsidiary corporation or entity.

6.8 Change in Management or Business. Change its management or make any material change in any of its business objectives, purposes and operations which, in either such case, might in any way adversely affect the repayment of the Loans.

6.9 Transaction with Affiliates. Enter into, or be a party to, any transaction with any Affiliate of Borrower except in the ordinary course of business, pursuant to the reasonable requirements of the business of Borrower and upon fair and reasonable terms which are fully disclosed to Bank and are no less favorable to Borrower than Borrower could obtain in a comparable arm's length transaction with a person not an Affiliate of a Borrower.

6.10 Indebtedness. Directly or indirectly create, incur, assume, guaranty or be or remain liable with respect to any indebtedness, except for (a) the Obligations, (b) the indebtedness represented by the Subordinated Debentures disclosed in the Financial Statements, (c) purchase money indebtedness (other than capitalized lease obligations) not to exceed \$100,000 per year, (d) lease obligations which are required to be capitalized under GAAP and which, in the aggregate with all purchase money indebtedness incurred pursuant to the preceding clause (e), do not exceed \$500,000, (f) indebtedness incurred under the Permitted Factoring Agreement in an aggregate amount not to exceed at any time the net amount of all outstanding Accounts other than Designated Accounts, (g) indebtedness existing as of the date of this Agreement to The Bank of Floyd secured by the Permitted Equipment Lien (as such indebtedness may be modified, amended or extended, but not increased in principal amount); and (h) any other indebtedness to which Bank consents in writing.

6.11 Capital Expenditures. Permit the aggregate amount of all capital expenditures by Borrower in any fiscal year to exceed \$500,000.

7. Collection of Collateral and Notice of Assignment.

7.1 Collections on Collateral. All collections on the Collateral shall be directed to a lock box at Bank. All collections on the Collateral shall be the property of Bank, shall be held in trust for Bank by Borrower and shall not be commingled with Borrower's other funds or be deposited in any bank account of Borrower (except for the Cash Collateral Account), or used in any manner except to pay the Obligations. Borrower immediately shall deposit any collections on the Collateral which are received by Borrower in the Cash Collateral Account maintained at Bank for that purpose, over which Bank alone shall have the sole power of withdrawal. On a daily basis, Bank will apply all or part of the collected balance of the Cash Collateral Account against the Obligations (to the extent outstanding), with the amount, order and method of such application to be in the sole discretion of Bank. In no event shall Bank be obligated to apply any funds deposited in the Cash Collateral Account before the second business day after the day of deposit. Any part of the collected balance in the Cash Collateral Account which Bank elects not to apply to Borrower's

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obligations shall be paid over and deposited by Bank to Borrower's commercial account. The crediting of items deposited in the Cash Collateral Account to the reduction of the Obligations shall be conditioned upon final payment of the item and if any item is not so paid, the amount of any credit given for it may be charged to the Obligations or to any other deposit account of Borrower, whether or not the item is returned.

7.2 Notice of Assignment. Bank shall have the right at any time during the continuance of an Event of Default to notify Debtors of its security interest in the Designated Accounts and, subject to the Intercreditors Agreement, the other Accounts and to require payments to be made directly to Bank. Upon request of Bank at any time during the continuance of an Event of Default, Borrower shall so notify the account Debtors and will indicate on all

billings to the account Debtors that the Accounts are payable to Bank. To facilitate direct collection, Borrower hereby appoints Bank and any officer or employee of Bank, as Bank from time to time may designate, as attorney-in-fact for Borrower to, after the occurrence of an Event of Default: (a) receive, open and dispose of all mail addressed to Borrower and take therefrom any payments on or proceeds of Accounts; (b) take over Borrower's post office boxes or make other arrangements, in which Borrower shall cooperate, to receive Borrower's mail, including notifying the post office authorities to change the address for delivery of mail addressed to Borrower to such address as Bank shall designate; (c) endorse the name of Borrower in favor of Bank upon any and all checks, drafts, money orders, notes, acceptances or other evidences of payment or Collateral that may come into Bank's possession; (d) sign and endorse the name of Borrower on any invoice or bill of lading relating to any of the Accounts, on verifications of Accounts sent to any Debtor, to drafts against Debtors, to assignments of Accounts and to notices to Debtors; and (e) do all other acts and things necessary to carry out this Agreement, including signing the name of Borrower on any instruments required by law in connection with the transactions contemplated hereby and on financing statements as permitted by the Uniform Commercial Code. Borrower hereby ratifies and approves all acts of such attorneys-in-fact, and neither Bank nor any other such attorney-in-fact shall be liable for any acts of commission or omission, or for any error of judgment or mistake of fact or law. This power, being coupled with an interest, is irrevocable so long as any of the Obligations remain unsatisfied.

7.3 Enforcement of Accounts. Bank shall not, under any circumstances, be liable for any error or omission or delay of any kind occurring in the settlement, collection or payment of any Accounts or any instruments received in payment thereof or for any damage resulting therefrom. During the continuance of an Event of Default, Bank may, without notice to or consent from Borrower, sue upon or otherwise collect, extend the time of payment of, or compromise or settle for cash, credit or otherwise upon any terms, any of the Accounts or any securities, instruments or insurance applicable thereto and/or release the obligator thereon. During the continuance of an Event of Default, Bank is authorized to accept the return of the goods represented by any of the Accounts, without notice to or consent by Borrower or without discharging or any way affecting the Obligations hereunder.

7.4 Limitation of Bank's Liability. Bank shall not be liable for or prejudiced by any loss, depreciation or other damage to Accounts or other Collateral unless caused by Bank's willful and malicious act, and, to the extent permitted by applicable law, Bank shall have no duty to take any action to preserve or collect any Account or other Collateral.

7.5 Verification of Accounts. Bank may confirm and verify all Accounts in any reasonable manner at any time. Bank shall have no obligation to disclose or discuss with Borrower the names or identities of any customers from whom Bank obtains or requests information as to Accounts. Borrower shall cooperate with Bank in the confirmation and verification of any Accounts, or reconciling any discrepancy between those amounts verified by Bank and information provided to Bank by Borrower.

8. Service Charges. In addition to the principal and interest on the Loans and the reimbursement of expenses to Bank pursuant to this Agreement, Borrower shall pay to Bank a Collateral monitoring fee of \$1,000 per month while this Agreement remains in effect, payable in advance on the first day of each month.

In addition to the monthly Collateral monitoring fee, Borrower shall pay to Bank a service charge of \$50 per day for each day on which the outstanding principal balance of the Loans exceeds the Maximum Loan Amount. All service charges shall be payable monthly on the due date for the payment of principal and/or interest on the Loans.

9. One General Obligation: Cross Collateral. All loans and advances by Bank to Borrower under this Agreement and under all other agreements constitute one loan, and all indebtedness and obligations of Borrower to Bank under this and under all other agreements, present and future, constitute one general obligation secured by the Collateral and security held and to be held by Bank hereunder and by virtue of all other assignments and security agreements between Borrower and Bank now and hereafter existing. It is expressly understood and agreed that all of the rights of Bank contained in this Agreement shall likewise apply insofar as applicable to any modification of or supplement to this Agreement and to any other agreements, present and future, between Bank and Borrower.

10. Events of Default and Remedies.

10.1 Event of Default. The following shall constitute Events of Default under this Agreement, it being agreed that time is of the essence hereof: (a) failure of Borrower to pay any of the Obligations when due or, in the case of Obligations which consist of interest or service charges payable under Section 8, within three days of the date when due; (b) failure of Borrower to observe or perform any covenant contained in this Agreement or in any other agreement between Borrower and Bank when due; (c) any representation or warranty at any time made by Borrower or any guarantor to Bank orally or in this Agreement or in any other agreement between Borrower and/or any guarantor and Bank, or in any document or instrument delivered to Bank pursuant to this Agreement or any such other agreement is, or becomes, untrue or misleading in any material respect; (d) Borrower shall be in default or breach under any obligation for the payment of borrowed money or for the payment of rent under any lease agreement covering real or personal property in either case; (e) failure of Borrower or any guarantor, alter request by Bank, to furnish financial information or to permit the inspection of its books of account and records; (f) suspension by Borrower or any guarantor of the operation of its present business, or the insolvency of Borrower or any guarantor, or the inability of Borrower or any guarantor to meet its debts as they mature, or its admission in writing to such effect, or its calling any meeting of all or any of its creditors or committing any act of bankruptcy, or the filing by or against Borrower or any guarantor of any petition under any provision of Bankruptcy Act, as amended, or the entry of any judgment or filing of any lien against Borrower or any guarantor; (g) any material adverse change occurs in the condition or affairs (financial or otherwise) of Borrower or in any endorser, guarantor of surety for any of the Obligations; (h) any loss, theft, damage, destruction or encumbrance of Collateral with a value in excess of \$250,000 in the aggregate; (i) any levy, seizure or attachment of any of the Collateral; (j) any guarantor of the Obligations denies his or its obligation to guarantee any Obligations then existing or attempts to limit or terminate his or its obligation to guarantee any future Obligations, including future Loan advances; (k) occurrence of any default or event of default under any other Loan Documents which continues beyond the applicable period for cure, if any; (l) payment by or on behalf of Borrower of any principal outstanding under the subordinated Debentures without the prior written consent of Bank; (m) termination or cancellation, for any reason whatsoever, of the WCW License or the occurrence of any event which Bank deems, in its sole discretion, to constitute a material adverse change in the relationship of Borrower with World Championship Wrestling, Inc. or in Borrower's rights under the WCW License, or (n) occurrence of any Change of Control of Borrower.

10.2 Rights of Bank upon Default. Upon the occurrence of an Event of Default described in Section 10.1, Bank at its option may: (a) declare the Obligations immediately due and payable, without presentment, notice, protest or

demand of any kind for the payment of all or any part of the Obligations (all of which are expressly waived by Borrower) and exercise all of its rights and remedies against Borrower and any Collateral provided herein, in any other agreement or at law or in equity and (b) exercise all rights granted to a secured party under the applicable Uniform Commercial Code or other applicable law. Upon the

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occurrence of an Event of Default, Bank may take possession of the Collateral, or any part thereof, and Borrower hereby grants Bank authority to enter upon any premises on which the Collateral may be situated, and remove the Collateral from such premises or use such premises, together with the materials, supplies, books and records of Borrower, to maintain possession and/or the condition of the Collateral and to prepare the Collateral for sale. Borrower shall, upon demand by Bank, assemble the Collateral and make it available at a place designated by Bank. Unless the Collateral is perishable or threatens to decline speedily in value or is of a type customarily sold on a recognized market, Bank will give Borrower reasonable notice of the time and place of any public sale thereof or of the time after which any private sales or other intended disposition thereof is to be made. The requirement of reasonable notice shall be met if such notice is mailed, postage prepaid, to the address of Borrower shown at the beginning of this Agreement at least ten days prior to the time of such sale or disposition.

10.3 Application of Proceeds. Bank shall have the right to apply the proceeds of any disposition of the Collateral to the payment of the Obligations in such order of application as Bank, may, in its sole discretion, elect. Bank shall have no obligation to marshal any assets in favor of Borrower or any other party.

10.4 Remedies Cumulative. The rights, options and remedies of Bank shall be cumulative and no failure or delay by Bank in exercising any right, option or remedy shall be deemed a waiver thereof or of any other right, option or remedy, or waiver of any Event of Default hereunder, nor shall any single or partial exercise of any such right, power or remedy preclude any other or further exercise thereof or the exercise of any other right, power or remedy hereunder. Bank shall not be deemed to have waived any of Bank's rights hereunder or under any other agreement, instrument or paper signed by Borrower unless such waiver be in writing and signed by Bank.

11. Miscellaneous.

11.1 Governing Law: Jurisdiction and Venue. The provisions of this Agreement shall be governed by and interpreted in accordance with the laws of the State of Ohio. Bank and Borrower hereby designate all courts of record sitting in either Hamilton County, Ohio or Montgomery County, Ohio, both state and federal, as forums where any action, suit or proceeding in respect of or arising out of this Agreement or the transactions contemplated by this Agreement may be prosecuted as to all parties, their successors and assigns, and by the foregoing designation Bank and Borrower consent to the jurisdiction and venue of such courts.

11.2 MUTUAL WAIVER OF JURY TRIAL. AS A SPECIFICALLY BARGAINED INDUCEMENT FOR BANK TO EXTEND CREDIT TO BORROWER AND FOR BORROWER TO BORROW FROM BANK, AND AFTER HAVING THE OPPORTUNITY TO CONSULT COUNSEL, BORROWER AND BANK HEREBY EXPRESSLY WAIVE THE RIGHT TO TRIAL BY JURY IN ANY LAWSUIT OR PROCEEDING RELATING TO THIS AGREEMENT OR ARISING IN ANY WAY FROM THE OBLIGATIONS.

11.3 Other Waivers. Borrower hereby waives notice of nonpayment,

demand, notice of demand, presentment, protest and notice of protest with respect to the Obligations, or notice of acceptance hereof, notice of Loans made, credit extended, Collateral received or delivered, or any other action taken in reliance hereon, and all other demands and notices of any description, except such as are expressly provided for herein.

11.4 Collection Costs. All reasonable costs and expenses incurred by Bank to obtain, enforce or preserve the security interests granted by this Agreement and to collect the Obligations, including, without limitation, stationery and postage, telephone and telegraph, secretarial and clerical expenses, the fees or salaries of any collection agents utilized, all costs to maintain and preserve the Collateral and all reasonable

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attorneys' fees and legal expenses incurred in obtaining or enforcing payment of any of the Obligations or foreclosing Bank's security interest in any of the Collateral, whether through judicial proceedings or otherwise, or in enforcing or protecting its rights and interests under this Agreement or under any other Loan Document, or in protecting the rights of any holder or holders with respect thereto, or in defending or prosecuting any actions or proceedings arising out of or relating to the transactions contemplated hereby, shall be paid by Borrower to Bank, upon demand, or, at Bank's election, charged to Borrower's account and added to the Obligations, and Bank may take judgment against any or all of the Borrower for all such costs, expense and fees in addition to all other amounts due from Borrower hereunder.

11.5 Expenses. Borrower shall reimburse Bank for all reasonable out-of-pocket costs and expenses incurred by Bank in connection with the preparation of this Agreement and the making of the Loans hereunder, including the reasonable fees and expenses of Bank's counsel, and for all UCC search, filing, recording and other costs connected with the perfection of Bank's security interest in the Collateral.

11.6 Notices. All notices, requests, directions, demands, waivers and other communications provided for herein shall be in writing and shall be deemed to have been given or made when delivered personally, by telecopy (with receipt acknowledged), or sent by registered or certified mail, postage prepaid and return receipt requested, addressed to Borrower or Bank, as the case may be, at their respective addresses set forth at the beginning of this Agreement. Notices of changes of address shall be given in the same manner.

11.7 Severability. Any provision of this Agreement which is prohibited and unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof or affecting the validity or enforceability of such provision in any other jurisdiction.

11.8 Entire Agreement. Modification. Benefit. This Agreement shall constitute the entire agreement of the parties and no provision of this Agreement, including the provisions of this section, may be modified, deleted or amended in any manner except by agreement in writing executed by the parties. All terms of this Agreement shall be binding upon, inure to the benefit of and be enforceable by the parties hereto and their respective successors and assigns; provided, however, that Borrower shall not assign or transfer its rights hereunder, and Bank shall not assign or transfer its rights hereunder to any person which, directly or through an Affiliate, is engaged in substantially the same business as Borrower.

11.9 Construction. All references in this Agreement to the single number and neuter gender shall be deemed to mean and include the plural number and all genders, and vice versa, unless the context shall otherwise require.

11.10 Headings. The underlined headings contained herein are for convenience only and shall not affect the interpretation of this Agreement.

11.11 Counterparts. This Agreement may be executed in more than one counterpart, each of which shall be deemed an original.

11.12 Nonliability of Bank. The relationship between Borrower and Bank shall be solely that of borrower and lender. Bank shall not have any fiduciary responsibilities to Borrower. Bank undertakes no responsibility to Borrower to review or inform Borrower of any matter in connection with any phase of Borrower's business or operations.

11.13 Limitation of Liability. No claim may be made by Borrower against Bank or any Affiliate, director, officer, employee, attorney or agent of Bank for any special, consequential or punitive damages in

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respect of any claim for breach of contract or any other theory of liability arising out of or related to the transactions contemplated by this Agreement, or any act, omission or event occurring in connection therewith, and Borrower hereby waives, releases and agrees not to sue upon any such claim for any such damages, whether or not accrued and whether or not known or suspected to exist in its favor.

IN WITNESS WHEREOF, the parties have caused this Agreement to be duly executed and delivered by their proper and duly authorized officers.

"Borrower"

LITTLEFIELD, ADAMS & COMPANY

By: /s/ Warren L. Rawls

Name: Warren L. Rawls

Title: CFO, Treasurer and Secretary

"Bank"

THE PROVIDENT BANK

By: /s/ Cliff Bishop

Name: Cliff Bishop

Title: Vice President

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SCHEDULE 4.8

LITIGATION

LOCATION OF INVENTORY

a. Inventories are stated at the lower of cost (using the FIFO method) or market (net realizable value) in accordance with GAAP. In the normal course of business, the Company may have some inventories which include amounts of misprints, over-runs, and mill defects (minor garment defects) which have been appropriately valued.

b. The Company, from time to time, has inventories at certain contract screen printers' production facilities as part of normal business operations. The inventories at the contractors' facilities may be blank goods, work-in-process goods, or finished goods.

During the six months prior to December 10, 1998, the Company has utilized, and therefore had inventories at, the following contract screen printers:

Next, Inc.
1295 Vernon Street
P.O. Box 684
Wabash, IN 46992
Phone: (219) 563-2186
Fax: (219) 569-0921

Creative Silkscreen and Design
1100 Buchanan Street
Rockford, IL 61101
Phone: (815) 963-7733
Fax: (815) 963-7722

Creative Images & Innovations
52-08 Grand Ave.
Maspeth, NY 11378
Phone: (718) 821-8700
Fax: (718) 894-2412

A to Z Clothing Services, Inc.
5339 State Route 571 East
Greenville, OH 45331
Phone: (937) 548-4454

As of December 10, 1998, the only contractor facility with Company inventories is Next, Inc.

ERISA PLANS

As of December 10, 1998, the Company has the following plans which are subject to ERISA:

Littlefield, Adams & Company Cafeteria Benefit Plan (a section 125 fringe benefit plan).

MERCHANT FACTORS CORP.

1430 Broadway, New York, New York 10018 (212) 840-7575 Fax (212) 869-1752

ADDENDUM TO FACTORING AGREEMENT

Littlefield Adams & Co.
6254 Executive Blvd.
Huber Heights, OH 45424

Re: Discount Factoring Agreement

Gentlemen:

We refer to the Discount Factoring Agreement which we entered into on January 25, 1996 ("the Agreement"). We hereby agree that the Agreement be amended as follows with effect from December 1, 1998:

- Re: Paragraph 1 "Receivables" shall mean and include all accounts except Walmart, KMart and Target Stores.
- Re: Paragraph 5 The "effective rate" of interest shall be amended to two percent (2%) in excess of the prime commercial interest rate as defined.
- The provision that the effective rate of interest hereunder shall not be less than twelve percent (12%) per annum is hereby deleted.
- Re: Paragraph 6(b) Advances against the purchase price for net amount of outstanding approved receivables assigned, as defined shall be amended to an amount up to eighty percent (80%) of the net amount thereof.
- "Collection Days" shall mean five (5) business days for the collection of checks and other instruments.
- Re: Paragraph 7 The minimum aggregate commissions payable under this agreement shall be amended to Fifty Thousand Dollars (\$50,000) per calendar year. The minimum commission payable for each month shall be Four Thousand One Hundred and Sixty-six Dollars and Sixty-seven cents (\$4,166.67) but should commissions payable during the calendar year at any time aggregate more than the foregoing annual minimum, then the previously charged

minimum commissions shall be rebated to you.

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Re: Paragraph 14

This Agreement shall continue in effect until December 31, 2000 and shall be automatically renewed for successive periods of one (1) year unless terminated under the terms of the Agreement.

All other terms and conditions of the Agreement shall remain unchanged.

Very truly yours,

MERCHANT FACTORS CORP.

/s/ Walter Kaye
Walter Kaye
President

ACCEPTED, AGREED AND ACKNOWLEDGED:

LITTLEFIELD, ADAMS & CO.

ATTEST:

(SEAL)

By: /s/ Michael Balber
MICHAEL BALBER,
PRESIDENT

/s/ Warren L. Rawls
WARREN L. RAWLS
SECRETARY

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MERCHANT FACTORS CORP.
1430 BROADWAY
NEW YORK, NEW YORK 10018

December 3, 1998

Provident Bank
10 W. Second St. Suite 1100
Dayton, OH 45402

Re: Intercreditor Agreement relating to
Littlefield Adams & Company (the "Company")

Gentlemen:

Pursuant to our factoring agreement dated January 25, 1996 as amended from time to time (the "Factoring Agreement") and related documents with the Company, we have been granted a lien on and security interest in certain assets of the Company, including but not limited to its accounts, contract rights, general intangibles, chattel paper, instruments, documents, all proceeds thereof and all returned and repossessed goods represented thereby (the "Accounts") arising from all of the Company's sales, as security for any indebtedness or obligations now or hereafter owing to us by the Company, all as more fully set forth in the Factoring Agreement and related documents between us and the Company. The Accounts include accounts generated by the sale of merchandise by the Company to stores operated under the names Wal-Mart, K-Mart and Target Stores (the "Specified Accounts") as well as by sales to all other customers (the "Other Accounts").

We understand that pursuant to agreements entered into between you and the Company you have also been granted a lien on or security interest in the Accounts, as well as in certain of the other assets of the Company. Each of us has filed or will file financing statements under the Uniform Commercial Code covering our security interests.

The purpose of this letter is to set forth, as between you and us, our understanding relative to our respective positions in the Accounts. Notwithstanding any agreement or arrangement which you may now or hereafter have

with the Company, or any rule of law, and notwithstanding the time, order or method of attachment, perfection, filing or recording, you hereby agree and acknowledge that (a) any security interest, lien, claim or right now or hereafter asserted by you with respect to the Other Accounts shall be subject, junior and subordinate to any security interest, lien, claim or right now or hereafter asserted by us with respect to the Other Accounts; (b) any security interest, lien, claim or right now or hereafter asserted by us with respect to the Specified Accounts shall be subject, junior and subordinate to any security interest, lien, claim or right now or hereafter asserted by you with respect to the Specified Accounts; (c) we have not been granted a lien or security interest by the Company in any collateral other than the Accounts; (d) we agree not to make loans or advances to the Company under the Factoring Agreement, or otherwise, secured either by (i) any of the Specified Accounts, or (ii) by any of the Other Accounts which have not been credit approved

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by us or our re-factor; (e) upon default by the Company in any of its obligations to you, you will give us prompt written notice thereof and will take no action to enforce or realize upon your security interest in the Other Accounts until we have advised you in writing that the Company has satisfied in full its obligations to us; and (f) upon default by the Company in any of its obligations to us, we will give you prompt written notice thereof and will take no action to enforce or realize upon our security interest in the Specified Accounts until you have advised us in writing that the Company has satisfied in full its obligations to you.

Unless and until you have notified us in writing that you have been paid in full, if we receive any of the Specified Accounts or any proceeds thereof we will hold the same in trust for your benefit and promptly deliver the same to you. Unless and until we have notified you that we have been paid in full, if you receive any of the Other Accounts or any proceeds thereof you shall hold the same in trust for our benefit and shall promptly deliver the same to us.

At any time either of us may, without notice to the other, enter into such agreements with the Company as we may deem proper extending the time of payment or renewing or otherwise altering the terms of all or any of the obligations of the Company to us, or affecting any security for any such obligations, or we may exchange, sell, surrender or otherwise deal with any such security or may release any funds of the Company held by us (except in violation of the preceding paragraph) without impairing or affecting this Agreement in any way.

Except as herein otherwise specifically provided, the rights and priorities of the parties shall be determined in accordance with applicable law. This agreement shall be governed by the laws of the State of New York and, unless the context of this agreement otherwise requires, all terms used herein which are defined in the Uniform Commercial Code shall have the meanings therein stated.

This agreement is solely for the benefit of both of us, and our respective successors and assigns. No other person, firm, entity or corporation shall have any right, benefit, priority or interest under, or because of, the existence of this agreement.

If the foregoing is in accordance with our understanding, please sign and return to us the enclosed copy of this letter to so indicate.

Very truly yours,

MERCHANT FACTORS CORP.

By: /s/ Walter Kaye
Title: President

ACCEPTED AND AGREED TO:

PROVIDENT BANK

By: /s/ Cliff Bishop
Title: Vice President

ACKNOWLEDGED:

LITTLEFIELD ADAMS & COMPANY

By: /s/ Warren L. Rawls
as CFO for
Littlefield, Adams & Co.

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U.S.A.

RENEWAL AND AMENDMENT
OF LICENSE AGREEMENT

THIS RENEWAL AND AMENDMENT AGREEMENT effective as of the 1st day of February, 1998 by and between PepsiCo, Inc., a corporation of the State of North Carolina, with its principal place of business at 700 Anderson Hill Road, Purchase, New York 10577, U.S.A. (hereinafter referred to as "LICENSOR") and Littlefield Adams & Co., a corporation of the State of New Jersey, with its principal place of business at 6254 Executive Blvd., Huber Heights, Ohio 45424 (hereinafter referred to as "LICENSEE").

WHEREAS, LICENSOR and LICENSEE are parties to a certain License Agreement dated February 1, 1996, amended on October 1, 1996, and wish to renew and amend said Agreement only as specifically set forth below; without modifying, changing or otherwise amending any other provisions of said Agreement, and therefore the parties agree as follows:

To renew for two (2) years, namely, February 1, 1998 through January 31, 2000.

IN WITNESS WHEREOF, the parties hereto have executed this Renewal Agreement effective as of the date and year first set forth hereinabove.

PepsiCo, Inc. (LICENSOR)

By: /s/ William S. Finkelstein
Name: William S. Finkelstein
Title: Vice President

Littlefield Adams & Co. (LICENSEE)

By: /s/ Michael B. Balber
Name: Michael B. Balber
Title: Executive Vice President

LEISURE CONCEPTS INCORPORATED

January 22, 1999

Mr. Michael Balber
 Littlefield, Adams & Company
 6262 Executive Blvd.
 Huber Heights, OH 45424

Dear Mr. Balber:

This has reference to the World Championship Wrestling agreement between World Championship Wrestling, Inc. ("Licensor") and Littlefield, Adams & Company ("Licensee") dated February 27, 1998, covering the WCW/NWO Property (hereinafter the "License Agreement"). The License Agreement is amended as follows.

1. It is understood and agreed that Paragraph 2: Authorized Articles is hereby revised in its entirety to read as follows:

"Authorized Articles: Knit shirts, tank tops, muscle shirts, henley shirts, sweatshirts, long-sleeve shirts, t-shirts, denim long and short sleeve shirts, chambray long and short sleeve shirts."

2. It is understood and agreed that Paragraph 6: Royalty Rate is hereby revised in its entirety to read as follows:

"Royalty Rate: 10% Net Sales (knit shirts; tank tops; muscle shirts; henley shirts; sweatshirts; long-sleeve shirts; and t-shirts)
 12% Net Sales (denim long and short sleeve shirts; and chambray long and short sleeve shirts)"

Except as herein provided all terms and conditions of the License Agreement remain in full force and effect. Please indicate your agreement with the foregoing by signing where specified below and by returning all four copies of this amendment to Stella Guzman at the address below. A fully executed copy will be returned to you in due course.

Accepted and Agreed to:
Littlefield, Adams and Company
("Licensee")

Very truly yours,
World Championship
Wrestling, Inc.
("Licensor")
By: /s/ Casey T. Collins

By: /s/ Michael Balber
Michael Balber
President: and
Chief Executive Officer

LEISURE CONCEPTS INC.(R) 1414 AVENUE OF THE AMERICAS NEW YORK, NY 10019
(212) 758-7666 - FAX (212) 980-0933

NEW YORK

LONDON

LOS ANGELES

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation by reference in the Registration Statement on Form S-8 (No. 333-49167) of Littlefield, Adams & Company (the "Company") of our report dated February 25, 1999 appearing on page F-1 of this December 31, 1998 Form 10-K. It should be noted that we have not audited any financial statements of the Company subsequent to December 31, 1998, or performed any audit procedures subsequent to the date of our report.

Dayton, Ohio
March 26, 1999

/S/ ARTHUR ANDERSEN LLP

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