

SECURITIES AND EXCHANGE COMMISSION

FORM 10-K

Annual report pursuant to section 13 and 15(d)

Filing Date: **1994-03-16** | Period of Report: **1993-12-31**
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FILER

GROSSMANS INC

CIK: **33798** | IRS No.: **380524830** | State of Incorporation: **DE** | Fiscal Year End: **1231**
Type: **10-K** | Act: **34** | File No.: **001-00542** | Film No.: **94516192**
SIC: **5211** Lumber & other building materials dealers

Mailing Address
200 UNION STREET
BRAINTREE MA 02184

Business Address
200 UNION ST
BRAINTREE MA 02184
6178480100

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 (Fee Required)
For the fiscal year ended December 31, 1993

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 (No Fee Required)
For the transition period from _____ to _____

Commission File Number 1-542

GROSSMAN'S INC.

(Exact Name of Registrant as Specified in Its Charter)

DELAWARE

38-0524830

(State or other jurisdiction of
incorporation or organization)

(IRS Employer
Identification No.)

200 UNION STREET, BRAINTREE, MASSACHUSETTS

02184

(Address of principal executive offices)

(Zip Code)

(617) 848-0100

Registrant's telephone number, including area code

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

TITLE OF CLASS	NAME OF EXCHANGE ON WHICH REGISTERED
Common Stock, par value \$0.01 per share	The Nasdaq Stock Market

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

NONE

(Title of Class)

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

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

The aggregate market value of the voting stock held by nonaffiliates of the registrant as of March 2, 1994 was \$117,443,066.

The number of shares of the registrant's class of Common Stock (\$.01 par value) outstanding on March 2, 1994 was 25,740,946, exclusive of 396,421 shares held as treasury shares.

DOCUMENTS INCORPORATED BY REFERENCE

The Company's definitive Proxy Statement for its 1994 Annual Meeting of Stockholders, to be filed with the Commission on not later than 120 days after the end of the fiscal year covered hereby, is incorporated by reference into Part III of this Form 10-K to the extent set forth herein.

PART I

Item 1. BUSINESS

(a) General Development of Business

Grossman's Inc. (the "Company") was first incorporated in Michigan in 1919 as E.S. Evans and Co., Inc., then was reincorporated in Delaware in 1923. In 1931 the Company's name was changed to Evans Products Company. In 1986, in conjunction with the reorganization of the Company described herein, the Company adopted the name Grossman's Inc.

On March 11, 1985, Evans Products Company ("Evans") and certain of its subsidiaries filed voluntary petitions for relief under Chapter 11 of the Federal Bankruptcy Code in the United States Bankruptcy Court for the Southern District of Florida. On November 19, 1986, the Company emerged from the Chapter 11 proceedings. Under a court approved Reorganization Plan, the following transactions took place in 1986. Substantially all of Evans' assets, other than those of the retail building materials business conducted by Evans' wholly-owned subsidiary, Grossman's Inc. ("Old Grossman's"), were transferred to Evans Asset Holding Company ("EAHC") and a trust (collectively "AHC"), each beneficially owned by the lenders to Evans and one of its subsidiaries (the "Lenders") for the purpose of liquidating such assets. Evans and its filing subsidiaries (including Old Grossman's) were discharged from substantially all of their pre-Chapter 11 petition indebtedness. All of Evans' outstanding shares of common stock and preferred stock were cancelled. Old Grossman's was then merged into Evans, which adopted the name Grossman's Inc. (the "Company"), and the Company distributed to its creditors or to a trust or reserve for unpaid and unliquidated claims, \$60,000,000 of its 13% Debentures due 1991, \$73,000,000 of its 14% Debentures due 1996, \$105,200,000 face value of its Zero Coupon Notes, which matured and the final installment paid in January 1993, and 20,000,000 shares of its Common Stock (of which 1,859,852 shares were sold by the trust and the Company in a private placement in December, 1986).

On July 31, 1987, the Company completed a public offering of 11,000,000 shares of its Common Stock. Of the shares offered, 6,131,347 shares were sold by the Company, with the net proceeds of \$45,092,000 used to purchase 13% and 14% Debentures. The remaining 4,868,653 shares sold in the offering were sold by stockholders.

On February 1, 1989, the Company announced that it had engaged Shearson Lehman Hutton Inc. as the Company's financial adviser to assist the Company in reviewing strategic alternatives to realize the values inherent in its business. As a result of this effort, on September 12, 1989, the Company sold the assets and business of its Moore's Division to Harcros Lumber & Building Supplies Inc., an indirect wholly-owned subsidiary of Harrisons & Crosfield plc of London, England. The Moore's Division consisted of 59 retail building materials stores and yards located in Maryland, North Carolina, Ohio, Pennsylvania, Tennessee, Texas, Virginia and West Virginia.

Independent of the Shearson engagement, on August 25, 1989, the Company sold its Northwest Division, consisting of 28 retail building materials stores located in California to GNW Partners, L.P., a California limited partnership. Certain of the former management employees of the Northwest Division were partners in GNW.

Net proceeds from the 1989 sales of the Moore's and Northwest Divisions totalled \$105.7 million. Such proceeds were principally used for the retirement on long-term debt.

In September 1993, the Company announced plans to close 22 marginally performing Eastern Division stores. The closings were completed in the fourth quarter.

(b) Financial Information About Industry Segments

The Company's operations during the last three years have been entirely in the retail building materials industry.

(c) Narrative Description of Business

Grossman's is a retailer of lumber, building materials, and other home improvement products emphasizing sales to its target customers; contractors, remodelers and serious do-it-yourselfers. The Company operates 119 stores, under the names "Grossman's", "Contractors' Warehouse" and "Mr. 2nd's Bargain Outlets", as listed in Item 2 below.

<TABLE>

The Company's sales mix by product category, as a percentage of total sales, is shown in the following table:

<CAPTION>

Products -----	Year Ended December 31, -----				
	1993	1992	1991	1990	1989
	<C>	<C>	<C>	<C>	<C>
Wood building materials	28%	27%	25%	25%	27%
Non-wood building materials	14	13	13	16	13
Millwork, doors and windows	16	17	17	17	17
Paint, decorator products, panelling, floor coverings and ceilings	10	11	12	11	14
Kitchen, bath and plumbing products	13	13	14	13	13
Hardware, electrical supplies and tools	15	15	15	14	12
Seasonal items	4	4	4	4	4
	-----	-----	-----	-----	-----
	100%	100%	100%	100%	100%
	=====	=====	=====	=====	=====

</TABLE>

The Company's target customers are contractors, remodelers and serious do-it-yourselfers. The Company promotes its stores as project oriented, offering assistance and building materials for a wide variety of home improvement projects.

In 1993, the Company and individual entrepreneurs formed an 80% Company-owned subsidiary, Project-Pros Inc. Project-Pros provides design and building services, including materials, for a variety of home improvement projects. The Project-Pros concept is designed for franchising. During 1993, Project-Pros activities were insignificant to total Company operations.

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<TABLE>

CUSTOMERS

The following table shows the percentage of total sales by type of customer within each of the Company's divisions:

<CAPTION>

	1993	1992	1991	1990	1989
	-----	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>	<C>
% OF TOTAL SALES					
Eastern Division					
Retail Sales	48.4%	55.2%	64.5%	70.1%	66.7%
Professional Sales	27.9	25.4	18.9	15.8	16.4
	-----	-----	-----	-----	-----
Total Eastern Division	76.3	80.6	83.4	85.9	87.7
Contractors' Warehouse Division	23.7	19.4	16.6	14.1	12.3
	-----	-----	-----	-----	-----
Total	100.0%	100.0%	100.0%	100.0%	100.0%
	=====	=====	=====	=====	=====

</TABLE>

Retail sales are primarily to serious do-it-yourself customers, principally homeowners purchasing materials for projects on a cash-and-carry basis. Professional sales within the Eastern Division and most Contractors' Warehouse Division sales are made to remodelers, small independent contractors, home builders and other contractors primarily for work at job sites. The Company extends credit on open account to qualified contractors, principally in the Northeast.

The Company's stores are one-stop shopping centers designed to supply customers with materials and tools necessary to carry out home improvement projects. Stores are organized and operated on the principle of customer self-selection. Merchandise layout is designed for ease in locating and loading products including, in many locations, a drive-thru outdoor lumber yard. Each store is staffed with knowledgeable store personnel who are able to assist customers in selecting the building materials and other home improvement products needed for their projects. Customers are provided with information, usually in the form of "how-to" pamphlets and in-store seminars providing detailed instructions and advice needed to enable customers to carry out their home improvement projects.

Within most of its stores, the Company operates Contractor Services Offices which provide designated contractor specialists, free computer estimating services, quick bid job quotes, special discount pricing and early opening hours for remodelers and contractors. In addition, Contractor Appreciation Nights are held throughout the year, during which customers are given the opportunity to talk with manufacturers' representatives.

As a service to home builders and other contractors, trained sales personnel specializing in contractor sales call upon contractors on the job site, and a fleet of trucks is available to make timely delivery of materials.

The Company's customers number in the millions. Accordingly, its business is not dependent upon any limited number of customers.

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PROMOTION

The Company considers its advertising program vital in attracting remodeler contractors and serious do-it-yourself customers to its stores. The Company relies on printed materials in its advertising, including newspaper circulars, flyers, tabloids and direct mailings. In addition, in certain markets, the Company uses radio and television advertising.

SUPPLIERS

The Company purchases its merchandise from several thousand manufacturers and suppliers. No single supplier accounted for more than 7% of purchases in 1993, and alternative sources of supply are generally available for most major product categories. Contractual arrangements with suppliers are generally limited to individual purchase orders.

The Company stocks inventory at levels designed to meet both the recurring and seasonal needs of its customers. Inventory levels are highest during the increased sales activity periods of the second and third quarters. In 1992, the Company began to implement an automated, integrated replenishment system in its Eastern Division. When fully operational, the system is expected to improve in-stock position on all inventory items and allow for just-in-time inventory management. In the Company's Western Division, an automated, integrated replenishment system is in place.

The Company receives merchandise directly from manufacturers or through distributors. Bulk materials are ordered in full railcar or truckload quantities. Shipments are made directly to stores or to a distribution center or redistribution locations for ultimate distribution to stores.

COMPETITION

Competition in the retail building materials industry is highly fragmented,

with the 10 largest retail building materials chains accounting for approximately 25% of the total retail lumber, building materials and hardware supply sales nationwide (source: National Home Center News - May 24, 1993, covering calendar 1993 year). The Company competes with national building materials and home center chains and with regional or local firms. In addition, certain general merchandise chains are significant retail merchandisers of home improvement products. In Eastern markets, competition has intensified in recent years, as national building materials chains have opened building material warehouse stores to compete with the smaller stores more prevalent in the region. These chains have also announced plans to continue actively pursuing growth in the New England area. Competitive intrusions have resulted, in some cases, in large concentrations of building material retailers in certain geographic locations. As a result, margins have been decreased to react to diminishing market share for retail customers, and the Company has heavily promoted sales to remodeler contractors, for which its drive-thru covered lumber yards and Contractors Services Offices offer a competitive advantage. In California, the Company primarily competes with retail building material warehouses.

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COMPETITION (CONTINUED)

Competition in the Company's markets has also increased as a result of a decline in housing construction and the economic downturn, particularly in the Northeast. In 1993, 22 Eastern Division stores were closed, principally in areas most affected by competition.

The Company competes in each of its market areas primarily on the basis of store location, customer service, product mix, pricing and advertising policies. In 1993, the Company continued repositioning its Eastern Division stores to focus on marketing to target customers by offering more competitive pricing on high-quality, brand name merchandise.

SEASONALITY

Historically, the Company has recorded its highest sales level in the second and third quarters. The first quarter has traditionally been a period of low sales activity with resultant operating losses for most of the stores, as fewer home improvement projects in the Company's markets are undertaken during winter months.

EMPLOYEES

The Company employs approximately 4,300 people, including 1,600 part-time employees. Management personnel at all levels, including store managers and assistant managers, participate in incentive bonus programs based upon sales, cost center profitability, inventory management or other defined goals.

TRADE NAMES

The Company has no material patents, trademarks, licenses, franchises, or concessions other than the name "Grossman's" under which most of its Eastern Division stores operate. Additional Eastern Division stores operate under the name "Mr. 2nd's Bargain Outlet." The remainder of the Company's stores operate under the name "Contractors' Warehouse".

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<TABLE>

Executive Officers of the Company

<CAPTION>

YEARS
OF

Mr. Kent has been Vice President, Secretary and General Counsel since November 19, 1986. He was in the private practice of law in Portland, Oregon from May 1984 to November 19, 1986 and prior to May 1984 was Vice President, Secretary and General Counsel of Evans for more than 5 years. Mr. Kent serves as a director and Vice Chairman of Epigen, Inc.

ITEM 2. PROPERTIES

The Company's stores are generally located on or adjacent to major transportation arteries to be convenient to urban and suburban markets. The Company seeks to match the size of a store to market sales potential. The typical store in smaller markets contains 49,000 square feet of selling space, 24,000 square feet under roof and the remainder in a merchandised outdoor lumber yard. In larger markets, the Company's stores may have as much as 100,000 square feet of selling space, up to 60,000 square feet of which is enclosed and the remainder in an adjacent lumber yard. Most stores have an adjacent outdoor sales area with storage buildings to dispense lumber and other building materials.

The Company's dual yard stores, which cater to consumers, builders and contractors, are typically located on three or more acres of land and have approximately 45,000 square feet of building area, of which 12,000 square feet are showroom and the balance, warehouse storage. Dual yards also have large outside selling and storage areas (40,000 to 60,000 square feet) to service the contractor business.

<TABLE>

The Company's 119 stores operate under the names Contractors' Warehouse, Grossman's and Mr. 2nd's Bargain Outlet and are located in cities and towns in 11 states, as follows:

<CAPTION>

CONTRACTORS' WAREHOUSE

- - - - -

<S>	<C>
CALIFORNIA	NEVADA
Carson	Reno
Colton	
La Habra	
Long Beach	OHIO
Montebello	Cincinnati
North Hollywood	
Pomona	
Sacramento	
Ventura	

GROSSMAN'S

- - - - -

CONNECTICUT	MASSACHUSETTS
Branford	Auburn
Bristol	Billerica
Brookfield	Braintree
Groton	Fitchburg
Manchester	Gardner
Middletown	Hatfield
Torrington	Hyannis
Waterbury	Indian Orchard
	North Attleboro
	North Plymouth
	Pittsfield
	Raynham
	Saugus
	Walpole
	Wellesley
	West Springfield
	Worcester

</TABLE>

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<TABLE>
 <CAPTION>
 GROSSMAN'S (CONTINUED)

<S>	<C>
MAINE	NEW YORK (CONTINUED)
Auburn	Johnstown
Augusta	Kingston
Bangor	Lakewood
Brunswick	Latham
Ellsworth	Malone
Houlton	Middletown
Portland	Niagara Falls
Presque Isle	Olean
Rockland	Plattsburgh
Scarborough	Rensselaer
Waterville	Rome
	Saranac Lake
	Schenectady
	Utica
	Vestal
	Wappinger Falls
	Watertown
	West Babylon
NEW HAMPSHIRE	
Dover	
Keene	
Laconia	
North Haverhill	
Portsmouth	
NEW JERSEY	PENNSYLVANIA
Glassboro	Bristol
Lawrenceville	Bustleton
Pennsauken	Harbor Creek
Woodbury	Hazelton
	Norristown
NEW YORK	Pottstown
Amherst	Reading
Auburn	Scranton
Ballston Spa	
Binghamton	
Camillus	RHODE ISLAND
Canandaigua	Johnston
Cortland	
Depew	
Dewitt	VERMONT
Glens Falls	Montpelier
Hamburg	Rutland
Herkimer	South Burlington
Hudson	
Ithaca	
</TABLE>	

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MR. 2ND'S BARGAIN OUTLET

MASSACHUSETTS

Braintree
 Brighton
 Framingham
 Malden
 Marshfield
 Peabody
 Waltham

NEW YORK

Brighton
 Buffalo
 Cheektowaga
 East Dewitt
 North Syracuse
 Rochester

Tonawanda
Webster
West Seneca

RHODE ISLAND
Central Falls
Warwick

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The Company owns 70 of its stores and leases 49 stores, of which 22 have leases that expire without renewal or purchase options within the next ten years. Historically, leases without renewal options have been actively negotiated and renewed by the Company prior to expiration.

Four leases have options for the Company to purchase the stores from the lessors at various times at an aggregate purchase price estimated to be below aggregate current market value.

In 1993, a decision was made to close 22 Eastern Division stores. Closings were completed in the 1993 fourth quarter. One additional store, in Erie, Pennsylvania, was closed and sold in early 1994. Of the 22 closed locations, 11 were leased and 11 were Company-owned. Of the 11 owned properties, two were sold in early 1994, two are under agreement to be sold in 1994 and the remainder are being actively marketed. One lease was terminated in early 1994.

In addition to the Company's stores, the Company owns and operates two distribution centers, a data processing center and two office facilities, one of which includes the Company's corporate office.

The net book value of the Company's owned real properties as of December 31, 1993 is approximately \$84.1 million. Mortgage debt of approximately \$23 million is outstanding on ten of the Company's owned properties.

The Company's properties are considered well maintained and are in good condition. Since 1986, the Company has invested \$123.2 million in capital assets in the its Eastern and Contractors' Warehouse Division stores and distribution centers.

<TABLE>

Changes in the number of stores since 1986 are as follows:

<CAPTION>

Year	Stores Opened (including relocations)	Stores Closed (including relocations)	Stores of Divisions Sold	Period End Total
<S>	<C>	<C>	<C>	<C>
1986	3	7	-	272
1987	3	17	-	258
1988	8	20	-	246
1989	4	7	87	156
1990	1	2	-	155
1991	1	17	-	139
1992	1	2	-	138
1993	5	24	-	119

</TABLE>

The majority of store closings during 1987 and 1988 occurred in markets served by the divisions sold in 1989.

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ITEM 3. LEGAL PROCEEDINGS

The Company is a party to litigation incidental to the conduct of its business, most of which is covered by insurance and none of which is expected to have a material adverse effect on the Company.

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

None.

PART II

<TABLE>

ITEM 5. MARKET FOR THE COMPANY'S COMMON EQUITY
AND RELATED SECURITY HOLDER MATTERS

Grossman's Inc. Common Stock trades on The Nasdaq Stock Market under the symbol GROS. The number of holders of the Company's Common Stock on February 16, 1994 was 2,062. This number does not include beneficial owners holding Common Stock in bank or broker name, which the Company believes represents approximately 7,500 owners.

<CAPTION>

	1993		1992	
	High	Low	High	Low
<S>	<C>	<C>	<C>	<C>
First Quarter	4 7/8	3 3/4	5 1/2	2 7/16
Second Quarter	4 1/8	2 7/8	5	3
Third Quarter	3 5/8	2 7/8	4	3 1/4
Fourth Quarter	3 5/8	2 5/8	4 5/8	3 1/4

</TABLE>

No cash dividends have been paid on the Company's Common Stock since its initial issuance on November 19, 1986.

<TABLE>

ITEM 6. SELECTED FINANCIAL DATA

The following selected financial and statistical data for the seven years ended December 31, 1993 are derived from the audited consolidated financial statements of the Company and other available operating information. The data should be read in conjunction with the consolidated financial statements, related notes and Management's Discussion and Analysis of Financial Condition and Results of Operations.

<CAPTION>

(Dollar amounts in thousands, except per share and per square foot data)

	1993 (53 Weeks)	1992	1991	1990	1989
<S>	<C>	<C>	<C>	<C>	<C>
OPERATING INFORMATION					
Sales	\$841,974	\$833,370	\$806,636	\$812,485	\$1,052,095
Gross profit	212,885	223,390	219,057	224,651	296,387
Operating expenses	241,988	208,902	205,533	224,795	272,346
Operating income (loss)	(29,103)	14,488	13,524	(144)	24,041
Interest expense	8,422	8,275	9,444	11,410	19,818
Other income (expenses)	(595)	3,839	2,833	8,105	15,166
Income (loss) before income taxes	(38,120)	10,052	6,913	(3,449)	19,389
Income taxes (credits)	30,228	3,820	2,622	(1,050)	7,396
Extraordinary items, net		-	-	-	(1,262)
Net income (loss)	(68,348)	6,232	4,291	(2,399)	10,731
Net income (loss) per share	(2.66)	0.24	0.17	(0.09)	0.41
Weighted average number of shares (000's)	25,661	26,193	25,878	26,052	26,397
SELECTED OPERATING INFORMATION AS A PERCENTAGE OF SALES					
Gross profit	25.3%	26.8%	27.2%	27.6%	28.2%
Operating expenses	28.7	25.1	25.5	27.7	25.9
Operating income (loss)	(3.5)	1.7	1.7	-	2.3
Interest expense	1.0	1.0	1.2	1.4	1.9

Income (loss) before income taxes	(4.5)	1.2	0.9	(0.4)	1.8
Net income (loss)	(8.1)	0.7	0.5	(0.3)	1.0
BALANCE SHEET INFORMATION					
Inventories	\$121,820	\$123,230	\$109,815	\$119,537	\$ 132,825
Current assets	154,594	179,587	193,787	202,263	220,693
Property, plant and equipment, net	130,164	134,693	118,635	120,095	107,602
Total assets	287,448	339,002	341,944	353,600	357,310
Current liabilities	119,768	112,980	113,047	132,786	112,417
Working capital	34,826	66,607	80,740	69,477	108,276
Long-term obligations	64,505	52,985	64,177	62,126	87,784
Total stockholders' investment	72,368	161,023	154,529	148,161	154,189
OTHER FINANCIAL INFORMATION					
Capital expenditures, excluding capital lease additions	\$ 15,050	\$ 26,602	\$ 11,929	\$ 20,864	\$ 17,959
Long-term debt to equity ratio	1.1:1	0.4:1	0.5:1	0.6:1	0.7:1
Inventory turnover (1)	4.3	4.6	4.6	4.1	4.4
STORES AND EMPLOYEES					
Number of stores - year end	119	138	139	155	156
Average sales per store (2)	\$ 6,200	\$ 5,995	\$ 5,563	\$ 5,208	\$ 4,726
Square footage (000's)	4,216	4,628	4,565	4,718	4,599
Average sales per square foot (3)	\$ 174.40	\$ 180.57	\$ 174.73	\$ 172.22	\$ 156.50
Number of employees					
Full time	2,700	3,100	2,900	3,200	3,300
Part time	1,600	1,900	1,800	2,000	2,000
	-----	-----	-----	-----	-----
	4,300	5,000	4,700	5,200	5,300

<FN>

- (1) Calculated based upon inventory at the end of each quarterly period.
- (2) Calculated based upon the number of stores in operation at the end of each quarterly period (adjusted for divisions sold in 1989).
- (3) Calculated based upon the square footage at the end of each quarterly period (adjusted for divisions sold in 1989).

</TABLE>

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<TABLE>

<CAPTION>

(Dollar amounts in thousands, except per share and per square foot data)

	1988 (53 Weeks)	1987
<S>	<C>	<C>
OPERATING INFORMATION		
Sales	\$1,141,602	\$1,077,297
Gross profit	331,762	315,733
Operating expenses	303,277	275,679
Operating income	28,485	40,054
Interest expense	22,013	26,131
Interest and other income	7,562	8,001
Income (loss) before income taxes	14,034	21,924
Income taxes	5,209	9,753
Extraordinary items, net	-	(1,204)
Net income (loss)	8,825	10,967
Net income (loss) per share	0.34	0.49
Weighted average number of shares (000's)	26,216	22,707
SELECTED OPERATING INFORMATION		
AS A PERCENTAGE OF SALES		
Gross profit	29.1%	29.3%
Operating expenses	26.6	25.6
Operating income	2.5	3.7
Interest expense	1.9	2.4
Income (loss) before income taxes	1.2	2.0
Net income (loss)	0.8	1.0
BALANCE SHEET INFORMATION		
Inventory	\$ 164,364	\$155,964
Current assets	251,317	273,044
Property, plant and equipment, net	156,722	115,922
Total assets	434,689	421,994
Current liabilities	129,091	126,821
Working capital	122,226	146,223
Long-term obligations	160,574	159,966
Total stockholders' investment	143,432	134,657
OTHER FINANCIAL INFORMATION		

Capital expenditures, excluding capital lease additions	\$ 43,402	\$ 21,505
Long-term debt to equity ratio	1.3:1	1.3:1
Inventory turnover (1)	4.5	4.6
STORES AND EMPLOYEES		
Number of stores - year end	246	258
Average sales per store (2)	\$ 4,505	\$ 4,023
Square footage (000's)	7,840	7,560
Average sales per square foot (3)	\$ 150.33	\$ 139.10
Number of employees		
Full time	5,600	5,200
Part time	2,500	2,500
	-----	-----
	8,100	7,700

<FN>

- (1) Calculated based upon inventory at the end of each quarterly period.
- (2) Calculated based upon the number of stores in operation at the end of each quarterly period (adjusted for divisions sold in 1989).
- (3) Calculated based upon the square footage at the end of each quarterly period (adjusted for divisions sold in 1989).

</TABLE>

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

FINANCIAL CONDITION

Grossman's Inc. financial condition at December 31, 1993 reflects management actions taken to improve future liquidity. Significant 1993 events affecting year end financial condition are as follows:

- - Operating results in Eastern Division stores were significantly below prior year levels and current year expectations, resulting in lower than anticipated cash flows and necessitating unplanned borrowings under the Company's revolving credit agreements.
- - The Company reviewed both individual store and market performance and determined that 22 Eastern Division stores should be closed and the assets redeployed. A \$34.3 million store closing provision was recorded in the third quarter.
- - The Company announced an agreement for the sale of its 35 acre headquarters site in Braintree, Massachusetts to Kmart Corporation. Financial reporting of the sale is being deferred until certain contingencies are resolved and the sale is consummated.
- - A non-cash adjustment of \$30.2 million was recorded, establishing a valuation allowance to offset deferred tax assets recorded in 1991.
- - The Company entered into a new three-year revolving credit agreement, secured by receivables, inventory and certain other assets.
- - A \$20.5 million non-cash adjustment to stockholders' investment was recorded to reflect the difference between the accumulated pension benefit obligation and the estimated value of pension plan assets. This adjustment resulted from a reduction in the discount rate assumption used to compute actuarially the cost of the future obligation.
- - Three Contractors' Warehouse stores were opened, including the first in the Midwest, and 15 Eastern Division stores were repositioned.
- - The Eastern Division distribution center became fully operational, and long-term financing for the facility was finalized.

Eastern Division operating returns and cash flows during the first nine months of 1993 were significantly below expectations, principally due to increased competition, concurrent with a continued stagnant Northeast economy. As a result, management actions were taken to improve operating returns, liquidity and future cash flows.

During the first four months of 1993, operating performance was affected negatively by severe spring weather conditions, resulting in declines in comparable store sales during each of these months. As ground conditions dried out, operating performance normalized and the Company realized increases in comparable store sales during the balance of the second quarter. Operating performance in the second quarter exceeded the prior year level. During the third quarter, operating performance began to decline significantly in the

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Eastern Division. Steps taken to react to diminishing store performance, including price reductions, inventory management and promotional activities, did not counterbalance the declining operational results, particularly in those stores affected most by competition. As the quarter progressed, management performed a review of each Eastern Division store and a determination was made to close 22 marginally performing stores. A charge of \$34.3 million was recorded at the end of the quarter to cover closing costs, lease expenses in eleven of the closed stores, severance and outplacement costs, inventory writedowns, other anticipated expenses and the net unrecoverable amount of property, plant and equipment.

The process of closing the 22 stores was completed in the fourth quarter of 1993. One additional store was closed in early 1994. Three properties, the former Nashua, New Hampshire, Eastport, Maine and Erie, Pennsylvania stores, have been sold, the latter two in early 1994. Two additional properties are under agreement to be sold in 1994, and one lease agreement has been terminated in a favorable settlement. The remaining seven owned properties and ten leased properties continue to be marketed actively. It is anticipated that the sale of some or all of the properties will occur over a period of years, resulting in a liquidity improvement at the time of each respective sale.

In a separate transaction, the Company announced an agreement to sell its 35 acre headquarters site in Braintree, Massachusetts to Kmart Corporation. The sale is contingent upon certain approvals and conditions customary in commercial real estate transactions. The purchase price is dependent upon the number of square feet finally approved by local authorities having jurisdiction over the proposed site plan. Consummating the transaction is subject to the permitting process, the timing of which cannot be predicted at this time. If the transaction is consummated, the Company expects to realize significant cash flow and a gain from the sale. Upon the sale of the site, the Company plans to relocate its offices to available space in the vicinity of its current offices.

The Company accounts for income taxes in accordance with the provisions of Statement of Financial Accounting Standards No. 109. This standard requires, among other things, recognition of future tax benefits, measured by enacted tax rates, attributable to deductible temporary differences between financial statement and income tax bases of assets and liabilities and net operating loss carryforwards to the extent that management assesses the utilization of such net operating loss carryforwards to be more likely than not. The statement also requires deferred tax assets to be reduced by a valuation allowance if, based on the weight of available evidence, management cannot make a determination that it is more likely than not that some portion or all of the related tax benefits will be realized. Furthermore, the statement requires that a valuation allowance be established or adjusted if a change in circumstances causes a change in judgment about the future realizability of the deferred tax assets. At December 31, 1992, the Company had recorded deferred tax assets totalling \$30.2 million, with no related valuation allowance, based upon management's assessment at that time that taxable income of the Company would more likely than not be sufficient to utilize fully the net operating loss carryforwards prior to their ultimate expiration in the year 2001. At September 30, 1993, based upon unanticipated 1993 operating results and a

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reassessment of future expectations, the Company established a valuation allowance to reduce the carrying value of deferred tax assets to zero. The Company has not recognized any future tax benefits that may be realized from taxable losses incurred in 1993. The Company anticipates that its judgment

about the future realizability of the deferred tax assets will not be amended until a sustained period of income has been achieved and is likely to continue.

As a result of the charges discussed above and the Company's nine-month operating performance, at September 30, 1993, the Company was not in compliance with certain covenants contained in its revolving credit agreement and certain other loan agreements. The Company's lenders waived such defaults through December 15, 1993.

On December 15, 1993, the Company entered into a loan and security agreement with BankAmerica Business Credit, Inc., which provides for borrowings up to \$60 million, including letters of credit up to \$15 million. Borrowings pursuant to this agreement are secured by inventories, receivables and certain other assets. At December 31, 1993, cash borrowings under this agreement totalled \$23.2 million and outstanding standby letters of credit, issued in the normal course of business principally to guarantee payment of insurance obligations, totalled \$11.4 million. The agreement has a three-year term, with one-year renewal periods thereafter. Interest is payable at 1% over Prime Rate (7% at December 31, 1993), with a Eurodollar option available for borrowings in excess of \$5 million. The agreement contains various covenants which, among other things, require minimum levels of net worth, establish minimum interest and fixed charge coverage ratios, and establish maximum levels of capital expenditures. Other loan agreements were amended to contain similar covenants. The borrowings under the revolving credit agreement have been classified as long-term at December 31, 1993, as borrowings during 1994 are expected to remain at or above the year end 1993 level.

The Company has changed its actuarial assumption for the discount rate used to value pension obligations from 9.5% to 7.0%. As a result, a non-cash adjustment of \$21.9 million was recorded, reducing prepaid pension assets and establishing a \$15.2 million minimum liability equal to the difference between the accumulated pension benefit obligation and the estimated value of pension plan assets. An intangible asset was established of \$1.4 million, equal to unrecognized prior service cost, and a \$20.5 million adjustment to stockholders' investment was recorded in accordance with Statement of Financial Accounting Standards No. 87. The minimum liability, intangible asset and adjustment to stockholders' investment will be measured annually and will change based on interest rate assumptions, changes in the benefit obligation and changes in the value of plan assets.

Inventory at December 31, 1993 totalled \$121.8 million, a \$1.4 million decrease from the prior year end. Inventory declines as a result of Eastern Division store closings were offset by inventory in three Contractors' Warehouse stores opened during 1993 and increased lumber prices.

Property, plant and equipment and capital lease obligations reflect the results of actions taken in support of three principal strategic initiatives: repositioning of Eastern Division stores to strengthen their appeal to target customers, expanding the Company's Contractors' Warehouse concept and development and installation of its Eastern Division automated, integrated replenishment system. Capital expenditures of \$15.1 million and capital lease

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additions of \$7.2 million were made principally in support of these initiatives. Subject to funds availability, management plans to continue capital expenditures in support of the Contractors' Warehouse expansion and Eastern Division replenishment system, including new register systems; however, in light of 1993 store performance, repositioning of additional Eastern Division stores will be slowed.

Expansion of the Contractors' Warehouse concept continued in 1993, with a store opening in Colton, California in March and store openings in Carson, California and Cincinnati, Ohio in June. Expansion of this concept will continue in 1994 with two planned store openings in the Midwest. In addition, the Company's Mexican joint venture is scheduled to open its first store in Monterrey, Mexico in the 1994 second quarter. This store will be modeled after the Contractors' Warehouse concept. The Company also opened one Grossman's store and three Mr. 2nd's Bargain Outlet Stores during 1993.

The repositioning of 15 Eastern Division stores was completed prior to the 1993 spring selling season. The Company also completed the expansion to 300,000 square feet of its Distribution Center in Manchester, Connecticut.

The Company purchased and expanded the distribution facility to support the Eastern Division's new automated, integrated replenishment system, which is currently operational.

In January 1993, the Company paid \$10.8 million as the final installment on its Zero Coupon Notes. In February 1993, the Company entered into long-term financing of \$6.1 million on the Eastern Division distribution center. Upon receipt of the loan proceeds, full payment was made on the existing two-year \$4.9 million mortgage. The new mortgage has a 15 year amortization period, with the balance due at the end of ten years. The Company also received \$750,000 in proceeds from two mortgage loans provided by the State of Connecticut for equipment within the distribution facility.

The Company believes that existing funds, funds generated from operations, proceeds to be received from the sale of properties and funds available under the \$60 million loan and security agreement will be sufficient to satisfy debt service requirements, to pay other liabilities in the normal course of business and to finance planned capital expenditures.

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RESULTS OF OPERATIONS

1993 COMPARED WITH 1992

The 1993 net loss of \$68.3 million compares to net income of \$6.2 million in 1992. Significant items affecting 1993 net income were as follows:

- - Higher seasonal operating losses during the first quarter of 1993 resulting from severe weather conditions in the Northeast and West adversely affected sales.
- - Staff reductions were effected in the Eastern Division, largely as a result of the continued implementation of the division's automated, integrated replenishment system. Expenses related to these reductions were recorded in the third quarter.
- - Eastern Division store operating results and cash flows declined significantly in the third quarter. These results were affected negatively by Northeast economic conditions and competition. Steps taken to offset these declines were only partially successful.
- - After a complete review of all stores in all markets, 22 marginally performing Eastern Division stores were closed and a store closing provision of \$34.3 million was recorded in the third quarter. Store closings were completed in the fourth quarter.
- - Based upon unanticipated operating losses and a reassessment of future expectations, in the third quarter, the Company established a \$30.2 million valuation allowance to reduce to zero the carrying value of deferred tax assets previously established in 1991.
- - Gross margin declines occurred throughout the year resulting from increases in sales to professional customers, growth in Contractors' Warehouse store sales, increasingly competitive market conditions and rising lumber prices.
- - Operating income improved by \$2.9 million in the fourth quarter, reflecting Eastern Division overhead reductions and increased comparable store sales in each month during the quarter.

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<TABLE>

The following table shows three year comparative sales results by division (dollars in millions):

<CAPTION>

	1993	1992	1991
	-----	-----	-----
<S>	<C>	<C>	<C>
SALES			
Eastern Division			
Retail Sales	\$407.4	\$460.0	\$520.6
Professional Sales	235.1	211.4	152.0
	-----	-----	-----
Total Eastern Division	642.5	671.4	672.6
Contractors' Warehouse Division	199.5	162.0	134.0
	-----	-----	-----
Total	\$842.0	\$833.4	\$806.6
	=====	=====	=====
% OF TOTAL SALES			
Eastern Division			
Retail Sales	48.4%	55.2%	64.5%
Professional Sales	27.9	25.4	18.9
	-----	-----	-----
Total Eastern Division	76.3	80.6	83.4
Contractors' Warehouse Division	23.7	19.4	16.6
	-----	-----	-----
Total	100.0%	100.0%	100.0%
	=====	=====	=====
SALES % INCREASE			
(DECREASE) VERSUS			
PRIOR YEAR			
Eastern Division			
Retail Sales	(11.4)%	(11.6)%	(8.5)%
Professional Sales	11.2	39.1	18.2
	-----	-----	-----
Total Eastern Division	(4.3)	(0.2)	(3.6)
Contractors' Warehouse Division	23.1	20.9	16.8
	-----	-----	-----
Total	1.0 %	3.3 %	(0.7)%
	=====	=====	=====
COMPARABLE STORE SALES			
% INCREASE (DECREASE)			
VERSUS PRIOR YEAR			
Eastern Division			
Retail Sales	(7.0)%	(10.1)%	(5.1)%
Professional Sales	23.5	40.0	20.0
	-----	-----	-----
Total Eastern Division	1.3	1.3	(0.4)
Contractors' Warehouse Division	1.0	1.7	4.1
	-----	-----	-----
Total	1.2 %	1.4 %	0.3 %
	=====	=====	=====

</TABLE>

The Company's two principal operating strategies are to reposition Grossman's stores to strengthen their appeal to target customers and to grow the Contractors' Warehouse concept, both of which emphasize sales to the professional customer. During 1992, within Grossman's stores, sales growth in the professional segment offset a decline in the retail segment. In 1993,

sales to the retail segment continued to decline, and the growth in professional sales was not sufficient to cover this shortfall. Sales in the first four months of 1993 were affected negatively by severe weather conditions and prolonged wet ground conditions. In May and June, both total sales and comparable store sales increased. This trend did not continue into

the third quarter, when sales declines occurred in all months. Total fourth quarter sales, which included one additional week in 1993, declined in the Eastern Division, reflecting closed stores, and continued to grow in Contractors' Warehouse stores. Eastern Division comparable store sales in the fourth quarter rose by 17.2%, partially due to the transfer of professional customers from closed stores to stores continuing to operate within these markets. Contractors' Warehouse comparable store sales in the fourth quarter rose by 0.7%.

Gross margin declined from 26.8% in 1992 to 25.3% in 1993. Throughout 1993, margin declines occurred as the result of the increase in sales to professional customers, who receive discounts from normal retail pricing, and the growth in Contractors' Warehouse stores, which operate at higher per store sales volume with lower gross margins and lower expenses. Margin declines were also due to competitive market conditions and rising lumber prices. Economic and competitive conditions did not fully allow these price increases to be passed on to customers. Gross profit declined from \$223.4 million in 1992 to \$212.9 million in 1993, reflecting the overall sales decline, partially due to closed stores, and gross margin declines.

Operating losses during the first quarter, which are normal due to the seasonality of the Company's business, were high due to the severe weather conditions in the Northeast and West, the Company's two principal operating markets. In the first quarter of 1993, the operating loss was \$11.3 million, compared to a \$4.8 million loss in the comparable period of 1992. In the 1993 second quarter, as conditions improved, operating income of \$11.7 million compared favorably to the 1992 level of \$10.7 million.

In the third quarter of 1993, the Company's operating income prior to recognition of store closing expense was \$2.9 million, as compared to \$9.8 million for the same period in 1992. The decline in operating income was principally due to declining Eastern Division store results, as previously discussed. Steps taken to react to diminishing store performance, including price reductions, inventory management and promotional activities, did not counterbalance the declining operational results, particularly in those stores affected most by competition. As the third quarter progressed, management reviewed each Eastern Division store and decided to close 22 marginally performing stores. Store closing expense of \$34.3 million was recorded at the end of the quarter to cover costs related to the leases in 11 of the stores, severance and outplacement expenses, inventory write downs, other anticipated expenses and the net unrecoverable amount of property, plant and equipment.

Selling and administrative expenses in 1993 approximated the 1992 level, but varied significantly by quarter, with a first quarter increase of \$3.6 million, a second quarter decrease of \$2.6 million, a third quarter increase of \$2.2 million and a fourth quarter decrease of \$3.3 million. The first quarter increase was primarily due to activities in support of strategic

initiatives. Expenses related to these activities were higher in the second quarter of 1992 than in the same period in 1993, the principal reason for the second quarter decline. At the end of the second quarter, the Company announced a restructuring of the Eastern Division, largely as a result of the continued implementation of the automated, integrated replenishment system. Staff reductions were effected in the third quarter, with additional reductions anticipated when further efficiencies from the system are attained. In the third quarter of 1993, selling and administrative expenses included severance payments, outplacement services and other expenses related to the restructuring, resulting in the overall expense increase. In 1994, the Company expects the restructuring to yield continuing savings in operating expenses. The fourth quarter decline in selling and administrative expenses reflects the reduced overhead as a result of closed stores and Eastern Division staff reductions.

Although selling and administrative expenses in 1994 will be favorably impacted by the Eastern Division downsizing, pension expense will rise significantly as a result of changes in assumptions used to determine actuarially the pension liability and expense. Pension expense is expected to increase from \$1.8 million in 1993 to approximately \$5 million in 1994.

Depreciation and amortization increased by \$1.8 million in 1993, related to ongoing capital spending in support of strategic initiatives. Future capital spending will continue in support of the Contractors' Warehouse expansion and Eastern Division replenishment system. Preopening expense, associated with the development, opening, expansion and modernization of stores, decreased from \$3.5 million in 1992 to \$630 thousand in 1993 as the result of a curtailment of the repositioning of Eastern Division stores. Remodeling of Eastern Division stores planned for the 1993 fourth quarter was not undertaken due to the poor nine-month operating results. In 1992, fourth quarter preopening expenses totalled \$2.4 million.

Interest expense remained relatively constant from 1992 to 1993. Interest expense savings related to the retirement of high-interest rate debt were offset by \$1.3 million of interest expense on borrowings under the Company's revolving credit agreement. There were no revolving credit borrowings in 1992.

At September 30, 1993, based on unanticipated operating losses and a reassessment of future expectations, the Company established a valuation allowance to reduce the carrying value of deferred tax assets to zero. Tax credits recorded earlier in 1993 were also reversed, resulting in a total provision for income taxes of \$30.2 million. The Company has not recognized any future tax benefits that may be realized from taxable losses incurred in 1993.

Other than the effects of rising lumber prices, as previously discussed, the Company's business was not materially affected by inflation in any of the years presented.

1992 COMPARED WITH 1991

Net income of \$6.2 million for the year ended December 31, 1992 exceeded the 1991 level of \$4.3 million by 45%. The earnings improvement represents a 7.1% improvement in operating income, supplemented by a reduction in interest expense and gains on the sale of real estate.

An overall 0.2% decline in Eastern Division sales resulted from an 11.6% decline in retail sales, virtually offset by a 39.1% increase in professional sales. The retail segment in the Eastern Division continued to reflect the effects of a prolonged slump in the housing sector, coupled with increased competition. Western Division sales increased as the result of new store openings combined with comparable store sales increases.

Gross margin decreased from 27.2% to 26.8% as a result of changes in sales mix toward lower margin professional sales. An increase in retail margin was offset by this change in mix. In 1991, aggressive promotion of the Company's private label credit card was undertaken coincident to the sale of the credit card portfolio, which reduced gross margins.

Economic conditions in the Northeast housing sector affected negatively sales growth in both years. Throughout 1992, the Company continued to counter the effects of the recession and increased competition with more aggressive pricing and marketing to target customers. Sales to professionals, who receive discounts from normal retail pricing, grew as a percent of overall Eastern Division sales. Further offsetting the increase in retail gross margin was the continued growth in Contractors' Warehouse store sales as a percent of total Company sales. Also favorably impacting both retail and professional margins in 1992 was improved inventory shrinkage results throughout the chain.

Selling and administrative expenses increased by \$1.6 million, or 0.9%, but decreased as a percent of sales from 23.8% to 23.2%. During the first six months of 1992, operating expenses increased as a percent of sales, primarily in support of the operating strategies. During the second half of the year, the Company was successful at reducing operating expenses during a period when sales increased by 4.8%, thereby reducing selling and administrative expenses as a percent of sales. Within selling and administrative expenses, payroll

expense increased by 4.8%, slightly higher than the overall sales increase and reflective of the activities in support of the Company's strategies. Advertising expense decreased by 14.6%, reflective of more targeted marketing efforts. In addition, the provision for losses on accounts receivable declined by \$2.0 million, the result of continued tightened credit policies and stronger collection efforts.

Depreciation and amortization increased by 4.8% in 1992, related to capital spending. Preopening expense, which included expenses related to stores scheduled for 1993 openings, totalled \$3.5 million as compared to \$2.3 million in 1991.

Interest expense declined by \$1.2 million, or 12.4%. Savings related to retirement of high-interest debt were partially offset by financing secured in the second and fourth quarter of 1991, as well as interest expense related to

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the \$4.9 million mortgage on the Company's Eastern Division distribution center, entered into in September 1992. Included in interest expense in 1991 was \$364 thousand of interest on revolving credit borrowings. There were no borrowings in 1992.

Interest and other income increased by \$1.0 million from 1991 to 1992, which includes net gains of \$4.2 million on sales of property, less other non-operating expenses and other declines due to the receipt in 1991 of state income tax refunds, and interest income in 1991 related to the Company's private label revolving credit card accounts receivable portfolio, which was sold in May 1991.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

REPORT OF ERNST & YOUNG, INDEPENDENT AUDITORS

Stockholders and Board of Directors
Grossman's Inc.

We have audited the accompanying consolidated balance sheets of Grossman's Inc. and subsidiaries as of December 31, 1993 and 1992, and the related consolidated statements of operations, stockholders' investment and cash flows for each of the three years in the period ended December 31, 1993. Our audits also included the financial statement schedules listed in the Index at Item 14(a). These financial statements are the responsibility of 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Grossman's Inc. and subsidiaries at December 31, 1993 and 1992, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1993, in conformity with generally accepted accounting principles. Also, in our opinion, the related financial statement schedules, when considered in relation to the basic

financial statements taken as a whole, present fairly in all material respects the information set forth therein.

ERNST & YOUNG

Boston, Massachusetts
January 31, 1994

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<TABLE>

GROSSMAN'S INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(in thousands, except per share data)

<CAPTION>

	DECEMBER 31,	
	1993	1992
	-----	-----
<S>	<C>	<C>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 2,163	\$ 22,107
Receivables, less allowance of \$5,212 in 1993 and \$3,904 in 1992 for doubtful accounts	20,751	21,651
Inventories	121,820	123,230
Deferred income taxes	-	6,333
Other current assets	9,860	6,266
	-----	-----
Total current assets	154,594	179,587
PROPERTY, PLANT AND EQUIPMENT		
Land	25,740	28,117
Buildings and leasehold improvements	103,949	101,382
Machinery and equipment	59,009	50,541
Construction in progress	1,222	12,589
	-----	-----
	189,920	192,629
Accumulated depreciation and amortization	(59,756)	(57,936)
	-----	-----
	130,164	134,693
DEFERRED INCOME TAXES	-	23,895
OTHER ASSETS	2,690	827
	-----	-----
TOTAL ASSETS	\$287,448	\$339,002
	=====	=====

</TABLE>

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<TABLE>

<CAPTION>

	December 31,	
	1993	1992
<S>	<C>	<C>
LIABILITIES AND STOCKHOLDERS' INVESTMENT		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$102,616	\$ 94,825
Accrued interest	2,174	1,469
Current portion of long-term debt and capital lease obligations	14,978	16,686
Total current liabilities	119,768	112,980
REVOLVING TERM NOTE PAYABLE	23,238	-
LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS	41,267	52,985
PENSION LIABILITY	15,199	-
OTHER LIABILITIES	15,608	12,014
Total liabilities	215,080	177,979
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' INVESTMENT		
Common stock, \$.01 par value:		
Shares authorized - 50,000		
Shares issued - 26,137 in 1993 and 1992	261	261
Additional paid-in-capital	155,852	155,857
Retained earnings (deficit)	(62,103)	6,245
Minimum pension liability	(20,528)	-
Less 458 shares in 1993 and 551 shares in 1992 in treasury, at cost	(1,114)	(1,340)
Total stockholders' investment	72,368	161,023
TOTAL LIABILITIES AND STOCKHOLDERS' INVESTMENT	\$287,448	\$339,002

</TABLE>

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

<TABLE>

GROSSMAN'S INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share data)

<CAPTION>

	YEAR ENDED DECEMBER 31,		
	1993	1992	1991
<S>	<C>	<C>	<C>
	(53 weeks)		
SALES	\$841,974	\$833,370	\$806,636
COST OF SALES	629,089	609,980	587,579
Gross Profit	212,885	223,390	219,057
OPERATING EXPENSES			

Selling and administrative	193,662	193,755	192,116
Depreciation and amortization	13,433	11,655	11,120
Preopening expense	630	3,492	2,297
Store closing expense	34,263	-	-
	-----	-----	-----
	241,988	208,902	205,533
	-----	-----	-----
OPERATING INCOME (LOSS)	(29,103)	14,488	13,524
OTHER EXPENSES (INCOME)			
Interest expense	8,422	8,275	9,444
Other	595	(3,839)	(2,833)
	-----	-----	-----
	9,017	4,436	6,611
	-----	-----	-----
INCOME (LOSS) BEFORE INCOME TAXES	(38,120)	10,052	6,913
PROVISION FOR INCOME TAXES	30,228	3,820	2,622
	-----	-----	-----
NET INCOME (LOSS)	\$ (68,348)	\$ 6,232	\$ 4,291
	=====	=====	=====
NET INCOME PER COMMON SHARE (PRIMARY AND FULLY DILUTED)	\$ (2.66)	\$ 0.24	\$ 0.17
	=====	=====	=====
WEIGHTED AVERAGE SHARES AND EQUIVALENT SHARES OUTSTANDING			
Primary	25,661	26,193	25,878
	=====	=====	=====
Fully Diluted	25,661	26,241	25,878
	=====	=====	=====

</TABLE>

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

<TABLE>

GROSSMAN'S INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)

<CAPTION>

	Year Ended December 31,		
	-----	-----	-----
	1993	1992	1991
	-----	-----	-----
<S>	<C>	<C>	<C>
OPERATING ACTIVITIES			
Net income (loss)	\$ (68,348)	\$ 6,232	\$ 4,291
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	13,433	11,655	11,120
Deferred income taxes	30,228	2,620	2,205
Amortization of discount on Zero Coupon Notes	-	1,321	2,918
Net gain on sales of property	(215)	(4,159)	(239)
Provision for losses on accounts receivable	2,911	1,944	3,989
Store closing expense	19,069	-	-
(Increase) decrease in assets:			
Sale of private label credit card accounts receivable	-	-	13,973
Receivables	(2,011)	(3,952)	(3,613)
Inventories	1,410	(13,415)	9,722

Other assets	462	(1,525)	(1,324)
Increase (decrease) in accounts payable and accrued and other liabilities	(5,643)	4,161	(5,079)
Total adjustments	59,644	(1,350)	33,672
NET CASH (USED FOR) PROVIDED BY OPERATING ACTIVITIES	(8,704)	4,882	37,963
INVESTING ACTIVITIES			
Proceeds from sales of property, net	1,014	5,787	4,050
Capital expenditures	(15,050)	(21,702)	(11,929)
NET CASH USED FOR INVESTING ACTIVITIES	(14,036)	(15,915)	(7,879)
FINANCING ACTIVITIES			
Payments on long-term debt and capital lease obligations	(27,637)	(22,557)	(29,860)
Proceeds from sale and leaseback transactions	-	-	1,440
Proceeds from mortgage financings	6,974	-	15,508
Net borrowings from revolving term note payables	23,238	-	-
Issuance of common stock	221	262	-
NET CASH (USED FOR) PROVIDED BY FINANCING ACTIVITIES	2,796	(22,295)	(12,912)
Net increase (decrease) in cash and cash equivalents	(19,944)	(33,328)	17,172
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	22,107	55,435	38,263
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 2,163	\$ 22,107	\$ 55,435

</TABLE>

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

<TABLE>

GROSSMAN'S INC AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN
STOCKHOLDERS' INVESTMENT
(IN THOUSANDS, EXCEPT PER SHARE DATA)

<CAPTION>

	Common Stock \$.01 Par Value	Additional Paid-In- Capital	Retained Earnings (Deficit)	Minimum Pension Liability	Treasury Stock	Total Stockholders' Investment
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Balance at January 1, 1991	\$261	\$155,865	\$ (4,278)	\$ (2,077)	\$ (1,610)	\$148,161
Net income	-	-	4,291	-	-	4,291
Minimum pension liability	-	-	-	2,077	-	2,077
Balance at December 31, 1991	261	155,865	13	-	(1,610)	154,529
Net income	-	-	6,232	-	-	6,232
Exercise of stock options	-	(13)	-	-	259	246
Issuance of treasury stock	-	5	-	-	11	16
Balance at December 31, 1992	261	155,857	6,245	-	(1,340)	161,023
Net loss	-	-	(68,348)	-	-	(68,348)

Exercise of stock options	-	(10)	-	-	215	205
Issuance of treasury stock	-	5	-	-	11	16
Minimum pension liability	-	-	-	(20,528)	-	(20,528)
	----	-----	-----	-----	-----	-----
Balance at December 31, 1993	\$261	\$155,852	\$(62,103)	\$(20,528)	\$(1,114)	\$ 72,368
	=====	=====	=====	=====	=====	=====

</TABLE>

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

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GROSSMAN'S INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements present the results of operations, financial position and cash flows of Grossman's Inc. and its subsidiaries (the "Company"). All significant intercompany balances and transactions have been eliminated.

Fiscal Periods

The Company's year end is December 31. The Company records activity in quarterly accounting periods of equal length ending on the last Saturday of each quarter. Differences in amounts presented and those which would have been presented using actual quarter-end dates are not material.

Fiscal year 1993 contained 53 weeks while fiscal 1992 and 1991 contained 52 weeks. The additional week in 1993 was included in the fourth quarter.

Cash Equivalents

The Company considers all highly liquid investments, with a maturity of three months or less at date of purchase, to be cash equivalents.

Accounts Receivable

The Company extends credit on open account to qualified contractors and remodelers, principally in the Northeast.

Finance charge income, included in interest and other income, amounted to \$587.4 thousand, \$619.6 thousand and \$1.5 million in 1993, 1992 and 1991, respectively.

Inventories

Merchandise inventories are valued at the lower of cost, as determined by the average cost method, or market.

Property, Plant and Equipment

Property, plant and equipment are stated at cost and are depreciated using the straight-line method over estimated useful lives of the assets. Leasehold improvements are amortized over the shorter of the lease term or the estimated useful life of the improvements. Ranges of useful lives by principal classification are as follows:

Buildings and leasehold improvements	10 - 33 years
Machinery and equipment	3 - 7 years

Accrued Insurance Claims

- -----
The Company maintains insurance coverage for general liability and workers' compensation risks under contractual arrangements which retroactively adjust premiums for claims paid subject to specified limitations. Expenses associated with such risks are accrued as amounts required to cover incurred incidents can be estimated.

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NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- -----
Leases

- -----
Capital leases, those leases which transfer substantially all benefits and risk of ownership, are accounted for as the acquisition of an asset and the incurrence of an obligation. Capital lease amortization is included in depreciation and amortization expense, with the amortization period restricted to the lease term. The related obligation is amortized over the lease term at a constant periodic rate of interest.

Income Taxes

- -----
The Company accounts for income taxes in accordance with Statement of Financial Accounting Standards No. 109-Accounting for Income Taxes. Tax provisions and credits are recorded at statutory rates for taxable items included in the consolidated statements of operations regardless of the period for which such items are reported for tax purposes. Deferred income taxes are recognized for temporary differences between financial statement and income tax bases of assets and liabilities for which income tax benefits will be realized in future years. Deferred tax assets are reduced by a valuation allowance when the Company cannot make the determination that it is more likely than not that some portion or all of the related tax asset will be realized.

Pension Plan

- -----
The Company sponsors a noncontributory retirement plan for the benefit of substantially all employees. The Company funds pension costs in accordance with the Employee Retirement Income Security Act. Prior service costs, the unrecognized net transition assets and gains and losses, whether realized or unrealized, are amortized on a straight-line basis over estimated average remaining service periods.

Preopening Expense

- -----
Expenses associated with the opening of new stores and facilities and the expansion or major remodeling of existing stores are expensed as incurred.

Store Closing Expense

- -----
Store closing costs, net of amounts expected to be recovered, are recorded when the decision to close a store is made. Store closing costs include estimated losses, lease payments, other expenses and the net unrecoverable amount of property, plant and equipment.

Earnings Per Common Share

- -----
Earnings per common share are computed based on the weighted average number of common shares outstanding, less shares in treasury, plus common share equivalents attributable to stock options, when dilutive.

Business Segment

- -----
The Company operates in one business segment: the retail sale, distribution and installation of building materials and related products.

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NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Classification

Certain amounts in the consolidated financial statements for prior years have been reclassified to conform to the current year presentation. Such reclassifications had no effect on previously reported results of operations.

<TABLE>

NOTE 2 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consist of the following (in thousands):

<CAPTION>

	December 31,	
	1993	1992
<S>	<C>	<C>
Accounts payable	\$ 60,607	\$54,438
Accrued salaries, wages, commissions and related taxes	8,155	11,589
Accrued income and franchise taxes	734	1,779
Accrued taxes other than income and franchise	4,809	3,762
Accrued store closing costs	8,343	1,543
Accrued insurance	10,273	9,589
Other accrued liabilities	9,695	12,125
	-----	-----
	\$102,616	\$94,825
	=====	=====

</TABLE>

NOTE 3 - REVOLVING TERM NOTE PAYABLE

On December 15, 1993, the Company entered into a loan and security agreement with BankAmerica Business Credit, Inc., which provides for borrowings up to \$60 million, including letters of credit up to \$15 million. Borrowings pursuant to this agreement are secured by inventories, receivables and certain other assets. At December 31, 1993, cash borrowings under this agreement totalled \$23.2 million and outstanding standby letters of credit, issued in the normal course of business principally to guarantee payment of insurance obligations, totalled \$11.4 million. The agreement has a three-year term, with one-year renewal periods thereafter. Interest is payable monthly at 1% over Prime Rate (7% at December 31, 1993), with a Eurodollar option available for borrowings in excess of \$5 million. The agreement also provides for a 1/2% per annum commitment fee on the average daily unused amount under \$50 million. The agreement contains various covenants which, among other things, require minimum levels of net worth and establish minimum interest and fixed charge coverage ratios, establish maximum levels of capital expenditures.

Upon entering into the loan and security agreement, the Company's prior revolving credit agreement with a group of banks was terminated.

The maximum borrowings under the prior revolving credit agreement in 1993 and 1991 were \$36 million and \$13 million, respectively. The weighted average annual interest rate on such borrowings during 1993 and 1991 were 5.9% and 8.9%, respectively. There were no borrowings under the agreement in 1992.

<TABLE>

NOTE 4 - LONG-TERM DEBT

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

<CAPTION>

	December 31,	
	1993	1992
<S>	<C>	<C>
Zero Coupon Notes	\$ -	\$10,813
14% Debentures, due January 1, 1996	16,201	21,334
Mortgage notes	22,638	21,665
Capital lease obligations	17,406	15,859
	-----	-----
	56,245	69,671
Less current portion	14,978	16,686
	-----	-----
	\$41,267	\$52,985
	=====	=====

</TABLE>

In 1986, the Company issued \$105.2 million of Zero Coupon Notes. The seventh and final principal payment on the notes was made in January 1993. These noninterest bearing notes were initially discounted for financial statement purposes to yield 13% per annum.

Interest on the 14% Debentures is payable semi-annually on January 1 and July 1. At any time prior to maturity, upon 30 days notice, the Company may redeem the 14% Debentures, in whole or in part, on any interest payment date, at 100% of principal (in minimum amounts of \$5 million), plus a yield maintenance premium based upon quoted Treasury Constant Maturity Series yields.

Mortgage notes bear interest at a weighted average rate of 10.1% and are secured by real estate and equipment with a net book value of \$34.2 million at December 31, 1993.

During 1993, the Company purchased \$5.1 million of its 14% Debentures with no material gain or loss. During 1992, the Company purchased and retired \$2.9 million of the remaining principal on its Zero Coupon Notes and \$228 thousand of its 14% Debentures with no material gain or loss.

In February 1993, the Company received \$6.1 million of mortgage loan proceeds for its new Eastern Division distribution center. The mortgage note is amortized over 15 years, with full payment due in February 2003. Interest accrues at an annual rate of 8.8% and is payable monthly. Upon receipt of the mortgage proceeds the Company paid in full the existing \$4.9 million mortgage note. The Company also received \$750 thousand in proceeds from two secured loans provided by the State of Connecticut for equipment within the distribution facility at annual interest rates of 5.0% for terms between seven and ten years.

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NOTE 4 - LONG-TERM DEBT (CONTINUED)

The 14% Debentures, mortgage notes and certain lease agreements contain various covenants which, among other things, restrict dividends and distributions on and repurchases of Common Stock; require specified levels of net worth; limit capital expenditures; restrict liens, the incurrence of indebtedness and lease obligations; and restrict loans and investments. Under the most restrictive of these agreements, the Company had no retained earnings available for the payment of dividends at December 31, 1993.

<TABLE>

As of December 31, 1993, long-term debt maturities in each of the next five fiscal years and thereafter are as follows (in thousands):

<CAPTION>

	14% Debentures	Mortgage Notes
	-----	-----
<S>	<C>	<C>
Year Ending December 31,		
1994	\$ -	\$ 9,028
1995	-	672
1996	16,201	704
1997	-	697
1998	-	727
Thereafter	-	10,810
	-----	-----
	\$16,201	\$22,638
	=====	=====

</TABLE>

Mortgage notes due in 1994 include \$8,333 thousand related to properties under agreement to be sold in 1994.

Interest paid during 1993, 1992 and 1991 amounted to (in thousands) \$7,639, \$8,286 and \$9,911, respectively.

NOTE 5 - FAIR VALUE OF FINANCIAL INSTRUMENTS

Statement of Financial Accounting Standards No. 107 - Disclosures About Fair Value of Financial Instruments requires disclosure of fair value information about financial instruments for which it is practicable to estimate fair value. The Company estimates fair values based on the following assumptions: cash and cash equivalents are reported in the balance sheet at amounts which approximate fair value; and the carrying values of the Company's long-term debt and revolving term note payable are estimated using discounted cash flow analyses, based upon the Company's current incremental borrowing rates for similar types of borrowing arrangements.

NOTE 5 - FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

<TABLE>

The estimated fair values are as follows (in thousands):

<CAPTION>

	December 31,			
	-----		-----	
	1993		1992	
	-----	-----	-----	-----
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
<S>	<C>	<C>	<C>	<C>
Revolving term note payable	\$23,238	\$23,238	\$ -	\$ -
Zero Coupon Notes	-	-	10,813	10,813
14% Debentures due January 1, 1996	16,201	18,900	21,334	24,800
Mortgage notes	22,638	23,900	21,665	26,400
	-----	-----	-----	-----
	\$62,077	\$66,038	\$53,812	\$62,013
	=====	=====	=====	=====

</TABLE>

NOTE 6 - LEASE COMMITMENTS (IN THOUSANDS)

The Company has entered into leases for certain retail locations, office

space, equipment and vehicles. The fixed terms of the leases range up to seven years and, in general, leases for retail locations contain multiple renewal options for various periods between one and ten years. Certain leases contain provisions which include additional payments based upon sales performance, operating and real estate tax escalations and purchase options.

Total rent expense charged to operations during 1993, 1992 and 1991 amounted to \$7,615, \$8,819 and \$8,801, respectively. Total contingent rentals included in rent expense were \$923, \$999 and \$969, respectively.

Included in property, plant and equipment as of December 31, 1993 and 1992 is \$36,359 and \$37,231, respectively, of machinery and equipment under capital leases. The related accumulated amortization is \$24,049 and \$22,961, respectively. Capital lease additions for machinery and equipment totalled \$7,238 in 1993, \$2,739 in 1992 and \$2,982 in 1991.

<TABLE>

Future minimum lease payments in each of the next five years and thereafter are as follows:

<CAPTION>

	Capital Leases -----	Operating Leases -----
Year Ending December 31,		
<S>	<C>	<C>
1994	\$ 7,289	\$ 5,150
1995	7,539	3,867
1996	3,055	2,988
1997	1,164	2,167
1998	631	1,866
Thereafter	251	530
	-----	-----
Total minimum lease payments	\$19,929	\$16,568
Less imputed interest	2,523	=====

Present value of net minimum lease payments	17,406	
Less current portion	5,950	

Long-term capital lease obligations	\$11,456	
	=====	

</TABLE>

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NOTE 7 - SALE OF PROPERTY

- - - - -

In October 1993, the Company announced an agreement for the sale of its 35 acre headquarters site in Braintree, Massachusetts to Kmart Corporation. The sale is contingent upon certain approvals and conditions. The purchase price is dependent upon the number of square feet finally approved by local authorities having jurisdiction over the proposed site plan. Consummating the transaction is subject to the permitting process, the timing of which cannot be predicted at this time. Other contingencies customary in commercial real estate transactions also exist. If the transaction is consummated, the Company expects to realize a significant gain from this sale.

NOTE 8 - STOCKHOLDERS' INVESTMENT

- - - - -

The Company's Restated Certificate of Incorporation contains certain provisions restricting accumulations of Common Stock. Under these provisions, as modified by the Board of Directors and currently in effect, no person may acquire shares of Common Stock on or prior to December 31, 1996 (or such later date as may be fixed by the Board of Directors) if the number of shares actually and constructively owned by such person, as defined, would exceed 5% of the outstanding Common Stock on any date. Attempted acquisitions of Common Stock in excess of these limits will be null and void and all shares purportedly acquired in excess of these limits will have no rights, except the right to receive out of the proceeds of resale thereof an amount not in excess

of the amount paid for such excess shares plus brokers' commissions. Such restrictions may be waived by the Board of Directors and are not applicable to an acquisition of more than 50% of the outstanding shares of Common Stock for cash pursuant to a tender offer, merger or other business combination in which all holders of Common Stock are afforded an opportunity to sell all their shares.

NOTE 9 - EMPLOYEE BENEFIT PLANS

The Company sponsors a noncontributory defined benefit pension plan, the Grossman's Inc. Retirement Plan (the "Retirement Plan"), which covers substantially all employees. Employees are eligible to participate in the Retirement Plan at age 21 with one year of service. Benefits through 1990 are based upon years of service multiplied by a percentage of reference earnings. Beginning in 1991, the benefit is based upon annual reference earnings.

<TABLE>

The components of net periodic pension cost are as follows (in thousands):

<CAPTION>

	Year ended December 31,		
	1993	1992	1991
<S>	<C>	<C>	<C>
Service cost for the year	\$ 1,376	\$ 1,325	\$ 1,472
Interest accrued on projected benefit obligation	4,277	3,896	3,619
Return on plan assets	(4,019)	(2,894)	(6,545)
Net amortization and deferral	180	(661)	3,143
Net periodic pension cost for the year	\$ 1,814	\$ 1,666	\$ 1,689

</TABLE>

NOTE 9 - EMPLOYEE BENEFIT PLANS (CONTINUED)

<TABLE>

The funded status of the Retirement Plan is as follows (in thousands):

<CAPTION>

	December 31,	
	1993	1992
<S>	<C>	<C>
Actuarial present value of projected benefit obligation:		
Vested employees	\$ 61,823	\$39,868
Non-vested employees	1,766	1,447
Accumulated benefit obligation	63,589	41,315
Impact of future salary increases	3,480	2,062
Projected benefit obligation for service rendered to date	67,069	43,377
Estimated market value of plan assets, primarily cash equivalents and publicly traded stocks and bonds	48,390	42,067
Projected benefit obligation in excess of plan assets	18,679	1,310
Items not yet recognized in earnings:		
Unrecognized net transition asset	1,795	2,319
Unrecognized prior service cost	(1,410)	(1,745)
Adjustment required to recognize minimum liability	21,938	-
Unrecognized net loss	(25,803)	(6,075)

Pension liability (prepaid pension asset)	\$ 15,199	\$ (4,191)
	=====	=====

</TABLE>

Statement of Financial Accounting Standards No. 87 ("FAS 87") requires the recognition of a minimum liability, to the extent that actuarially computed accumulated plan benefits exceed the fair value of plan assets, and the recognition of a related intangible asset, to the extent of any unfunded prior service cost. At December 31, 1993, the Company recorded an adjustment of \$21,938 thousand, reducing its prepaid pension asset and establishing a minimum liability of \$15,199 thousand. The increase in minimum liability in 1993 reflects a change in the discount rate assumption from 9.5% to 7.0%. An intangible asset of \$1,410 thousand was also recorded, equal to unrecognized prior service cost. The difference between the minimum pension liability adjustment and the intangible asset has been charged to stockholders' investment in accordance with FAS 87.

<TABLE>

Actuarial assumptions used by the Retirement Plan's actuaries to develop the funded status of the Retirement Plan under the unit credit actuarial cost method are as follows:

<CAPTION>

	1993	1992	1991
	----	-----	----
<S>	<C>	<C>	<C>
Discount rate	7.0%	9.5%	9.5%
Expected long-term rate of return on assets	9.0	10.0	10.0
Rate of general wage increase	4.5	4.5	4.5

</TABLE>

The Company also sponsors a Savings Plan for the benefit of substantially all employees. The plan provides that employees may contribute up to 14% of their compensation, with a fully vested Company match of a portion of the contribution. During 1991, the plan was amended to provide for an increase in the Company's matching contribution, suspension of profit sharing contributions and full vesting of all participants in previous profit sharing contributions by the Company. The Company contributed \$574 thousand in 1993, \$555 thousand in 1992 and \$477 thousand in 1991 to the plan.

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NOTE 10 - OTHER LIABILITIES

- - - - -

<TABLE>

Other long-term liabilities consist of the following (in thousands):

<CAPTION>

	December 31,	
	-----	-----
	1993	1992
	-----	-----
<S>	<C>	<C>
Accrued insurance claims	\$ 9,424	\$ 9,200
Accrued store closing costs	5,418	-
Other accrued liabilities	766	2,814
	-----	-----
	\$15,608	\$12,014
	=====	=====

</TABLE>

Standby letters of credit which guarantee general liability and workers' compensation insurance claims are outstanding under the Company's revolving credit agreement.

NOTE 11 - EMPLOYEE STOCK OPTION PLAN

- - - - -

The Company has a nonqualified stock option plan covering officers and other key management employees ("1986 Plan"). The plan provides for nonqualified

options to purchase shares of Common Stock. On April 28, 1992, the Company's Stockholders approved an increase in the total number of shares of Common Stock of the Company that may be issued under the 1986 Plan from 2,000,000 shares to 3,750,000 shares.

In April 1993, the Board of Directors approved the 1993 Key Employee Stock Option Plan ("1993 Plan") covering key management employees who are not officers of the Company. The 1993 Plan provides for nonqualified options to purchase a total of 600,000 shares of Common Stock, with a maximum of 5,000 shares per employee. The maximum number of options which may be granted in any calendar year is 300,000.

<TABLE>

A summary of option transactions is as follows:

<CAPTION>

	Year Ended December 31,		
	1993	1992	1991
<S>	<C>	<C>	<C>
Options outstanding, January 1	2,932,500	1,848,000	1,821,000
Options granted	915,300	1,611,000	42,000
Price range	\$2.75-\$4.38	\$3.63-\$4.50	\$ 3.75
Options exercised	88,000	106,250	-
Price range	\$ 2.31	\$ 2.31	\$ -
Options cancelled	447,100	420,250	15,000
Price range	\$2.31-\$4.50	\$2.31-\$4.50	\$2.31-\$3.75
Options outstanding, December 31	3,312,700	2,932,500	1,848,000
Price range	\$2.31-\$4.50	\$2.31-\$4.50	\$2.31-\$3.75
Options exercisable, December 31	1,376,500	867,917	636,083
Price range	\$2.31-\$4.50	\$2.31-\$3.75	\$ 2.31

</TABLE>

NOTE 11 - EMPLOYEE STOCK OPTION PLAN (CONTINUED)

All options granted are ten-year nonqualified options and were granted at market value. Of the options outstanding at December 31, 1993, 200,000 were exercisable when issued, 400,000 become exercisable in three equal annual installments following the December 11, 1990 date of grant, and the balance become exercisable in four equal annual installments following the respective dates of grant. All outstanding options become exercisable upon a change in control, as defined in the option agreements. At December 31, 1993, the Company had 4,155,750 shares of Common Stock reserved for future issuance under the plans.

NOTE 12 - INCOME TAXES

The Company accounts for income taxes in accordance with the provisions of Statement of Financial Accounting Standards No. 109-Accounting for Income Taxes ("FAS 109"). This standard requires, among other things, recognition of future tax benefits, measured by enacted tax rates, attributable to deductible temporary differences between financial statement and income tax bases of assets and liabilities and net operating loss carryforwards to the extent that management assesses the utilization of such net operating loss carryforwards to be more likely than not. The statement also requires deferred tax assets to be reduced by a valuation allowance if, based on the weight of available evidence, management cannot make a determination that it is more likely than not that some portion or all of the related tax benefits will be realized. Furthermore, the statement requires that a valuation allowance be established or adjusted if a change in circumstances causes a change in judgment about the

future realizability of the deferred tax assets.

At December 31, 1992, the Company had recorded deferred tax assets totalling \$30.2 million, with no related valuation allowance, based upon management's assessment at that time that taxable income of the Company would more likely than not be sufficient to utilize fully the net operating loss carryforwards prior to their ultimate expiration in the year 2001. At September 30, 1993, based upon unanticipated 1993 operating results and a reassessment of future expectations, the Company established a valuation allowance to reduce the carrying value of deferred tax assets to zero. The Company has not recognized any future tax benefits that may be realized from taxable losses incurred in 1993.

At December 31, 1993, the Company has net operating loss carryforwards of \$109 million, expiring as follows: 1998-\$15 million, 1999-\$28 million, 2000-\$23 million, 2001-\$15 million and 2008-\$28 million.

NOTE 12 - INCOME TAXES (CONTINUED)

<TABLE>

The provision (credit) for income taxes consists of the following (in thousands):

<CAPTION>

	Year ended December 31,		
	1993	1992	1991
	-----	-----	-----
<S>	<C>	<C>	<C>
Federal			
Current	\$ -	\$ 240	\$ 80
Deferred	27,046	2,977	1,935
	-----	-----	-----
	27,046	3,217	2,015
State			
Current	-	960	337
Deferred	3,182	(357)	270
	-----	-----	-----
	3,182	603	607
	-----	-----	-----
	\$30,228	\$3,820	\$2,622
	=====	=====	=====

</TABLE>

<TABLE>

The difference between income taxes at the Company's effective tax rate and the U.S. federal statutory rate is as follows (in thousands):

<CAPTION>

	Year ended December 31,		
	1993	1992	1991
	-----	-----	-----
<S>	<C>	<C>	<C>
U.S. federal income tax (benefit) at statutory rate	\$ (12,961)	\$ 3,418	\$ 2,350
1993 taxable losses for which tax benefits were not recognized	12,961	-	-
Valuation allowance for deferred tax assets recorded in prior year	30,228	-	-
Other items	-	(201)	(335)
	-----	-----	-----
Total federal	30,228	3,217	2,015
State and other local income taxes	-	603	607

-----	-----	-----
\$ 30,228	\$3,820	\$2,622
=====	=====	=====

</TABLE>

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NOTE 12 - INCOME TAXES (CONTINUED)

<TABLE>

Deferred income taxes reflect the future tax benefits attributable to net operating loss carryforwards and temporary differences as follows (in thousands):

<CAPTION>

	December 31,	
	1993	1992
	-----	-----
<S>	<C>	<C>
Net operating loss carryforwards	\$ 38,299	\$27,606
Allowance for doubtful accounts	1,615	1,340
Accrued store closing costs	5,685	586
Depreciation	(1,789)	(1,915)
Other	(16)	2,611
	-----	-----
	43,794	30,228
Less current portion	-	6,333
	-----	-----
	43,794	23,895
Less valuation allowance	(43,794)	-
	-----	-----
Non-current deferred income taxes	\$ -	\$23,895
	=====	=====

</TABLE>

The Company's tax returns for years subsequent to 1982 have not been reviewed by the Internal Revenue Service ("IRS"). Availability of the net operating loss carryforwards might be challenged by the IRS upon review of such returns and may be limited under the Tax Reform Act of 1986 as a result of changes that may occur in the ownership of the Company's stock in the future, principally relating to a change in control.

The Company believes, however, that IRS challenges that would limit the utilization of available net operating loss carryforwards are unlikely, and that the adjustments to tax liability, if any, for years through 1993 will not have a material adverse effect on the Company's financial position.

Income and franchise taxes paid in 1993, 1992 and 1991 amounted to (in thousands) \$920, \$1,158 and \$848, respectively.

43

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<TABLE>

SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

The following selected quarterly financial data should be read in conjunction with the consolidated financial statements, related notes and Management's Discussion and Analysis of Financial Condition and Results of Operations. Certain amounts in individual quarters have been reclassified to conform with year end presentation.

<CAPTION>

1993

(in thousands, except per share data)	Three Months Ended				
	March 31	June 30	September 30	December 31 (14 Weeks)	Full Year (53 Weeks)
<S>	<C>	<C>	<C>	<C>	<C>
SALES	\$141,562	\$253,105	\$247,671	\$199,636	\$841,974
COST OF SALES	102,530	186,879	189,099	150,581	629,089
Gross Profit	39,032	66,226	58,572	49,055	212,885
OPERATING EXPENSES					
Selling and administrative	46,902	50,797	52,053	43,910	193,662
Depreciation and amortization	3,020	3,442	3,617	3,354	13,433
Store preopening expense	391	239	-	-	630
Store closing expense	-	-	34,263	-	34,263
	50,313	54,478	89,933	47,264	241,988
OPERATING INCOME (LOSS)	(11,281)	11,748	(31,361)	1,791	(29,103)
OTHER EXPENSES (INCOME)					
Interest expense	1,922	2,110	2,233	2,157	8,422
Other	(19)	472	271	(129)	595
	1,903	2,582	2,504	2,028	9,017
INCOME (LOSS) BEFORE INCOME TAXES	(13,184)	9,166	(33,865)	(237)	(38,120)
PROVISION (CREDIT) FOR INCOME TAXES	(5,010)	3,483	31,755	-	30,228
NET INCOME (LOSS)	\$ (8,174)	\$ 5,683	\$ (65,620)	\$ (237)	\$ (68,348)
NET INCOME (LOSS) PER COMMON SHARE (PRIMARY AND FULLY DILUTED)	\$ (0.32)	\$ 0.22	\$ (2.56)	\$ (0.01)	\$ (2.66)
WEIGHTED AVERAGE SHARES AND EQUIVALENT SHARES OUTSTANDING					
Primary	25,617	26,121	25,677	25,679	25,661
Fully Diluted	25,617	26,121	25,677	25,679	25,661

</TABLE>

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<TABLE>
<CAPTION>

1992

(in thousands, except per share data)	Three Months Ended				
	March 31	June 30	September 30	December 31	Full Year
<S>	<C>	<C>	<C>	<C>	<C>
SALES	\$153,533	\$249,833	\$245,765	\$184,239	\$833,370
COST OF SALES	111,473	182,645	183,133	132,729	609,980
Gross Profit	42,060	67,188	62,632	51,510	223,390
OPERATING EXPENSES					
Selling and administrative	43,285	53,377	49,845	47,248	193,755
Depreciation and amortization	2,782	2,921	2,972	2,980	11,655
Store preopening expense	833	198	50	2,411	3,492
Store closing expense	-	-	-	-	-
	46,900	56,496	52,867	52,639	208,902
OPERATING INCOME (LOSS)	(4,840)	10,692	9,765	(1,129)	14,488

OTHER EXPENSES (INCOME)					
Interest expense	2,099	2,070	2,026	2,080	8,275
Other	(223)	500	155	(4,271)	(3,839)
	-----	-----	-----	-----	-----
	1,876	2,570	2,181	(2,191)	4,436
	-----	-----	-----	-----	-----
INCOME (LOSS) BEFORE INCOME TAXES	(6,716)	8,122	7,584	1,062	10,052
PROVISION (CREDIT) FOR INCOME TAXES	(2,552)	3,087	2,882	403	3,820
	-----	-----	-----	-----	-----
NET INCOME (LOSS)	\$ (4,164)	\$ 5,035	\$ 4,702	\$ 659	\$ 6,232
	=====	=====	=====	=====	=====
NET INCOME (LOSS) PER COMMON SHARE (PRIMARY AND FULLY DILUTED)	\$ (0.16)	\$ 0.19	\$ 0.18	\$ 0.03	\$ 0.24
	=====	=====	=====	=====	=====
WEIGHTED AVERAGE SHARES AND EQUIVALENT SHARES OUTSTANDING					
Primary	25,491	26,245	26,061	26,164	26,193
	=====	=====	=====	=====	=====
Fully Diluted	25,491	26,245	26,061	26,273	26,241
	=====	=====	=====	=====	=====

</TABLE>

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ITEM 9. DISAGREEMENTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

Part III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS
OF THE REGISTRANT

Pursuant to General Instruction G(3) of Form 10-K, the information called for by this item regarding Directors is hereby incorporated by reference to the Company's definitive proxy statement for its 1994 Annual Meeting of Stockholders to be filed pursuant to Regulation 14A with the Commission not later than 120 days after the end of the fiscal year covered by this Form 10-K. Information regarding the Company's Executive Officers is set forth above following Item 1 of Part I of this report.

ITEM 11. EXECUTIVE COMPENSATION

Pursuant to General Instruction G(3) of Form 10-K, the information called for by this item is hereby incorporated by reference to the Company's definitive proxy statement for its 1994 Annual Meeting of Stockholders to be filed pursuant to Regulation 14A with the Commission not later than 120 days after the end of the fiscal year covered by this Form 10-K.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN
BENEFICIAL OWNERS AND MANAGEMENT

Pursuant to General Instruction G(3) of Form 10-K, the information called for by this item is hereby incorporated by reference to the Company's definitive proxy statement for its 1994 Annual Meeting of Stockholders to be filed pursuant to Regulation 14A with the Commission not later than 120 days after the end of the fiscal year covered by this Form 10-K.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Pursuant to General Instruction G(3) of Form 10-K, the information called for by this item is hereby incorporated by reference to the Company's definitive

proxy statement for its 1994 Annual Meeting of Stockholders to be filed pursuant to Regulation 14A with the Commission not later than 120 days after the end of the fiscal year covered by this Form 10-K.

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PART IV

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

(a) 1 - Index to Financial Statements

Page Number
in this Report

Consolidated Balance Sheets	
December 31, 1993 and 1992.....	27
Consolidated Statements of Operations	
Years Ended December 31, 1993, 1992 and 1991.....	29
Consolidated Statements of Cash Flows	
Years Ended December 31, 1993, 1992 and 1991.....	30
Consolidated Statements of Changes in Stockholders' Investment	
Years Ended December 31, 1993, 1992 and 1991.....	31
Notes to Consolidated Financial Statements.....	32

(a) 2 - Index to Financial Statement Schedules

The following consolidated financial statement schedules of Grossman's Inc. and Subsidiaries are included in Item 14(d) and filed herewith (page numbers refer to page numbers in this Form 10-K):

Schedule V	- Property, Plant and Equipment.....	56
Schedule VI	- Accumulated Depreciation, Depletion, and Amortization of Property, Plant and Equipment.....	57
Schedule VIII	- Valuation and Qualifying Accounts.....	58
Schedule IX	- Short-Term Borrowings.....	58
Schedule X	- Supplementary Income Statement Information.....	59

All other schedules for which provision is made in the applicable accounting regulation of the Securities and Exchange Commission are not required under the related instructions, or are inapplicable, and, therefore, have been omitted.

(b) Reports on Form 8-K

None.

(a) 3. and (c) - Exhibits

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Exhibit

- 2(e) Final Decree and Order Closing Cases, dated October 2, 1987, of the United States Bankruptcy Court for the Southern District of Florida, filed as Exhibit 2(e) to the Company's Form 10-Q for the quarter ended September 30, 1987, is incorporated herein by reference.
- 2(f) Asset Purchase Agreement between GNW Partners, L.P. and Grossman's Inc., dated June 28, 1989, without exhibits, filed as Exhibit 2(f) to the Company's Annual Report on Form 10-K for the year ended December 31, 1989 (File 1-542), is incorporated herein by reference.
- 2(g) Asset Purchase Agreement between Harcros Lumber & Building Supplies Inc. and Grossman's Inc., dated August 14, 1989, without exhibits, filed as Exhibit 2(a) to the Company's Form 8-K, dated September 12, 1989, is incorporated herein by reference.
- 3(a) Restated Certificate of Incorporation of the Company, as in effect November 19, 1986, filed as Exhibit 3(a) to the Company's Form 8-K, dated November 19, 1986 (File No. 1-542), is incorporated herein by reference.
- 3(a)-1 Resolutions adopted by the Company's Board of Directors on December 15, 1987, modifying and extending restrictions on acquisition of Common Stock under Article Ninth of Company's Restated Certificate of Incorporation, filed as Exhibit 3(a)-1 to the Company's Form 8-K, dated December 15, 1987 (File 1-542), is incorporated herein by reference.
- 3(a)-2 Notice to Stockholders of modification and extension of restrictions on acquisition of Common Stock pursuant to Article Ninth of Company's Restated Certificate of Incorporation, filed as Exhibit 3(a)-2 to the Company's Form 8-K, dated December 15, 1987 (File 1-542), is incorporated herein by reference.
- 3(a)-3 Certificate of Designation Relating to Certain Restrictions on the Acquisition of Common Stock pursuant to Article Ninth of the Company's Restated Certificate of Incorporation, filed as Exhibit 3(1)-2 to the Company's Form 8-K dated November 19, 1986 (File No. 1-542), is incorporated herein by reference.
- 3(a)-4 Resolutions adopted by the Company's Board of Directors on October 23, 1990 extending restrictions on acquisition of Common Stock under Article Ninth of Company's Restated Certificate of Incorporation, filed as Exhibit 3(a)-4 to the Company's Annual Report on Form 10-K for the year ended December 31, 1990 (File No. 1-542), is incorporated herein by reference.

- 3(a)-5 Notice to Stockholders of extension of restrictions on acquisition of Common Stock pursuant to Article Ninth of the Company's Restated Certificate of Incorporation, filed as Exhibit 3(a)-5 to the Company's Annual Report on Form 10-K for the year ended December 31, 1990 (File No. 1-542), is incorporated herein by reference.
- 3(a)-6 Certificate of Designation Relating to Certain Restrictions on the Acquisition of Common Stock pursuant to Article Ninth of the Company's Restated Certificate of Incorporation, filed as Exhibit 3(a)-6 to the Company's Annual Report on Form 10-K for the year ended December 31, 1990 (File No. 1-542), is incorporated herein by reference.
- 3(a)-7 Notice to Stockholders of extension of restrictions on acquisition of Common Stock pursuant to Article Ninth of the

Company's Restated Certificate of Incorporation, filed herewith.

- 3(a)-8 Certificate of Designation Relating to Certain Restrictions on the Acquisition of Common Stock pursuant to Article Ninth of the Company's Restated Certificate of Incorporation, filed herewith.
- 3(b) By-Laws of the Company, as in effect November 19, 1986, filed as Exhibit 3(b) to the Company's Form 8-K, dated November 19, 1986 (File No. 1-542), is incorporated herein by reference.
- 3(b)-1 Copy of the amendments to the Grossman's Inc. By-Laws as adopted by the Board of Directors of Grossman's Inc. on December 15, 1987, filed as Exhibit 3(b)-1 to the Company's Form 8-K, dated December 15, 1987 (File 1-542), is incorporated herein by reference.
- 4(c) Indenture, dated January 1, 1986, from the Company to United States Trust Company of New York, as Trustee, with respect to the Company's 14% Debentures due 1996, filed as Exhibit 4(c) to the Company's Form 8-K, dated November 19, 1986 (File No. 1-542), is incorporated herein by reference.
- 4(c)-1 First Supplemental Indenture, dated January 1, 1987, to Indenture, dated January 1, 1986 (Exhibit 4(c) above), for the Company's 14% Debentures due 1996, filed as Exhibit 4(h) to the Company's Registration Statement on Form S-1, No. 33-15107, is incorporated herein by reference.
- 4(c)-2 Second Supplemental Indenture, dated March 15, 1987, to Indenture, dated January 1, 1986, for the Company's 14% Debentures due 1996 (Exhibit 4(c) above), filed as Exhibit 4(j) to the Company's Registration Statement on Form S-1, No. 33-15107, is incorporated herein by reference.

- 4(c)-3 Third Supplemental Indenture, dated June 15, 1987, to Indenture, dated January 1, 1986, for the Company's 14% Debentures due 1996 (Exhibit 4(c) above), filed as Exhibit 4(c)-3 to the Company's Form 8-K, dated July 15, 1988 (File No. 1-542), is incorporated herein by reference.
- 4(c)-4 Fourth Supplemental Indenture, dated June 15, 1987, to Indenture, dated January 1, 1986, for the Company's 14% Debentures due 1996 (Exhibit 4(c) above), filed as Exhibit 4(c)-4 to the Company's Form 8-K, dated July 15, 1988 (File No. 1-542), is incorporated herein by reference.
- 4(c)-5 Form of Waiver dated December 21, 1988 of certain provisions of Section 5.11 to the Indenture, dated January 1, 1986, for the Company's 14% Debentures due 1996 (Exhibit 4(c) above), filed as Exhibit 4(c)-5 to the Company's Form 8-K, dated December 13, 1988, is incorporated herein by reference.
- 4(c)-6 Fifth Supplemental Indenture, dated September 30, 1989, to Indenture, dated January 1, 1986, for the Company's 14% Debentures due 1996 (Exhibit 4(c) above), filed as Exhibit 4(c)-6 to the Company's Annual Report on Form 10-K for the year ended December 31, 1989 (File No. 1-542), is incorporated herein by reference.
- 4(c)-7 Sixth Supplemental Indenture, dated March 1, 1990, to Indenture, dated January 1, 1986, for the Company's 14% Debentures due 1996 (Exhibit 4(c) above), filed as Exhibit 4(c)-7 to the Company's Form 10-Q for the quarter ended June 30, 1990, is incorporated herein by reference.
- 4(c)-8 Seventh Supplemental Indenture, dated May 17, 1991, to Indenture,

dated January 1, 1986, for the Company's 14% Debentures due 1996 (Exhibit 4(c) above), filed as Exhibit 4(c)-8 to the Company's Form 10-K for the year ended December 31, 1991 (File No. 1-542), is incorporated herein by reference.

- 4(e)-1 Amended and Restated Registration Rights and Transfer Restriction Agreement, dated April 30, 1987, among the Company; the Common Holders, Debt Holders, Offering Committee and Custodian named therein; and Herzog, Heine Geduld Inc., filed as Exhibit 4(e)-1 to the Company's Registration Statement on Form S-1, No. 33-15107, is incorporated herein by reference.
- 4(m) Term Loan and Security Agreement without Exhibits and Installment Note, dated October 15, 1991, between Grossman's Inc. and Sanwa Business Credit Corporation, filed as Exhibit 4(m) to the Company's Form 10-Q for the quarter ended September 30, 1991, is incorporated herein by reference.
- 4(n) First Amendment, dated December 14, 1993, to Term Loan and Security Agreement between Grossman's Inc. and Sanwa Business Credit Corporation, dated October 15, 1991, filed herewith.

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- 4(o) Loan and Security Agreement between Grossman's Inc. and BankAmerica Business Credit, Inc. dated December 15, 1993 (without exhibits), filed herewith.
- 10(a) Amended and Restated Employment Agreement dated September 8, 1986, among Evans Products Company, Grossman's Inc. and Maurice Grossman, filed as Exhibit 10 to the Evans Products Company Annual Report on Form 10-K for the Fiscal Year Ended December 31, 1985 (File No. 1-542), is incorporated herein by reference.
- 10(a)-1 Amendment, dated April 29, 1988, to Amended and Restated Employment Agreement between Grossman's Inc. and Maurice Grossman (Exhibit 10(a) above), filed as an unnumbered exhibit to the Company's Form 8-K, dated April 28, 1988 (File No. 1-542), is incorporated herein by reference.
- 10(a)-2 Amendment, dated December 13, 1988, to Amended and Restated Employment Agreement, dated September 8, 1986, between Grossman's Inc. and Maurice Grossman, filed as Exhibit 10(a)-2 to the Company's Form 8-K, dated December 13, 1988, is incorporated herein by reference.
- 10(a)-3 Amendment, dated April 24, 1990, to Amended and Restated Employment Agreement between Grossman's Inc. and Maurice Grossman (Exhibit 10(a) above), filed as an unnumbered exhibit to the Company's Form 8-K, dated April 24, 1990 (File No. 1-542), is incorporated herein by reference.
- 10(a)-4 Amendment, dated November 6, 1990, to Amended and Restated Employment Agreement, between Grossman's Inc. and Maurice Grossman (Exhibit 10(a) above), filed as Exhibit 10(a)-4 to the Company's Annual Report on Form 10-K for the year ended December 31, 1990 (File No. 1-542), is incorporated herein by reference.
- 10(iii)(g) Employment Agreement, dated May 23, 1990, between Grossman's Inc. and Thomas R. Schwarz, filed as Exhibit 10(iii)(g) to the Company's Form 10-Q for the quarter ended June 30, 1990 (File No. 1-542), is incorporated herein by reference.
- 10(iii)(g)-1 Amendment, dated November 6, 1990, to Employment Agreement, between Grossman's Inc. and Thomas R. Schwarz (Exhibit 10(iii)(g) above), filed as Exhibit 10(iii)(g)-1 to the Company's Annual Report on Form 10-K for the year ended December 31, 1990 (File No. 1-542), is incorporated herein by reference.
- 10(iii)(h) Amended and Restated Employment Agreement, dated July 1, 1991,

between Grossman's Inc. and Sydney L. Katz, filed as Exhibit 10(iii)(h) to the Company's Annual Report on Form 10-K for the year ended December 31, 1991 (File No. 1-542), is incorporated herein by reference.

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- 10(iii)(k) Amended and Restated Employment Agreement, dated July 1, 1991, between Grossman's Inc. and Robert L. Flowers, filed as Exhibit 10(iii)(k) to the Company's Annual Report on Form 10-K for year ended December 31, 1991 (File No. 1-542), is incorporated herein by reference.
- 10(iii)(l) Amended and Restated Employment Agreement, dated July 1, 1991, between Grossman's Inc. and Richard E. Kent, filed as Exhibit 10(iii)(l) to the Company's Annual Report on Form 10-K for the year ended December 31, 1993 (File No. 1-542), is incorporated herein by reference.
- 10(iii)(m) Employment Agreement, dated February 1, 1993, between Grossman's Inc. and Alan T. Kane, filed as an unnumbered exhibit to the Company's Form 8-K, dated February 15, 1993 (File No. 1-542), is incorporated herein by reference.
- 10(b) Restated and Amended Grossman's Inc./Evans Asset Holding Company General Pension Plan, filed as Exhibit 10(b) to the Company's Annual Report on Form 10-K for the year ended December 31, 1986 (File No. 1-542), is incorporated herein by reference.
- 10(c) Agreement Re General Pension Plan, dated November 18, 1986, among Evans Products Company, Grossman's Inc., Evans Financial Corp., Evans Transportation Company and Evans Asset Holding Company, filed as Exhibit 10(c) to the Company's Annual Report on Form 10-K for the year ended December 31, 1986 (File No. 1-542), is incorporated herein by reference.
- 10(c)-1 Agreement Re Spin-off of General Pension Plan, dated January 1, 1987, among the Company, Evans Asset Holding Company, Evans Financial Corp. and Evans Transportation Company, filed as Exhibit 10(c)-1 to the Company's Annual Report on Form 10-K for the year ended December 31, 1987 (File No. 1-542), is incorporated herein by reference.
- 10(c)-2 Letter, dated December 30, 1987, documenting certain understandings reached among the Company, Grossman's Inc. Retirement Plan, Evans Asset Holding Company and Evans Asset Holding Company/Grossman's Inc. General Pension Plan, regarding the proper interpretation of the Agreement Re Spin-off of General Pension Plan (Exhibit 10(c)-1 above), filed as Exhibit 10(c)-2 to the Company's Annual Report on Form 10-K for the year ended December 31, 1987 (File No. 1-542), is incorporated herein by reference.
- 10(c)-3 Grossman's Inc. Retirement Plan (Effective January 1, 1987), as amended and restated effective as of January 1, 1989, filed as Exhibit 10(c)-3 to the Company's Annual Report on Form 10-K for year ended December 31, 1988 (File No. 1-542), is incorporated herein by reference.

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- 10(c)-4 Grossman's Inc. Retirement Plan, as amended and restated as of October 2, 1989, effective as of January 1, 1989, filed as Exhibit 10(c)-4 to the Company's Annual Report on Form 10-K for the year ended December 31, 1989 (File No. 1-542), is incorporated herein by reference.

- 10(c)-5 Amendment, adopted October 24, 1989, to the Grossman's Inc. Retirement Plan, as amended and restated as of October 2, 1989 (Exhibit 10(c)-4 above), filed as exhibit 10(c)-5 to the Company's Annual Report on Form 10-K for the year ended December 31, 1989 (File No. 1-542), is incorporated herein by reference.
- 10(c)-6 Amendment, adopted December 12, 1989, to the Grossman's Inc. Retirement Plan, as amended and restated as of October 2, 1989 (Exhibit 10(c)-4 above), filed as exhibit 10(c)-6 to the Company's Annual Report on Form 10-K for the year ended December 31, 1989 (File No. 1-542), is incorporated herein by reference.
- 10(c)-7 Amendment, adopted August 1, 1990, to the Grossman's Inc. Retirement Plan, as amended and restated as of October 2, 1989, filed as Exhibit 10(c)-7 to the Company's Form 10-Q for the quarter ended September 30, 1990 (File No. 1-542), is incorporated herein by reference.
- 10(d) Claim Allocation Agreement, dated November 19, 1986, by and between Evans Asset Holding Company, EFC Mortgage Trust and Grossman's Inc., filed as Exhibit 10(d) to the Company's Annual Report on Form 10-K for the year ended December 31, 1986 (File No. 1-542), is incorporated herein by reference.
- 10(e) EPC Asset Transfer Agreement, dated November 19, 1986, among Evans Products Company, Evans Asset Holding Company, EPC Properties Company, Minneapolis Electric Steel Castings Company, Racine Steel Castings Company, RSC Properties Company, Duluth Steel Castings Company, Aberdeen Forest Products Company and Evans Engineered Products Company, filed as Exhibit 10(e) to the Company's Annual Report on Form 10-K for the year ended December 31, 1986 (File No. 1-542), is incorporated herein by reference.
- 10(f) EFC Asset Transfer Agreement, dated November 19, 1986, among Evans Financial Corp. and EFC Mortgage Trust, filed as Exhibit 10(f) to the Company's Annual Report on Form 10-K for the year ended December 31, 1986 (File No. 1-542), is incorporated herein by reference.
- 10(g) Assumption Agreement, dated November 19, 1986, among Evans Asset Holding Company, EFC Mortgage Trust, Evans Products Company, Evans Financial Corp. and Bank of America National Trust and Savings Association, as agent, filed as Exhibit 10(g) to the Company's Annual Report on Form 10-K for the year ended December 31, 1986 (File No. 1-542), is incorporated herein by reference.

- 10(h) Grossman's Inc. 1986 Nonqualified Stock Option Plan, filed as Exhibit A to the Company's Proxy Statement for the 1987 Annual Meeting of Stockholders, dated September 28, 1987, is incorporated herein by reference.
- 10(h)-1 Amendment, dated December 11, 1990, to 1986 Nonqualified Stock Option Plan, filed as Exhibit 10(h)-1 to the Company's Annual Report on Form 10-K for the year ended December 31, 1990 (File No. 1-542), is incorporated herein by reference.
- 10(h)-2 Amendment, dated January 28, 1992, to 1986 Nonqualified Stock Option Plan, filed as Exhibit 10(h)-2 to the Company's Form 10-Q for the quarter ended March 31, 1992 (File No. 1-542), is incorporated herein by reference.
- 10(i) Grossman's Inc. Executive Severance Plan, filed as Exhibit 10(i) to the Company's Annual Report on Form 10-K for the year ended December 31, 1986 (File No. 1-542), is incorporated herein by reference.

- 10(i)-1 Grossman's Inc. Amended and Restated Executive Severance Plan, dated August 1, 1990, filed as Exhibit 10(i)-1 to the Company's Annual Report on Form 10-K for the year ended December 31, 1990 (File No. 1-542), is incorporated herein by reference.
- 10(i)-2 Amendment, dated November 6, 1990, to Grossman's Inc. Amended and Restated Executive Severance Plan (Exhibit 10(i)-1 above), filed as Exhibit 10(i)-2 to the Company's Annual Report on Form 10-K for the year ended December 31, 1990 (File No. 1-542), is incorporated herein by reference.
- 10(m)-1 Grossman's Inc. Supplemental Executive Retirement Plan, dated January 1, 1992, filed as Exhibit 10(m)-1 to the Company's Annual Report on Form 10-K for the year ended December 31, 1991 (File No. 1-542), is incorporated herein by reference.
- 10(n) Grossman's Savings and Profit Sharing Plan (Effective as of May 1, 1988), dated April 29, 1988, filed as Exhibit 10(c)-4 to the Company's Form 10-Q for the quarter ended June 30, 1988, is incorporated herein by reference.
- 10(n)-1 Amendment, effective as of May 1, 1988, to Grossman's Savings and Profit Sharing Plan (Effective as of May 1, 1988) (Exhibit 10(n) above), dated February 28, 1989, filed as Exhibit 10(n)-1 to the Company's Annual Report on Form 10-K for the year ended December 31, 1988 (File No. 1-542), is incorporated herein by reference.

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- 10(n)-2 Amendment, effective as of September 12, 1989, to Grossman's Inc. Savings and Profit Sharing Plan (Effective as of May 1, 1988) (Exhibit 10(n) above), dated October 24, 1989, filed as Exhibit 10(n)-2 to the Company's Annual Report on Form 10-K for the year ended December 31, 1989 (File No. 1-542), is incorporated herein by reference.
- 10(n)-3 Amendment No. 3 to Grossman's Inc. Savings and Profit Sharing Plan (Effective as of May 1, 1988) (Exhibit 10(n) above), filed as Exhibit 10(n)-3 to the Company's Form 10-K for the year ended December 31, 1990 (File No. 1-542), is incorporated herein by reference.
- 10(n)-4 Amendment No. 4 to Grossman's Inc. Savings and Profit Sharing Plan, dated May 1, 1991, filed as Exhibit 10(n)-4 to the Company's Form 10-Q for the quarter ended March 31, 1991, is incorporated herein by reference.
- 10(o) Grossman's Inc. 1993 Key Employee Stock Option Plan, dated April 27, 1993, filed herewith.
- 11(a) Statement re computation of earnings per share, filed herewith.
- 22 Subsidiaries of the Company, filed as Exhibit 22 to the Company's Annual Report on Form 10-Q for the quarter ended September 30, 1991 (File No. 1-542), is incorporated herein by reference.
- 24(a) Consent of Ernst & Young, Independent Auditors, filed herewith.

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(d) Financial Statement Schedules

<TABLE>

GROSSMAN'S INC. AND SUBSIDIARIES
SCHEDULE V
PROPERTY, PLANT AND EQUIPMENT
(IN THOUSANDS)

<CAPTION>

Classification	Balance at Beginning of Year	Additions at Cost (1) (2)	Sales and Retirements (3)	Balance at End of Year
-----	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>
Year Ended				
December 31, 1993				
Land	\$ 28,117	\$ 163	\$ 2,540	\$ 25,740
Buildings and leasehold improvements	101,382	16,731	14,164	103,949
Machinery and equipment	50,541	16,354	7,886	59,009
Construction in progress(2)	12,589	(10,960)	407	1,222
	-----	-----	-----	-----
Total	\$192,629	\$ 22,288	\$24,997	\$189,920
	=====	=====	=====	=====
Year Ended				
December 31, 1992				
Land	\$ 26,313	\$ 1,990	\$ 186	\$ 28,117
Buildings and leasehold improvements	91,517	11,545	1,680	101,382
Machinery and equipment	45,696	6,707	1,862	50,541
Construction in progress(2)	3,494	9,148	53	12,589
	-----	-----	-----	-----
Total	\$167,020	\$ 29,390	\$ 3,781	\$192,629
	=====	=====	=====	=====
Year Ended				
December 31, 1991				
Land	\$ 24,406	\$ 3,447	\$ 1,540	\$ 26,313
Buildings and leasehold improvements	85,432	9,277	3,192	91,517
Machinery and equipment	47,231	6,486	8,021	45,696
Construction in progress(2)	8,005	(4,300)	211	3,494
	-----	-----	-----	-----
Total	\$165,074	\$ 14,910	\$12,964	\$167,020
	=====	=====	=====	=====

<FN>

- (1) Additions, which include capital lease additions, relate principally to the Company's store remodeling and expansion program, started in 1987, and the opening of new stores.
- (2) Additions to construction in progress are shown net of transfers to other asset classifications.
- (3) Sales and retirements in 1993 include reclassifications to current assets and adjustments to reflect net realizable value for closed stores.

</TABLE>

<TABLE>

GROSSMAN'S INC. AND SUBSIDIARIES
SCHEDULE VI
ACCUMULATED DEPRECIATION, DEPLETION,
AND AMORTIZATION OF PROPERTY,
PLANT AND EQUIPMENT
(in thousands)

<CAPTION>

Description -----	Balance at Beginning of Year -----	Additions Charged to Cost & Expenses -----	Sales and Retirements -----	Balance at End of Year -----
<S>	<C>	<C>	<C>	<C>
Year Ended				
December 31, 1993				
Buildings and leasehold improvements	\$27,527	\$ 2,320	\$ 2,551	\$27,296
Machinery and equipment	30,409	11,113	9,062	32,460
	-----	-----	-----	-----
Total	\$57,936	\$13,433	\$11,613	\$59,756
	=====	=====	=====	=====
Year Ended				
December 31, 1992				
Buildings and leasehold improvements	\$24,187	\$ 3,772	\$ 432	\$27,527
Machinery and equipment	24,198	7,883	1,672	30,409
	-----	-----	-----	-----
Total	\$48,385	\$11,655	\$2,104	\$57,936
	=====	=====	=====	=====
Year Ended				
December 31, 1991				
Buildings and leasehold improvements	\$22,236	\$ 3,347	\$ 1,396	\$24,187
Machinery and equipment	22,743	7,773	6,318	24,198
	-----	-----	-----	-----
Total	\$44,979	\$11,120	\$ 7,714	\$48,385
	=====	=====	=====	=====

</TABLE>

<TABLE>

GROSSMAN'S INC. AND SUBSIDIARIES
SCHEDULE VIII
VALUATION AND QUALIFYING ACCOUNTS
(in thousands)

<CAPTION>

Description -----	Balance at Beginning of Year -----	Additions Charged to Costs and Expenses -----	Deductions (1) -----	Balance at End of Year -----
<S>	<C>	<C>	<C>	<C>
Year Ended				
December 31, 1993				
Allowance for doubtful accounts	\$3,904	\$2,911	\$1,603	\$5,212

Year Ended December 31, 1992				
Allowance for doubtful accounts	\$3,974	\$1,944	\$2,014	\$3,904
Year Ended December 31, 1991				
Allowance for doubtful accounts	\$2,682	\$3,989	\$2,697	\$3,974

<FN>

(1) Write-off of bad debts less recoveries.

</TABLE>

<TABLE>

GROSSMAN'S INC. AND SUBSIDIARIES
SCHEDULE IX
SHORT-TERM BORROWINGS
(in thousands, except percentages)

<CAPTION>

Category of Aggregate Short-term borrowings	Balance at End of Period	Weighted Average Interest Rate	Maximum Amt. Outstanding During the Period	Average Amt. Outstanding During the Period	Weighted Average Interest Rate During the Period (2)
<S>	<C>	<C>	<C>	<C>	<C>
Year Ended December 31, 1993					
Revolving Credit Agreement	\$ -	-	\$36,000	\$21,129	5.9%
Year Ended December 31, 1992					
Revolving Credit Agreement	\$ -	-	\$ -	\$ -	-%
Year Ended December 31, 1991					
Revolving Credit Agreement	\$ -	-	\$13,000	\$ 2,951	8.9%

<FN>

(1) The average amount outstanding during the period was computed based on the total of daily ending principal balances.

(2) The weighted average interest rate during the period was computed by dividing the actual interest expense by average short-term debt outstanding.

</TABLE>

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<TABLE>

GROSSMAN'S INC. AND SUBSIDIARIES
SCHEDULE X
SUPPLEMENTARY INCOME STATEMENT INFORMATION
(in thousands)

<CAPTION>

Item	Charged to Costs and Expenses		
	Year Ended December 31,		
	1993	1992	1991
<S>	<C>	<C>	<C>
Advertising	\$15,129	\$12,923	\$15,144

</TABLE>

Amounts for maintenance and repairs, depreciation and amortization of intangible assets, taxes other than payroll and income taxes, and royalties are not presented as such amounts are less than 1% of total sales and revenues.

SIGNATURES

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

GROSSMAN'S INC.
Company

Date: March 16, 1994

By /s/ Sydney L. Katz

Sydney L. Katz
Executive Vice President,
Chief Financial Officer and Treasurer

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 Company and in the capacities and on the dates indicated.

Signature	Title	Date
<S>	<C>	<C>
	Chairman of the Board and Chief Executive Officer	March 16, 1994
/s/ Thomas R. Schwarz	Executive Officer and Director (Principal Executive Officer)	
Thomas R. Schwarz		
	Executive Vice President, Chief Financial Officer and Treasurer and Director (Principal Financial Officer)	March 16, 1994
/s/ Sydney L. Katz		
Sydney L. Katz		
/s/ Steven L. Shapiro	Controller (Principal Accounting Officer)	March 16, 1994
Steven L. Shapiro		
/s/ Russell Cox	Director	March 16, 1994
Russell Cox		
/s/ John Grey	Director	March 16, 1994
John Grey		
/s/ Maurice Grossman	Director	March 16, 1994
Maurice Grossman		
/s/ Leo Kahn	Director	March 16, 1994
Leo Kahn		
/s/ W. Wallace McDowell, Jr.	Director	March 16, 1994
W. Wallace McDowell, Jr.		

/s/ Robert Swanson ----- Robert Swanson	Director	March 16, 1994
/s/ Harold Tanner ----- Harold Tanner	Director	March 16, 1994
/s/ Abraham Zaleznik ----- Dr. Abraham Zaleznik	Director	March 16, 1994
/s/ Stephen B. Oresman ----- Stephen B. Oresman	Director	March 16, 1994

</TABLE>

Notice to Stockholders of extension of restrictions on acquisition of Common Stock pursuant to Article Ninth of the company's Restated Certificate of Incorporation.

Notice of Extension of Restrictions
on Accumulation of Common Stock

TO ALL Holders of Common Stock of Grossman's Inc.:

In order to assist in protecting the Company's tax net operating loss carryover and investment tax credit carryover, Article Ninth of the Company's Restated Certificate of Incorporation contains provisions restricting the acquisition of shares of the Company's Common Stock by any person (including any partnership, corporation or other entity). In general, Article Ninth, as previously modified and extended by the Board of Directors, provides that no person may, voluntarily or involuntarily, acquire any shares of Common Stock on or prior to December 31, 1993, (or such later date as may be determined by the Board of Directors), if the number of shares owned by such person (actually or constructively under certain attribution rules) would be more than 5% of the outstanding Common Stock.

As of December 31, 1992, the Company had unexpired tax net operating loss carryovers of approximately \$176 million and investment tax credit carryovers of approximately \$4 million, the availability of which to offset liability for future federal income taxes would be jeopardized by increases in stock ownership by 5% shareholders under applicable Internal Revenue Code rules. Accordingly, at its meeting on November 15, 1993, the Board of Directors of the Company extended the restrictions of Article Ninth on the accumulation of common Stock for a further three-year period to December 31, 1996, subject to further extension or earlier termination, and to further modification, by the Board of Directors in accordance with Article Ninth. A copy of the resolutions adopted by the Board of Directors is enclosed herewith.

A copy of Article Ninth, as so modified and extended, is available without charge upon application to the Secretary of the Company.

By order of the Board of Directors,

/s/ Richard E. Kent, Secretary

Richard E. Kent, Secretary

Enclosure

Dated: November 18, 1993

Certificate of Designation Relating to Certain Restrictions on the Acquisition of Common Stock pursuant to Article Ninth of the Company's Restated Certificate of Incorporation.

GROSSMAN'S INC.

RESOLUTION EXTENDING
ARTICLE NINTH TO RESTATED
CERTIFICATE OF INCORPORATION

RESOLVED, that pursuant to Paragraphs A and I of Article Ninth of the Restated Certificate of Incorporation of the Company, the period of time during which the restrictions on acquisition of the Company's Common Stock contained in such Paragraph A (as heretofore modified and extended) shall apply, be and it hereby is further extended to December 31, 1996, subject to further extension or earlier termination, and to further modification, in accordance with said Paragraph I by resolution of the Board of Directors of the Company; and

FURTHER RESOLVED, that this Board of Directors hereby determines that the foregoing extension of such restrictions is necessary to preserve the Company's Net Operating Loss Carryover and Investment Tax Credit Carryover by virtue of the amendment of the applicable provisions of the Internal Revenue Code effected by the Tax Reform Act of 1986; and

FURTHER RESOLVED, that copies of the foregoing resolution shall be filed with the Secretary of the Company and mailed to all stockholders of the Company within ten days after the date hereof.

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EXHIBIT 4 (n)

First Amendment, dated December 14, 1993, to Term Loan and Security Agreement between Grossman's Inc. and Sanwa Business Credit Corporation, dated October 15, 1991.

FIRST AMENDMENT TO TERM LOAN AND SECURITY AGREEMENT

THIS FIRST AMENDMENT TO TERM LOAN AND SECURITY AGREEMENT (this "Amendment") is made as of this 15th day of December, 1993, by and between GROSSMAN'S, INC., a Delaware corporation ("Borrower"), and SANWA BUSINESS CREDIT CORPORATION, a Delaware corporation ("Lender").

BACKGROUND

A. Borrower and Lender are parties to a Term Loan and Security Agreement dated October 15, 1991 (including all exhibits and riders thereto and as supplemented and amended from time to time referred to herein as the "Loan Agreement").

B. Borrower has or is about to close and cease to operate its Danvers, Massachusetts location and as a consequence pursuant to Section 3.8 of the Loan Agreement, Borrower must either (i) immediately prepay the outstanding principal balance of the Note plus all accrued interest or (ii) subject to the approval of Lender, substitute as Collateral another of its locations having a minimum appraised value equal to at least Four Million Seven Hundred Fifty Thousand and No/100 Dollars (\$4,750,000.00). Borrower has advised Lender that it is unable to substitute suitable Collateral.

C. Borrower has requested Lender to waive the requirement that it immediately prepay the outstanding principal balance of the Note and to waive certain defaults that will be created by the Danvers closing and certain other store closings.

D. Lender has considered Borrower's requests and is amenable to such requests provided that Borrower executes this Amendment and complies with all of the terms and conditions contained therein.

NOW, THEREFORE, in consideration of the premises set forth above and the mutual covenants and promises contained in this Amendment, Borrower and Lender agree as follows:

1. Amendment to Loan Agreement. Effective as of the date hereof and subject to the conditions set forth in Paragraph 4, Lender and Borrower agree to amend the Loan Agreement as follows:

(a) Section 1.1 Terms Defined. Section 1.1 of the Loan Agreement is amended as follows:

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(i) By adding alphabetically the following definitions thereto:

"Account" means the Borrower's right to payment for a sale or lease and delivery of goods or rendition of services in the ordinary course of the Borrower's business.

"Account Debtor" means each Person obligated in any way on or in connection with an Account.

"Adjusted Net Earnings from Operations" means, with respect to any fiscal period of the Borrower, the consolidated net income of the Borrower and its Subsidiaries after provision for income taxes for such fiscal period, as determined in accordance with GAAP and reported on the Financial Statements for such period, less any and all of the following included in such net income: (a) gain or loss arising from the sale of capital assets; (b) gain arising from any write-up in the book value of any asset; (c) earnings of any corporation, substantially all the assets of which have been acquired by the Borrower or any of its Subsidiaries in any manner, to the extent realized by such other corporation prior

to the date of acquisition; (d) earnings of any business entity in which the Borrower or any of its Subsidiaries has an ownership interest unless (and only to the extent) such earnings shall actually have been received by the Borrower or such Subsidiary in the form of cash distributions; (e) earnings of any Person to which assets of the Borrower or any of its Subsidiaries shall have been sold, transferred or disposed of, or into which the Borrower or any of its Subsidiaries shall have been merged, or which has been a party with the Borrower to any consolidation or other form of reorganization, prior to the date of such transaction; (f) gain arising from the acquisition of debt or equity securities of the Borrower or any of its Subsidiaries or from cancellation or forgiveness of Debt; (g) gain or loss arising from extraordinary items or from any other non recurring transaction, as determined in accordance with GAAP; and (h) losses of Construento de America, S.A. De C.V.

"Adjusted Tangible Assets" means all of the assets of the Borrower and its Subsidiaries on a consolidated basis except: (a) deferred assets (other than prepaid insurance, prepaid taxes and other assets constituting items prepaid by the

Borrower or any of its Subsidiaries in the ordinary course of its business) in excess of \$500,000; (b) patents, copyrights, trademarks, trade names, franchises, goodwill, and other similar intangibles; (c) Restricted Investments; (d) unamortized debt discount and expense; (e) assets of the Borrower or any of its Subsidiaries constituting Intercompany Accounts; and (f) fixed assets to the extent of any write-up in the book value thereof resulting from a revaluation effective after the date hereof.

"Adjusted Tangible Net Worth" means, at any date: (a) the book value after deducting related depreciation, obsolescence, amortization, valuation, and other proper reserves as determined in accordance with GAAP) at which the Adjusted Tangible Assets would be shown on a balance sheet of the Borrower and its Subsidiaries on a consolidated basis at such date prepared in accordance with GAAP; less (b) the amount

at which the Borrower's and its Subsidiaries, liabilities on a consolidated basis would be shown on such balance sheet; provided, that Adjusted Tangible Net Worth shall exclude the effect of the establishment (or reversal) after the date hereof of a minimum pension liability in accordance with the Financial Accounting Standards Board's Statement of Financial Account Standards No. 87; and shall additionally exclude any net gain from the sale of the Borrower's corporate headquarters at 200 Union Street, Braintree, Massachusetts.

"Intercompany Accounts" means all assets and liabilities, however arising, which are due to the Borrower from, which are due from the Borrower to, or which otherwise arise from any transaction by the Borrower with, any Affiliate.

"Restricted Investment" means any acquisition of Property by the Borrower or any of its Subsidiaries in exchange for cash or other Property, whether in the form of an acquisition of stock, indebtedness or other obligation, or by loan, advance, capital contribution, or otherwise, except the following:

(a) Property to be used in the business of the Borrower and its Subsidiaries;

(b) current assets arising from the sale or lease of goods or rendition of services in the ordinary course of business of the Borrower and its Subsidiaries;

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(c) if no Revolving Loans are outstanding at the time of the acquisition, direct obligations of the United States of America, or any agency thereof, or obligations of the United States of America, or any agency thereof, or obligations guaranteed by the United States of America, provided that such obligations mature within one year from the date of acquisition thereof;

(d) if no Revolving Loans are outstanding at the time of the acquisition, certificates of deposit or time deposits maturing within one

year from the date of acquisition in each case issued by, created by, or with a bank or trust company organized under the laws of the United States (including overseas branches thereof, provided, that such branches are not treated as entities separate and apart therefrom) or any state thereof having capital and surplus aggregating at least \$100,000,000;

(e) if no Revolving Loans are outstanding at the time of the acquisition, commercial paper given the highest rating by a national credit agency and maturing not more than 270 days from the date of creation thereof;

(f) consistent with historic practices of the Borrower with respect to its cash management practices, (x) overnight bank deposits with a bank or trust company organized under the laws of the United States (including overseas branches thereof, provided, that such branches are not treated as entities separate and apart therefrom) or any state thereof having capital and surplus aggregating at least \$100,000,000 and (y) repurchase agreements with a term of not more than seven days for underlying securities of the types described in clauses (c) and (d) above, entered into with any bank with securities dealers of recognized national standing, provided, that the terms of such agreements comply with the guidelines set forth in the Federal Financial Institutions Examination Council Supervisory Policy Repurchase Agreements of Depository Institutions with Securities Dealers and Others as adopted by the Comptroller of the Currency on October 31, 1985 (the "Supervisory Policy"), and provided, further, that possession or control of the underlying securities is established as provided in the Supervisory Policy;

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(g) investments as of the date hereof by the Borrower in any of its Subsidiaries existing on the date hereof and additional investments therein not to exceed \$5,000,000 in the aggregate;

(h) investments as of the date hereof by the Borrower in Construentro De America, S.A. De C.V. and additional investments by the Borrower therein not to exceed \$5,000,000 in the aggregate;

(i) investments consisting of loans or advances by the Borrower and its Subsidiaries to its employees in the ordinary course of business of the Borrower and its Subsidiaries not in excess of \$1,000,000 in the aggregate outstanding at any time for the Borrower and its Subsidiaries; and

(j) other investments by the Borrower not exceeding \$500,000 in the aggregate.

(ii) By deleting the following definitions:

"Consolidated Current Assets"
"Consolidated Current Liabilities"
"Consolidated Fixed Charges"
"Consolidated Funds Available for Fixed Charges"
"Consolidated Net Income"
"Consolidated Tangible Assets"
"Consolidated Tangible Net Worth"
"Funded Debt"
"Subordinated Funded Debt"

(iii) By amending certain definitions to read as follows:

"Revolving Credit Agreement" shall mean that certain Loan and Security Agreement dated December 15, 1993, as amended from time to time, and all documents related thereto between Borrower and the Revolving Credit Lender, copies of which have been provided to Lender, or any replacement thereof."

"Revolving Credit Lender" shall mean BankAmerica Business Credit Inc., a national banking association, having an office at 40 East 52nd Street, New York, NY 10022 or any placement thereof."

"Subsidiary" shall mean any present or future corporation or other entity of which the Borrower owns, directly or indirectly, more than 50% of the

voting stock or other voting equity interest (other than voting stock or other voting equity interest which has voting rights only by reason of the happening of a contingency.

(b) Section 1.3 Other Terms. The first sentence of Section 1.3 of the Loan Agreement is amended to read as follows:

"All undefined terms contained in Section 1.1 of this Agreement shall, unless the context indicates otherwise, have the meanings provided for by the Revolving Credit Agreement, and any other undefined terms contained in this Agreement shall, unless the context indicates otherwise, have the meanings provided for by the Code to the extent the same are used or defined therein."

(c) Section 2.2 Repayment of Term Loan; Interest Payments. Section 2.2(a) of the Loan Agreement is amended in full to read as follows:

"(a) Payments of principal and interest due on the Term Note shall be made in five (5) installments, the first four (4) of which shall be in the amount of Ninety Three Thousand Seven Hundred and Fifty Dollars (\$93,750.00) each plus interest on the principal balance of the Term Loan from time to time remaining unpaid, calculated at the Original Interest Rate as set forth in Section 2.4 below, and the final installment shall be in an amount equal to the sum of the then outstanding principal amount of the Term Loan and all accrued and unpaid interest thereon calculated at the Original Interest Rate, such payments commencing on the 15th day of January, 1994 and continuing on the same day of April, July and October, 1994, with the final payment due and payable on October 31, 1994, or if earlier, on the date Borrower closes the sale of its Danvers, Massachusetts facility."

(d) Section 2.3 Prepayments. No Prepayment Fee shall be due and payable pursuant to Section 2.3 of the Loan Agreement if payment of the Term Loan is made as provided in Section 2.2 of the Loan Agreement, as amended.

(e) Section 2.4 Interest. All references in Section 2.4 of the Loan Agreement to the Thirty Two-Month Treasury Note interest rate and the Five Year Interest Rate are deleted.

(f) Section 3.7 Maintenance and Disposition of Equipment.

Notwithstanding anything to the contrary contained in Section 3.7 of the Loan Agreement, so long as no Event of Default exists at the time of the intended disposition of the Equipment located at the Borrower's Danvers, Massachusetts facility, Borrower may move the Equipment located at its Danvers, Massachusetts facility to any of its other locations without notice or any accounting thereof to Lender. All cash proceeds received from the disposition of Equipment will be promptly delivered to Lender for application to the Obligations.

(g) Section 3.8 Substitution of Collateral. Lender

hereby waives (effective as of such time as this Amendment shall become effective) the prepayment or substitution of Collateral requirement contained in Section 3.8 in connection with the closing of its Danvers, Massachusetts facility. All other requirements of Section 3.8 shall remain in full force and effect.

Article 7 Financial Covenants. Article 7 of the Loan Agreement is amended in full to read as follows:

"Borrower covenants and agrees that as at the end of each month after the date hereof (as provided below) and so long as any of the Obligations of Borrower to Lender under this Agreement exist or this Agreement remains in effect, unless otherwise consented to by Lender in writing:

<TABLE>

7.1 Minimum Interest Coverage. The Borrower shall not permit the ratio (the "Interest Coverage Ratio) of (a) Adjusted Net Earnings from Operations for any period specified below plus interest expense of the Borrower and its Subsidiaries for such period and provision for income taxes of the Borrower and its Subsidiaries for such period plus depreciation and amortization expense of the Borrower and its Subsidiaries for such period to (b) interest expense of the Borrower and its Subsidiaries for such period to be less than the ration set forth opposite any such period:

<CAPTION>

Period	Ratio
<S> Second fiscal quarter of 1994 Fiscal Year	<C> 4.7/1
Third fiscal quarter of 1994 Fiscal Year	6.4/1

</TABLE>

7.2 Adjusted Tangible Net Worth. The Borrower shall

not permit Adjusted Tangible Net Worth to be less than the following amounts at any time during any of the following respective periods or on any of the following respective dates, as appropriate:

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<TABLE>
<CAPTION>

Period or Date <S>	Amount <C>
First fiscal quarter of 1994 Fiscal Year	\$78,500,000
Second fiscal quarter of 1994 Fiscal Year (other than last day of such quarter)	78,000,000
Last day of second fiscal quarter of 1994 Fiscal Year	81,800,000
Third fiscal quarter of 1994 Fiscal Year (other than last day of such quarter)	83,100,000
Last day of third fiscal quarter of 1994 Fiscal Year	88,200,000"

</TABLE>

(h) Section 8.2 Officers' Certificate. Section 8.2 of the Loan Agreement is hereby amended to add a new subsection 8.2.1 at the end of said Section 8.2, as follows:

"8.2.1 Additional Information and Compliance Certificates. In addition to the Officers' Certificate required by Section 8.2 above, Borrower shall submit to Lender monthly within 25 days of the end of each month, except March, June and September which will be within 55 days of the end of the quarter, commencing with the month ending December 31, 1993, a covenant compliance certificate in the form required by Section 8.2. The monthly certificates will be accompanied by monthly financial statements in the form and type required by Section 8.1(a) (1) and (2), together with a statement of cash flow (in the form requested by Lender). Borrower shall also submit to Lender a copy of the monthly compliance certificate Borrower is supplying to the Revolving Credit Lender simultaneously with the delivery

of such certificate to the Revolving Credit Lender."

(i) Section 12.3 Notices. The reference in Section 12.3 of the Loan Agreement to Jenner & Block is hereby deleted and the following is substituted therefor:

Fagel & Haber
140 S. Dearborn, Suite 1400
Chicago, Illinois 60603
Attn: James B. Gottlieb

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2. Waiver of Defaults. Lender hereby waives (effective as of such time as this Amendment shall become effective) the occurrence of an Event of Default on account of Borrower's failure to comply with any of the financial covenants contained in Sections 7.1 through 7.5 of the Loan Agreement (as existed prior to the effective date of this Amendment) and any Event of Default created or that may hereafter be created on account of Borrower's failure to occupy the Danvers, Massachusetts Collateral Location.

3. Fees.

(a) Borrower shall pay to Lender an extension fee (the "Extension Fee") in the amount of \$100,000.00, which Extension Fee shall be payable on the date of this Amendment.

(b) Borrower agrees to pay Lender an accelerating charge (the "Accelerating Charge") for each month that the Term Loan remains unpaid, commencing with \$7,000.00 in January, 1994 and increasing by \$1,000.00 each month thereafter (e.g., \$8,000.00 in February, \$9,000.00 in March and so forth), which Accelerating Charge shall be payable on the 15th day of each month it is due.

(c) Borrower agrees to pay all fees and expenses of Lender in connection with the preparation of this Amendment and all other documents related thereto, including without limitation all attorneys' fees and expenses (including any title or search fees and recordation taxes) incurred in connection with the negotiation and preparation of this Amendment and all other documents related thereto.

4. Effectiveness of Amendment. This Amendment shall become effective and be deemed effective as of the date hereof provided that on or before such date, Lender shall have received (a) (i) three (3) copies of this Amendment executed by Borrower,

(ii) one (1) copy of a Note Modification Agreement executed by Borrower in the form attached to this Amendment as Exhibit A, (iii) a Certificate of the Secretary of Borrower certifying Resolutions adopted by the Board of Directors of Borrower authorizing the transactions and documentation and documents entered into in connection with this Amendment, (iv) the Restructuring Fee by federal funds wire transfer, (v) all other documents, instruments and agreements reasonably requested by Lender, and (b) Borrower shall have entered into the Revolving Credit Agreement with the Revolving Credit Lender and shall have satisfied all the conditions precedent for the initial borrowings thereunder.

5. Amendments to Mortgages. If requested by Lender, Borrower will execute and deliver to Lender amendments to the Mortgages referred to in Section 9.4 of the Loan Agreement in the form reasonably requested by Lender within five (5) Business Days after the delivery of such mortgage amendment documents to Borrower, together with any documents related thereto that Lender may reasonably request.

6. To induce Lender to amend the Loan Agreement, Borrower represents and warrants to Lender that:

(a) Compliance with Loan Agreement. On the date hereof, Borrower is in compliance with all of the terms and provisions set forth in the Loan Agreement (as modified by this Amendment) and no Event of Default specified in Section 10.1 of the Loan Agreement, nor any event which, upon notice or lapse of time or both, would constitute such an Event of Default, has occurred.

(b) Representations and Warranties. On the date hereof, the representations and warranties set forth in Article 4 of the Loan Agreement (as modified by this Amendment) are true and correct with the same effect as though such representations and warranties had been made on the date hereof, except to the extent that such representations and warranties expressly relate to an earlier date.

(c) Corporate Authority of Borrower. Borrower has the full power and authority to enter into this Amendment, to make the borrowings under the Loan Agreement as amended by this

Amendment, and to incur and perform the obligations provided for under the Loan Agreement and this Amendment, all of which have been duly authorized by all proper and necessary corporate action. No consent or approval of shareholders or of any public authority or regulatory body is required as a condition to the validity or enforceability of this Amendment.

(d) Amendment as Binding Agreement. This Amendment constitutes the valid and legally binding obligations of Borrower, fully enforceable against Borrower in accordance with its terms.

(e) No Conflicting Agreements. The execution and performance by Borrower of this Amendment and the borrowings by Borrower under the Loan Agreement, as amended, will not (i) violate any provision of law, any order of any court or other agency of government, or the Charter or By-Laws of Borrower, or (ii) violate any indenture, contract, agreement or other instrument to which Borrower is a party, or by which its property is bound, or be in conflict with, result in a breach of or constitute (with due notice and/or lapse of time) a

default under, any such indenture, contract, agreement or other instrument or result in the creation or imposition of any lien, charge or encumbrance of any nature whatsoever upon any of the property or assets of Borrower.

7. Effect Upon Loan Agreement.

(a) Except as specifically set forth in Paragraph 1, (i) the Loan Agreement shall remain in full force and effect and is hereby ratified and confirmed; (ii) the rights and obligations of the parties set forth in the Loan Agreement remain unchanged; and (iii) the execution, delivery and performance of this Amendment shall not operate as a waiver of any right, power or remedy of the Lender under the Loan Agreement, and shall not constitute a waiver of any provision of the Loan Agreement.

(b) Borrower and Lender hereby agree that this Amendment shall not be construed as an agreement to substitute a new obligation or to extinguish the obligations under the Loan Agreement and shall not constitute a novation of the obligations of Borrower under the Loan Agreement.

8. Capitalized Terms. The capitalized terms used

in this Amendment shall have the same meanings ascribed to them in the Loan Agreement unless otherwise defined herein.

9. Governing Law. This Amendment has been delivered and shall be deemed to have been made at Chicago, Illinois and shall be interpreted, and the rights and liabilities of the parties hereto determined, in accordance with the internal laws (as opposed to the conflicts of law provisions) of the State of Illinois.

10. Section Titles. The section title contained in this Amendment are and shall be without substance, meaning or content of any kind whatsoever and are not a part of the agreement between the parties.

11. Counterparts. This Amendment may be executed in any number of counterparts, each of which, when so executed and delivered, shall be an original, but such counterparts shall together constitute but one and the same Amendment.

IN WITNESS WHEREOF, the parties to this Agreement, have executed it as of the day and year set forth above.

BORROWER:

GROSSMAN'S, INC.

By: /s/ Arthur S. Ryan

Its: Vice President - Assistant Treasurer

LENDER:

SANWA BUSINESS CREDIT CORPORATION

By: /s/ Peter Skavla

Its: Regional Credit Manager

Loan and Security Agreement between Grossman's Inc. and BankAmerica Business Credit, Inc. dated December 15, 1993 (without exhibits).

LOAN AND SECURITY AGREEMENT

between

GROSSMAN'S INC.

as Borrower

and

BANKAMERICA BUSINESS CREDIT, INC.

as Lender

Dated as of December 15, 1993

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LOAN AND SECURITY AGREEMENT, dated as of December 15, 1993, between BANKAMERICA BUSINESS CREDIT, INC., a Delaware corporation with offices at 40 East 52nd Street, New York, New York 10022 (the "Lender"), and GROSSMAN'S INC., a Delaware corporation, with offices at 200 Union Street, Braintree, Massachusetts 02184 (the "Borrower").

W I T N E S S E T H

WHEREAS, the Borrower has requested the Lender to make available to the Borrower a revolving line of credit for loans and letters of credit in an aggregate amount not to exceed \$60,000,000 outstanding at any one time, which revolving line of credit the Borrower will use to refinance certain existing debt and for its ongoing working capital needs;

NOW, THEREFORE, in consideration of the mutual conditions and agreements set forth in this Agreement, and for good and valuable consideration, the receipt of which is hereby acknowledged, the Borrower and the Lender hereby agree as follows:

1. DEFINITIONS.

1.1 Defined Terms. As used herein:

"Account" means the Borrower's right to payment for a sale or lease and delivery of goods or rendition of services in the ordinary course of the

Borrower's business.

"Account Debtor" means each Person obligated in any way on or in connection with an Account.

"Adjusted Net Earnings from Operations" means, with respect to any fiscal period of the Borrower, the consolidated net income of the Borrower and its Subsidiaries after provision for income taxes for such fiscal period, as determined in accordance with GAAP and reported on the Financial Statements for such period, less any and all of the following included in such net income: (a) gain or loss arising from the sale of capital assets; (b) gain arising from any write-up in the book value of any asset; (c) earnings of any corporation, substantially all the assets of which have been acquired by the Borrower or any of its Subsidiaries in any manner, to the extent realized by such other corporation prior to the date of acquisition; (d) earnings of any business entity in which the Borrower or any of its Subsidiaries has an ownership interest unless (and only to the extent) such earnings shall actually have been received by the Borrower or such Subsidiary in the form of cash distributions; (e) earnings of any Person to which assets of the Borrower or any of its Subsidiaries shall have been sold, transferred or disposed of, or into which the Borrower or any of its Subsidiaries shall have been merged, or which has been a party with the Borrower to any consolidation or other form of reorganization, prior to the date of such transaction; (f) gain arising from the acquisition of debt or equity securities of the Borrower or any of its Subsidiaries or from cancellation or forgiveness of Debt; (g) gain or loss

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arising from extraordinary items or from any other non-recurring transaction, as determined in accordance with GAAP; and (h) losses of Construentro De America, S.A. De C.V., a Mexican corporation.

"Adjusted Tangible Assets" means all of the assets of the Borrower and its Subsidiaries on a consolidated basis except: (a) deferred assets (other than prepaid insurance, prepaid taxes and other assets constituting items prepaid by the Borrower or any of its Subsidiaries in the ordinary course of its business) in excess of \$500,000; (b) patents, copyrights, trademarks, trade names, franchises, goodwill, and other similar intangibles; (c) Restricted Investments; (d) unamortized debt discount and expense; (e) assets of the Borrower or any of its Subsidiaries constituting Intercompany Accounts; and (f) fixed assets to the extent of any write-up in the book value thereof resulting from a revaluation effective after the date hereof.

"Adjusted Tangible Net Worth" means, at any date: (a) the book value (after deducting related depreciation, obsolescence, amortization, valuation, and other proper reserves as determined in accordance with GAAP) at which the Adjusted Tangible Assets would be shown on a balance sheet of the Borrower and its Subsidiaries on a consolidated basis at such date prepared in accordance with GAAP; less (b) the amount at which the Borrower's and its Subsidiaries' liabilities on a consolidated basis would be shown on such balance sheet; provided, that "Adjusted Tangible Net Worth" shall exclude the effect of the establishment (or reversal) after the date hereof of a minimum

pension liability in accordance with the Financial Accounting Standards Board's Statement of Financial Accounting Standards No. 87 and shall additionally exclude any net gain from the sale of the Borrower's corporate headquarters at 200 Union Street, Braintree, Massachusetts.

"Affiliate" means a Person (other than the Lender or an affiliate of the Lender) (a) which, directly or indirectly, controls, is controlled by or is under common control with, the Borrower; (b) which beneficially owns or holds, directly or indirectly, five percent (5%) or more of any class of voting stock of the Borrower; or (c) five percent (5%) or more of any class of the voting stock (or if such person is not a corporation, five percent (5%) or more of the equity interest) of which is beneficially owned or held, directly or indirectly, by the Borrower. The term control (including the terms "controlled by" and "under common control with") means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of the Person in question.

"Availability" means:

(a) the lesser at any point in time of: (i) \$60,000,000 or (ii) the sum of (A) fifty percent (50%) of the Net Amount of Eligible Accounts of the Borrower plus (B) an amount equal to fifty percent (50%) of the value of Eligible Inventory of the Borrower, calculated in accordance with GAAP at the lower of average cost (determined in accordance with the Borrower's accounting practices) or market value plus (C) an amount equal to fifty percent (50%) of the undrawn amount of all Letters of Credit issued to secure the payment by the Borrower of the purchase price of inventory purchased by the Borrower in the ordinary course of its business, minus

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(b) the sum of: (i) the unpaid principal balance of Revolving Loans at that time plus the amount, if any, of (A) amounts drawn under the Letters of Credit to the extent not already included in the Revolving Loans, and (B) the undrawn amount of all Letters of Credit plus (ii) reserves, in the Lender's sole discretion, for accrued interest on the Revolving Loans plus (iii) subject to the provisions of Section 6.2(b), reserves with respect to rent payments due and owing by the Borrower relating to premises leased by the Borrower for which a landlord's waiver, in form and substance satisfactory to the Lender, has not been obtained plus (iv) reserves for rebates due the Borrower on Inventory purchases made by the Borrower and reserves for shrinkage of Inventory (in each instance in this clause (v) to the extent not reflected in the valuation of such Inventory as provided in clause (a) (ii) (B) above) plus (v) all other reserves which the Lender in its sole discretion (exercised in good faith) deems necessary or desirable to maintain with respect to the Borrower's account, including, without limitation, any amounts which the Lender may be obligated to pay in the future for the account of the Borrower.

"Borrower" has the meaning specified in the preamble to this Agreement.

"Business Day" means any day that is not a Saturday, Sunday, or day on which banks in New York City are required or permitted to close except that if

any determination of a "Business Day" shall relate to a Eurodollar Rate Loan, the term "Business Day" shall in addition exclude any day on which banks are not open for dealings in dollar deposits in the London interbank market.

"Capital Expenditures" means all payments due (whether or not paid) during a Fiscal Year in respect of the cost of any fixed asset or improvement, or replacement, substitution, or addition thereto, which have a useful life of more than one year, including, without limitation, those arising in connection with the direct or indirect acquisition of such assets by way of increased product or service charges or offset items, but excluding those arising in connection with Capital Leases.

"Capital Lease" means any lease of Property by the Borrower or any of its Subsidiaries that, in accordance with GAAP, should be reflected as a liability on the balance sheet of the Borrower or such Subsidiary.

"Change of Control" means such time as (i) any Person or group of Persons acting as a group shall have acquired beneficial ownership (within the meaning of Rule 13d-3 of the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended), directly or indirectly, of fifty percent (50%) or more of the voting capital stock of the Borrower, whether through a stock purchase, merger, consolidation or other transaction, or (ii) (x) any Person or group of Persons acting as a group shall have acquired beneficial ownership (within the meaning of Rule 13d-3 of the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended), directly or indirectly, of twenty percent (20%) or more of the voting capital stock of the Borrower, whether through a stock purchase, merger, consolidation or other transaction, (y) Mr. Sydney Katz shall no longer be employed by the Borrower as the Chief Financial Officer of the Borrower having substantially the same responsibilities as he has on the date hereof and (z) within 90 days after the

date Mr. Sydney Katz is no longer so employed by the Borrower, one or more persons reasonably satisfactory to the Lender shall not have assumed such position and responsibilities.

"Claim" has the meaning specified in Section 13.8.

"Closing Date" means the earlier of the date of the making of the first Revolving Loan hereunder or the date of the issuance of the first Letter of Credit hereunder.

"Code" means the Internal Revenue Code of 1986, as amended.

"Collateral" has the meaning given to such term in Section 6.1.

"Commitment Fee" has the meaning specified in Section 3.4.

"Confidential Information" has the meaning given to such term in Section 13.13.

"Debt" means all liabilities, obligations and indebtedness of the

Borrower or any Subsidiary of the Borrower to any Person, of any kind or nature, now or hereafter owing, arising, due or payable, howsoever evidenced, created, incurred, acquired or owing, whether primary, secondary, direct, contingent, fixed or otherwise. Without in any way limiting the generality of the foregoing, Debt shall specifically include the following:

(i) the Borrower's or any of its Subsidiaries' liabilities and obligations to trade creditors;

(ii) all Obligations;

(iii) all obligations and liabilities of any Person secured by any Lien on the Borrower's or any of its Subsidiaries' Property, even though the Borrower or such Subsidiary shall not have assumed or become liable for the payment thereof; provided, however, that all such obligations and liabilities which are limited in recourse to such Property shall be included in Debt only to the extent of the book value of such Property as would be shown on a balance sheet of the Borrower or such Subsidiary, as the case may be, prepared in accordance with GAAP;

(iv) all obligations and liabilities created or arising under any Capital Lease or conditional sale or other title retention agreement with respect to Property used or acquired by the Borrower or any Subsidiary of the Borrower, even if the rights and remedies of the lessor, seller or lender thereunder are limited to repossession of such Property; provided, however, that all such obligations and liabilities which are limited in recourse to such Property shall be included in Debt only to the extent of the book value of such Property as would be shown on a balance sheet of the Borrower or such Subsidiary, as the case may be, prepared in accordance with GAAP;

(v) all accrued pension fund and other employee benefit plan obligations and liabilities;

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(vi) all obligations and liabilities under Guaranties; and

(vii) deferred taxes.

"Debt for borrowed money" means Debt for borrowed money or as evidenced by notes, bonds, debentures or similar evidences of any such Debt of such Person, the deferred and unpaid purchase price of any property or business (other than trade accounts payable incurred in the ordinary course of business and constituting current liabilities), and all obligations under Capital Leases.

"Distribution" means, in respect of any corporation: (a) the payment or making of any dividend or other distribution of Property in respect of capital stock of such corporation, other than distributions in capital stock of the same class (or in rights to acquire such capital stock); and (b) the redemption or other acquisition of any capital stock of such corporation.

"Eligible Accounts" means those Accounts which are not ineligible as the

basis for Revolving Loans and Letters of Credit, based on the following criteria and on such other criteria as the Lender may from time to time establish in its sole discretion. Without intending to limit the Lender's discretion to establish other criteria of eligibility, Eligible Accounts shall not include any Account:

(a) with respect to which more than 120 days have elapsed since the date of the original invoice therefor or with respect to which more than 90 days have elapsed since the original date on which payment was due;

(b) of a customer for which, as to at least 50% of the aggregate gross amount of such Accounts owing from such customer, more than 120 days have elapsed from their respective original invoice dates or more than 90 days have elapsed from the respective original dates on which payment was due;

(c) with respect to which any of the representations, warranties, covenants, and agreements contained in this Agreement are not or have ceased to be complete and correct or have been breached;

(d) with respect to which, in whole or in part, a check or other instrument for the payment of money has been received, presented for payment and returned (and remains) uncollected for any reason;

(e) which represents a Progress Billing or as to which the Borrower has extended the time for payment without the consent of the Lender;

(f) as to which any one or more of the following events has occurred with respect to the Account Debtor on such Account: death or judicial declaration of incompetency of an Account Debtor who is an individual; the filing by or against the Account Debtor of a request or petition for liquidation, reorganization, arrangement, adjustment of debts, adjudication as a bankrupt, winding-up, or other relief under the bankruptcy, insolvency, or similar laws of the United States, any state or territory thereof, or any foreign jurisdiction, now or hereafter in effect; the making of any general assignment by the Account Debtor for the benefit of creditors; the appointment

of a receiver or trustee for the Account Debtor or for any of the assets of the Account Debtor; the institution by or against the Account Debtor of any other type of insolvency proceeding (under the bankruptcy laws of the United States or otherwise) or of any formal or informal proceeding for the dissolution or liquidation of, settlement of claims against, or winding up of affairs of, the Account Debtor; the sale, assignment, or transfer of all or any material part of the assets of the Account Debtor; the nonpayment generally by the Account Debtor of its debts as they become due; or the cessation of the business of the Account Debtor as a going concern;

(g) if the aggregate dollar amount of all Accounts owed by the Account Debtor thereon exceeds \$500,000 (or such higher limit as the Lender may agree to in writing), but only to the extent such Account exceeds such limit;

(h) owed by an Account Debtor which: (i) does not maintain its chief executive office in the United States; or (ii) is not organized under the laws

of the United States or any state thereof; or (iii) is the government of any foreign country or sovereign state, or of any state, province, municipality, or other political subdivision thereof, or of any department, agency, public corporation, or other instrumentality thereof; except to the extent that such Account is secured or payable by a letter of credit or acceptance on terms acceptable to the Lender from a financial institution acceptable to the Lender;

(i) owed by an Account Debtor which is an Affiliate;

(j) except as provided in (l) below, as to which either the perfection, enforceability, or validity of the Security Interest in such Account, or the Lender's right or ability to obtain direct payment to the Lender of the Proceeds of such Account, is governed by any federal, state, or local statutory requirements other than those of the UCC;

(k) which is owed by an Account Debtor to which the Borrower is indebted in any way, or which is subject to any right of setoff by the Account Debtor, unless the Account Debtor has entered into an agreement acceptable to the Lender to waive setoff rights; or if the Account Debtor thereon has disputed liability or made any claim with respect to any other Account due from such Account Debtor; but in each such case only to the extent of such indebtedness, setoff, dispute, or claim;

(l) which are owed by the government of the United States of America, or any department, agency, public corporation, or other instrumentality thereof, unless the Federal Assignment of Claims Act of 1940, as amended, and any other steps necessary to perfect the Lender's Security Interest therein, have been complied with to the Lender's satisfaction with respect to such Account (provided that in no event shall greater than \$50,000 in the aggregate at any one time of all such Accounts be considered Eligible Accounts);

(m) which is owed by any state, municipality, or other political subdivision of the United States of America, or any department, agency, public corporation, or other instrumentality thereof;

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(n) which arises out of a sale to an Account Debtor on a bill-and-hold (but only to the extent such bill-and-hold transaction, together with all other then outstanding bill-and-hold transactions of the Borrower, exceeds \$500,000 in the aggregate at any one time), guaranteed sale, sale or return, sale on approval, consignment, or other repurchase or return basis (other than the Borrower's historical customer return policy as in effect on the date hereof);

(o) which is evidenced by a promissory note or other instrument or by chattel paper;

(p) the goods giving rise to such Account have not been shipped and delivered to and accepted by the Account Debtor or the services giving rise to such Accounts have not been performed by the Borrower and accepted by the

Account Debtor (except to the extent that such Account arises from a bill-and-hold transaction and is not considered ineligible under clause (n) above);

(q) if the Lender believes in its sole discretion (exercised in good faith) that the prospect of collection of such Account is impaired or that the Account may not be paid by reason of the Account Debtor's financial inability to pay; or

(r) which is owed by an Account Debtor which the Lender, in its sole discretion (exercised in good faith), otherwise deems to be uncreditworthy.

The Lender agrees to use reasonable efforts to give the Borrower not less than five (5) Business Days prior notice of an event set forth in clauses (q) or (r) above, in each instance, which causes an Eligible Account to become an ineligible Account.

"Eligible Inventory" means finished goods Inventory that:

(a) is not, in the Lender's sole judgment (exercised in good faith), obsolete or unmerchantable;

(b) upon which the Lender has a first priority perfected security interest;

(c) is located at premises owned by or leased to the Borrower or on premises otherwise reasonably acceptable to the Lender (or is in transit in the ordinary course of business of the Borrower and for which the Borrower has complied with the requirements set forth in the parenthetical in clause (d) below);

(d) is not in-transit (unless such Inventory is in transit in the ordinary course of business of the Borrower and (x) the Borrower shall have delivered to the Lender from each Person which shall possess or control the possession of such Inventory while in-transit a lien waiver letter, in form and substance satisfactory to the Lender, duly executed by each such Person and (y) the Lender shall otherwise be satisfied that the interest of the Lender in such Inventory shall be protected and that the Lender shall have the ability to promptly possess and take control of such Inventory during the continuance of an Event of Default); and

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(e) the Lender otherwise deems eligible as the basis for Revolving Loans and Letters of Credit based on such other credit and collateral considerations as the Lender may from time to time establish in its sole discretion (exercised in good faith).

Without intending to limit the Lender's discretion (exercised in good faith) to establish other criteria of eligibility, packaging and shipping material, supplies, bill and hold Inventory, non-first quality returned Inventory, defective Inventory, raw materials, work-in-process, excess or slow moving Inventory, out-of-season Inventory or Inventory delivered to the Borrower on

consignment shall not constitute Eligible Inventory. Eligible Inventory shall in no event include any Inventory for which a Letter of Credit described in clause (a) (ii) (C) of the defined term "Availability" is securing the payment by the Borrower of the purchase price therefor.

"Environmental Laws" means all federal, state and local laws, rules, regulations, ordinances, and consent decrees relating to the health, safety, hazardous substances, and environmental matters applicable to the Borrower's or any of its Subsidiaries' business and facilities (whether or not owned by it). Such laws and regulations include but are not limited to the Resource Conservation and Recovery Act of 1976, 42 U.S.C. §§ 6901 et seq., as amended; the Comprehensive Environmental Response, Compensation and Liability Act of 1980, 42 U.S.C. §§ 9601 et seq., as amended; the Toxic Substances Control Act, 15 U.S.C. §§ 2601 et seq., as amended; the Clean Water Act, 33 U.S.C. §§ 466 et seq., as amended; the Clean Air Act, 42 U.S.C. §§ 7401 et seq., as amended; any federal state or local "Superfund" or "Superlien" law and other environmental cleanup programs; and any other federal, state, or local statute, rule, regulation, order judgment or decree, as now or at any time hereafter amended or in effect and then applicable to the Borrower or any of its Subsidiaries that regulates, restates or imposes liability or standards of conduct concerning air emissions, water discharges or run-off, noise emissions, waste management or otherwise concerns the protection of the environment or of health or safety from environmental risks.

"Equipment" means all of the Borrower's now owned and hereafter acquired machinery, equipment, furniture, furnishings, fixtures, and other tangible personal property (except Inventory), including, without limitation, data processing hardware and software, motor vehicles, aircraft, dies, tools, jigs, and office equipment, as well as all of such types of property leased by the Borrower and all of the Borrower's rights and interests with respect thereto under such leases (including, without limitation, options to purchase); together with all present and future additions and accessions thereto, replacements therefor, component and auxiliary parts and supplies used or to be used in connection therewith, and all substitutes for any of the foregoing, and all manuals, equipment drawings, instructions, warranties and rights with respect thereto wherever any of the foregoing is located.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended.

"Eurodollar Rate" means, for each Interest Period in respect of any Eurodollar Rate Loan, an interest rate per annum (rounded upward to the nearest 1/16th of 1%) determined pursuant to the following formula:

$$\text{Eurodollar Rate} = \text{LIBOR} - \text{Eurodollar Reserve Percentage,}$$

Where

"Eurodollar Reserve Percentage" means the maximum reserve percentage (expressed as a decimal, rounded upward to the nearest 1/100th of 1%) in effect on the date LIBOR for such Interest Period is determined (whether or not applicable to Bank of America National Trust and Savings Association) under regulations issued from time to time by the Federal Reserve Board for determining the maximum reserve requirement (including any emergency, supplemental or other marginal reserve requirement) with respect to Eurocurrency funding (currently referred to as "Eurocurrency liabilities") having a term comparable to such Interest Period; and

"LIBOR" means the rate of interest per annum determined by Bank of America National Trust and Savings Association to be the arithmetic mean (rounded upward, if necessary, to the nearest one-hundredth of one percent (1/100%)) of the rates of interest per annum notified to Bank of America National Trust and Savings Association as the rate of interest at which dollar deposits in an amount approximately equal to the amount of the Revolving Loan to be made or continued as, or converted into, a Eurodollar Rate Loan by the Lender and having a maturity equal to such Interest Period would be offered to major banks in the London interbank market at their request at or about 11:00 a.m. (London time) on the second Business Day before the commencement of such Interest Period.

"Eurodollar Rate Loan" shall mean a Revolving Loan bearing interest based on the Eurodollar Rate in accordance with Article 2.

"Event" means any event or condition which, with notice, the passage of time, or any combination thereof, would constitute an Event of Default.

"Event of Default" has the meaning specified in Section 11.1.

"Facility Fee" has the meaning specified in Section 3.3.

"Federal Reserve Board" shall have the meaning specified in Section 8.21.

"Federal Bankruptcy Code" means Title 11 of the United States Code entitled "Bankruptcy," as now or hereafter in effect, or any successor thereto.

"Financial Statements" means, with respect to the Borrower and its Subsidiaries for any period, the then most recent consolidated and consolidating financial statements of the Borrower and its Subsidiaries delivered pursuant to Section 7.2(a) or (b) and prior to the delivery of financial statements pursuant to Section 7.2(a) or (b), the financial statements of the Borrower and its Subsidiaries attached hereto as Exhibit A.

"Fiscal Year" means the Borrower's fiscal year for financial accounting purposes. The fiscal year of the Borrower is the calendar year.

"GAAP" means at any particular time generally accepted accounting principles consistently applied and as in effect at such time; provided, however, that for the purpose of determining compliance by the Borrower with Sections 9.18 through and including 9.22 of this Agreement and with the

financial tests set forth in Section 3.1, "GAAP" shall mean generally accepted accounting principles consistently applied and as in effect as of the date hereof; and provided, further, that if any changes in accounting principles from those in effect on the date hereof are hereafter occasioned by promulgation of rules, regulations, pronouncements or opinions by or are otherwise required by the Financial Accounting Standards Board or the American Institute of Certified Public Accountants (or successors thereto or agencies with similar functions) and any of such changes results in a change in the method of calculation of, or affects the results of such calculation of, any of the financial covenants set forth in Sections 9.18 through and including 9.22 of this Agreement or with any of the financial tests set forth in Section 3.1, then the Borrower and the Lender agree to enter into and diligently pursue in good faith negotiations in order to amend such financial covenants and tests (or the terms used therein or the calculation thereof) so as to equitably reflect such accounting changes with the desired result that the criteria for evaluating the Borrower's financial condition and results of operation based upon such financial covenants and tests shall be the same after such accounting changes as if such accounting changes had not been made.

"Guaranty" by any Person means all obligations of such Person which in any manner directly or indirectly guarantee the payment or performance of any indebtedness or other obligation of any other Person (the "guaranteed obligations"), or assure or in effect assure the holder of the guaranteed obligations against loss in respect thereof, including, without limitation, any such obligations incurred through an agreement, (a) to purchase the guaranteed obligations or any Property constituting security therefor; or (b) to advance or supply funds for the purchase or payment of the guaranteed obligations or to maintain a working capital or other balance sheet condition.

"Indemnified Party" has the meaning specified in Section 13.8.

"Intercompany Accounts" means all assets and liabilities, however arising, which are due to the Borrower from, which are due from the Borrower to, or which otherwise arise from any transaction by the Borrower with, any Affiliate.

"Interest Payment Date" means (i) with respect to any Reference Rate Loan, the first Business Day of each month, commencing January 3, 1994, and (ii) with respect to any Eurodollar Rate Loan, the last day of the Interest Period applicable thereto.

"Interest Period" means, as to any Eurodollar Rate Loan, the period commencing on the date of such Eurodollar Rate Loan and ending on the numerically corresponding day (or, if there is no numerically corresponding day, on the last day) in the calendar month that is one (1), two (2) or three (3) months thereafter, as the Borrower may elect with respect to Eurodollar

Rate Loans; provided, however, that (x) if an Interest Period would end on a day that is not a Business Day, such Interest Period shall be extended to the next succeeding Business Day unless, with respect to Eurodollar Rate Loans, such next succeeding Business Day would fall in the next calendar month, in

which case such Interest Period shall end on the next preceding Business Day, (y) no Interest Period shall end later than the last day of the scheduled term of this Agreement and (z) interest shall accrue from and including the first day of an Interest Period to but excluding the last day of such Interest Period.

"Inventory" means all of the Borrower's now owned and hereafter acquired inventory, goods, merchandise, and other personal property, wherever located, to be furnished under any contract of service or held for sale or lease, all raw materials, work-in-process, finished goods, returned and repossessed goods, and materials and supplies of any kind, nature or description which are or might be used or consumed in the Borrower's business or used in connection with the manufacture, packing, shipping, advertising, selling or finishing of such inventory, goods, merchandise and such other personal property, and all documents of title or other documents representing them. For purposes of all calculations and valuations in this Agreement, all Inventory shall be calculated and valued in accordance with GAAP at the lower of average cost (determined in accordance with the Borrower's accounting practices) and market value.

"IRS" means the Internal Revenue Service or any successor agency.

"Latest Forecasts" means: (a) on the date hereof and thereafter until the Lender receives new forecasts pursuant to Section 7.2(f), the forecasts of the financial condition, results of operations, and cash flow of the Borrower and its Subsidiaries on a consolidated basis for the Borrower's 1994 Fiscal Year, attached hereto as Exhibit B; and (b) thereafter, the forecasts most recently received by the Lender pursuant to Section 7.2(f).

"Lender" has the meaning specified in the preamble to this Agreement.

"Letter of Credit" has the meaning specified in Section 2.3.

"Letter of Credit Agreement" has the meaning specified in Section 2.3.

"Lien" means: any interest in Property securing an obligation owed to, or a claim by, a Person other than the owner of the Property, whether such interest is based on the common law, statute, or contract, and including without limitation, a security interest, charge, claim, or lien arising from a mortgage, deed of trust, encumbrance, pledge, hypothecation, assignment, deposit arrangement, agreement, or conditional sale, or a lease, consignment or bailment for security purposes, or any reservation, exception, encroachment, easement, right-of-way, condition, restriction, lease or other title exception or encumbrance affecting Property.

"Loan Account" means the loan account of the Borrower, which account shall be maintained by the Lender or an affiliate of the Lender.

"Loan Documents" means this Agreement, the Letter of Credit Agreement, the Patent and Trademark Assignments, the Pledge Agreement and all

other agreements, instruments and documents heretofore, now or hereafter evidencing, securing, guaranteeing or otherwise relating to the Obligations, the Collateral, the Security Interest or any other aspect of the transactions contemplated by this Agreement.

"Loans" means, collectively, all loans and advances provided for in Article 2.

"Multiemployer Plan" means a "multiemployer plan" as defined in Section 4001(a)(3) of ERISA.

"Net Amount of Eligible Accounts" means the gross amount of Eligible Accounts less returns, discounts, claims, credits, rebates, allowances and late or finance charges, in each instance, of any nature at any time issued, owing, granted, outstanding, available or claimed.

"Net Cash Proceeds" means, with respect to any sale of assets of the Borrower, cash (freely convertible into U.S. dollars) received by the Borrower from such sale (including cash received as consideration for the assumption or incurrence of liabilities incurred in connection with or in anticipation of such sale, after (a) provision for all income, title, recording or other taxes measured by or resulting from such sale, (b) payment of all brokerage commissions, investment banking and legal fees and other fees and expenses related to such sale (including, without limitation, relocation expenses), (c) deduction of appropriate amounts to be provided by the Borrower as a reserve, in accordance with GAAP, against any liabilities associated with the assets sold or disposed of in such transaction and retained by the Borrower after such transaction, including, without limitation, pension and other post-employment benefit liabilities and liabilities related to environmental matters or against any indemnification obligations associated with the assets sold or disposed of in such transaction and (d) amounts paid to satisfy Debt (other than the Obligations) which are required to be repaid in connection with any such sale.

"Obligations" means all present and future loans, advances, liabilities, obligations, covenants, duties, and Debts owing by the Borrower to the Lender, whether or not arising under this Agreement, whether or not evidenced by any note, or other instrument or document, whether arising from an extension of credit, opening of a letter of credit, acceptance, loan, guaranty, indemnification or otherwise, whether direct or indirect (including, without limitation, those acquired by assignment from others, and any participation by the Lender in the Borrower's debts owing to others), absolute or contingent, due or to become due, primary or secondary, as principal or guarantor, and including, without limitation, all interest, charges, expenses, fees, attorneys' fees (including, without limitation, allocated in-house counsel fees and disbursements), filing fees and any other sums chargeable to the Borrower hereunder, under another Loan Document, or under any other agreement or instrument with the Lender. The term "Obligations" includes, without limitation, all debts, liabilities and obligations now or hereafter owing from the Borrower to the Lender under or in connection with any Letter of Credit and the Letter of Credit Agreement.

"Participating Lender" means any Person who shall have been granted the right by the Lender to participate in the Loans and who shall have entered into a participation agreement in form and substance satisfactory to the Lender.

"Patent and Trademark Assignments" means the Security Agreement and Mortgage - Trademarks and Patents, together with the corresponding Assignment for Security (Patents) and the Assignment for Security (Trademarks) for the Borrower, each dated as of the date hereof and substantially in the form of Exhibit C hereto, and executed and delivered by the Borrower to the Lender to evidence and perfect the Lender's Security Interest in the Borrower's present and future Proprietary Rights.

"Payment Account" means each blocked bank account, concentration account or other bank account established pursuant to or referred to in Section 6.10 to which the funds of the Borrower (including, without limitation, Proceeds of Accounts and other Collateral) are deposited or credited, and which is maintained in the name of the Lender or the Borrower, as the Lender may determine, on terms acceptable to the Lender.

"PBGC" means the Pension Benefit Guaranty Corporation or any Person succeeding to the functions thereof.

"Permitted Liens" means:

(a) Liens for taxes not yet overdue or Liens for taxes being contested in good faith and by proper proceedings diligently pursued, provided that a reserve or other appropriate provision, if any, as shall be required by GAAP shall have been made therefor on the applicable Financial Statements and that a stay of enforcement of any such Lien is in effect;

(b) Liens in favor of the Lender;

(c) Liens upon Equipment granted in connection with the acquisition of such Equipment after the date hereof (including, without limitation, pursuant to leases), provided, that (i) the cost of each such acquisition constitutes a Capital Expenditure permitted by Section 9.18, (ii) the Debt incurred to finance each such acquisition is permitted by Section 9.9, (iii) each such Lien attaches only to the Equipment acquired with the Debt secured thereby, and (iv) the principal amount of the indebtedness secured by any item of equipment shall not exceed 100% of the cost thereof;

(d) reservations, exceptions, encroachments, easements, rights of way, covenants, conditions, restrictions, leases and other similar title exceptions or encumbrances affecting the Real Property provided they do not in the aggregate materially detract from the value of said Properties or materially interfere with their use in the ordinary conduct of the Borrower's business;

(e) deposits under workmen's compensation, unemployment insurance, social security and other similar laws;

(f) Liens relating to statutory obligations with respect to surety and appeal bonds, performance bonds and other obligations of a like nature incurred in the ordinary course of business;

(g) carriers', warehousemen's, mechanics', landlords', materialmen's or other similar Liens arising in the ordinary course of business securing sums which are not overdue (except to the extent that any such sums are being contested in good faith and by proper proceedings diligently pursued, provided that (i) a reserve or other appropriate provision, if any, as shall be required by GAAP shall have been made therefor on the applicable Financial Statements, (ii) any Inventory which is the subject of a Lien arising from the non-payment thereof when due will not constitute Eligible Inventory and (iii) the aggregate amount of such sums being contested at any one time shall not exceed \$100,000 with respect to any one location or premises of the Borrower or with respect to any one holder of such a Lien or \$1,000,000 in the aggregate for all such contests;

(h) Liens reflected on Schedule 9.14 hereto securing Debt on Schedule 9.9 hereto, but not any increases in the principal amount secured thereby or the extension thereof to other property, and Liens securing Debt permitted to be incurred under Section 9.9(f) which refinances Debt secured by Liens on Schedule 9.14 hereto, but such Liens shall be secured only by such property which was securing the Debt which is being refinanced and not any increases in the principal amount secured thereby or any extension thereof to other property;

(i) Liens consented to in writing by the Lender securing Debt permitted under Section 9.9(h);

(j) Liens on an item of Inventory of the Borrower the purchase of which was financed or assured by a letter of credit permitted by Section 9.8(e) (which Inventory, so long as such Lien is in effect, shall in no event constitute Eligible Inventory) securing solely the reimbursement obligation of the Borrower with respect to such letter of credit and which Lien shall in any event be released when the Borrower or its agent or bailee shall have possession or control or the right to possession or control of such Inventory; and

(k) Liens on Real Property and Equipment thereon consisting of new stores opened by the Borrower after the date of this Agreement securing Debt permitted hereunder (1) the proceeds of which were used to enable the Borrower to recover its cash outlay relating to funding by the Borrower of the cost of the acquisition and/or improvement by the Borrower of such Real Property and Equipment in the ordinary course of business of the Borrower or (2) to refinance Debt permitted hereunder which was used to so acquire or improve such Real Property and Equipment in the ordinary course of business of the Borrower, provided, that in either instance (i) the cost of each such acquisition or improvement constitutes a Capital Expenditure permitted by Section 9.18, (ii) the Debt secured by such Lien is permitted hereunder, (iii) each such Lien attaches only to the Real Property and Equipment which was secured by the Debt being refinanced or which was acquired or improved by the

Borrower with its own monies, as appropriate, and (iv) the principal amount of the Debt secured by any such Lien shall not exceed 100% of the cash outlay

made by the Borrower for such acquisition or improvement of such Real Property and Equipment or of the principal amount of the Debt being refinanced, as appropriate.

"Permitted Rentals" has the meaning specified in Section 9.19.

"Person" means any individual, sole proprietorship, partnership, joint venture, trust, unincorporated organization, association, corporation, Public Authority, or any other entity.

"Personal Property" means any interest in any kind of personal property or asset, tangible or intangible, other than fixtures attached to Real Property.

"Plan" means any pension or other employee benefit plan including any such plan which is subject to Title IV of ERISA, and which is: (a) a plan maintained by the Borrower or any Related Company; (b) a plan to which the Borrower or any Related Company contributes or is required to contribute; (c) a plan to which the Borrower, any predecessor corporation, or any Related Company was required to make contributions at any time during the five (5) calendar years preceding the date of this Agreement; or (d) any other plan with respect to which the Borrower or any Related Company has incurred or may incur liability, including contingent liability, under Title IV of ERISA, either to such plan or to the PBGC.

"Pledge Agreement" means the pledge agreement dated as of the date hereof and substantially in the form of Exhibit D between the Borrower and the Lender executed and delivered to evidence the Lender's Security Interest in the capital stock or other equity interests now or hereafter owned by the Borrower in each Subsidiary of the Borrower or other Person in which the Borrower now or hereafter shall have an equity interest having assets exceeding 1% of the assets of the Borrower and its Subsidiaries on a consolidated basis.

"Premises" means all of the Borrower's rights, title, and interest in the real property described in Schedule 8.10 attached hereto, including all rights and easements in connection therewith and all buildings and improvements now or hereafter constructed thereon.

"Prior Lender" means, collectively, The First National Bank of Boston, Fleet Bank of Massachusetts, N.A., Maryland National Bank and Chemical Bank.

"Prior Loan" means the Revolving Credit Agreement dated as of October 31, 1990, as amended, between the Borrower, as obligor, and the Prior Lender and related documents.

"Proceeds" means all products and proceeds of any Collateral, and all proceeds of such proceeds and products, including, without limitation, all cash and credit balances, all payments under any indemnity, warranty, or

guaranty payable with respect to any Collateral, all awards for taking by eminent domain, all proceeds of fire or other insurance, and all money and other Property obtained as a result of any claims against third parties or any legal action or proceeding, in each case, with respect to Collateral.

"Progress Billing" means any invoice for goods sold or leased or services rendered under a contract or agreement pursuant to which the Account Debtor's obligation to pay such invoice is conditioned upon the Borrower's completion of any further performance under the contract or agreement.

"Property" means any interest in any kind of property or asset, whether real, personal or mixed, or tangible or intangible.

"Proprietary Rights" means all of the Borrower's now owned and hereafter arising or acquired: licenses, franchises, permits, patents, patent rights, copyrights, works which are the subject matter of copyrights, trademarks, trade names, trade styles, patent and trademark applications and licenses and rights thereunder, including without limitation those patents, trademarks and filed copyrights set forth on Schedule 8.11 hereto, and all other rights under any of the foregoing, all extensions, renewals, reissues, divisions, continuations, and continuations-in-part of any of the foregoing, and all rights to sue for past, present, and future infringement of any of the foregoing; inventions, trade secrets, formulae, processes, compounds, drawings, designs, blueprints, surveys, reports, manuals, and operating standards; goodwill; customer and other lists in whatever form maintained; and trade secret rights, copyright rights, rights in works of authorship, and contract rights relating to computer software programs, in whatever form created or maintained.

"Public Authority" means the government of any country or sovereign state, or of any state, province, municipality, or other political subdivision thereof, or any department, agency, public corporation or other instrumentality of any of the foregoing.

"Real Property" means all of the Borrower's rights, title, and interest in real property now owned or hereafter acquired by the Borrower, including, without limitation, the real property more particularly described in Schedule 8.10 attached hereto, including all rights and easements in connection therewith and all buildings and improvements (including, without limitation, fixtures) now or hereafter constructed thereon.

"Receivables" means all of the Borrower's now owned and hereafter arising or acquired: Accounts (whether or not earned by performance), including Accounts owed to the Borrower by any of its Subsidiaries or Affiliates, together with all interest, late charges, penalties, collection fees, and other sums which shall be due and payable in connection with any Account; proceeds of any letters of credit naming the Borrower as beneficiary; contract rights, chattel paper, instruments, documents, general intangibles (including without limitation, choses in action, causes of action, tax refunds, tax refund claims, Reversions and other amounts payable to the Borrower from pension and employee benefit plans, rights and claims against shippers and

carriers, rights to indemnification and business interruption insurance), and all forms of obligations owing to the Borrower (including, without limitation, obligations owing to the Borrower by its Subsidiaries and Affiliates); guarantees and other security for any of the foregoing; and rights of stoppage in transit, replevin, and reclamation; and other rights or remedies of an unpaid vendor, lienor, or secured party.

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"Reference Rate" means the rate of interest publicly announced from time to time by Bank of America National Trust and Savings Association in San Francisco, California, as its reference rate. It is a rate set by Bank of America National Trust and Savings Association based upon various factors including the Bank of America National Trust and Savings Association's costs and desired return, general economic conditions and other factors, and is used as a reference point for pricing some loans, which may be priced at, above, or below such announced rate.

"Reference Rate Loan" shall mean a Revolving Loan bearing interest based on the Reference Rate in accordance with Article 2.

"Related Company" means any member of any controlled group of corporations (as defined in Section 414 of the Code) of which the Borrower is or was a part, or any trade or business (whether or not incorporated) which together with the Borrower would be or would have been treated as a single employer under Section 4001 of ERISA.

"Reportable Event" shall have the meaning assigned to that term in Title IV of ERISA, including, without limitation, a reportable event described in Section 4043 of ERISA or the regulations thereunder, a withdrawal from a Plan described in Section 4063 of ERISA, or a cessation of operations described in Section 4062(e) of ERISA.

"Restricted Investment" means any acquisition of Property by the Borrower or any of its Subsidiaries in exchange for cash or other Property, whether in the form of an acquisition of stock, indebtedness or other obligation, or by loan, advance, capital contribution, or otherwise, except the following:

- (a) Property to be used in the business of the Borrower and its Subsidiaries;
- (b) current assets arising from the sale or lease of goods or rendition of services in the ordinary course of business of the Borrower and its Subsidiaries;
- (c) if no Revolving Loans are outstanding at the time of the acquisition, direct obligations of the United States of America, or any agency thereof, or obligations guaranteed by the United States of America, provided that such obligations mature within one year from the date of acquisition thereof, in each case pledged in favor of the Lender;
- (d) if no Revolving Loans are outstanding at the time of the acquisition, certificates of deposit or time deposits maturing within one year

from the date of acquisition, in each case issued by, created by, or with a bank or trust company organized under the laws of the United States (including overseas branches thereof, provided, that such branches are not treated as entities separate and apart therefrom) or any state thereof having capital and surplus aggregating at least \$100,000,000, in each case pledged in favor of the Lender;

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(e) if no Revolving Loans are outstanding at the time of the acquisition, commercial paper given the highest rating by a national credit rating agency and maturing not more than 270 days from the date of creation thereof, in each case pledged in favor of the Lender;

(f) consistent with historic practices of the Borrower with respect to its cash management practices, (x) overnight bank deposits with a bank or trust company organized under the laws of the United States (including overseas branches thereof, provided, that such branches are not treated as entities separate and apart therefrom) or any state thereof having capital and surplus aggregating at least \$100,000,000 and (y) repurchase agreements with a term of not more than seven days for underlying securities of the types described in clauses (c) and (d) above, entered into with any bank meeting the qualifications specified in clause (d) above or with securities dealers of recognized national standing, provided, that the terms of such agreements comply with the guidelines set forth in the Federal Financial Institutions Examination Council Supervisory Policy Repurchase Agreements of Depository Institutions with Securities Dealers and Others as adopted by the Comptroller of the Currency on October 31, 1985 (the "Supervisory Policy"), and provided, further, that possession or control of the underlying securities is established as provided in the Supervisory Policy;

(g) investments as of the date hereof by the Borrower in any of its Subsidiaries existing on the date hereof and additional investments therein not to exceed \$7,500,000 in the aggregate;

(h) investments as of the date hereof by the Borrower in Construcentro De America, S.A. De C.V., a Mexican corporation, and additional investments by the Borrower therein not to exceed \$5,000,000 in the aggregate;

(i) investments consisting of loans or advances by the Borrower and its Subsidiaries to its employees in the ordinary course of business of the Borrower and its Subsidiaries not in excess of \$1,000,000 in the aggregate outstanding at any time for the Borrower and its Subsidiaries; and

(j) other investments by the Borrower not exceeding \$500,000 in the aggregate.

"Reversions" means any funds which may become due to the Borrower in connection with the termination of any Plan or other employee benefit plan.

"Revolving Loans" has the meaning specified in Section 2.2.

"Security Interest" means collectively the Liens granted to the Lender in the Collateral pursuant to this Agreement, the other Loan Documents or any other agreement.

"Solvent" means, when used with respect to any Person, that: (a) the fair value of all its Property is in excess of the total amount of its debts (including contingent liabilities); (b) it is able to pay its debts as they mature; and (c) it does not have unreasonably small capital for the business in which it is engaged or for any business or transaction in which it is about to engage.

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"Subsidiary" means any present or future corporation or other entity of which the Borrower owns, directly or indirectly, more than 50% of the voting stock or other voting equity interest (other than voting stock or other voting equity interest which has voting rights only by reason of the happening of a contingency).

"Termination Event" means: (a) a Reportable Event; or (b) the withdrawal of the Borrower or any Related Company from a Plan during a plan year in which it was a "substantial employer" as defined in Section 4001(a)(2) of ERISA; or (c) the filing of a notice of intent to terminate a Plan or the treatment of a Plan amendment as a termination under Section 4041 of ERISA; or (d) the institution of proceedings by the PBGC to terminate or have a trustee appointed to administer a Plan; (e) any other event or condition which might constitute grounds under Section 4042 of ERISA for the termination of, or the appointment of a trustee to administer, any Plan, or (f) the partial or complete withdrawal of the Borrower or any Related Company from a Multiemployer Plan.

"Total Facility" has the meaning specified in Section 2.1.

"UCC" means the Uniform Commercial Code (or any successor statute) of the State of New York or of any other state the laws of which are required by Section 9-103 thereof to be applied in connection with the issue of perfection of security interests.

1.2 Accounting Terms. Any accounting term used in this Agreement shall have, unless otherwise specifically provided herein, the meaning customarily given in accordance with GAAP, and all financial computations hereunder shall be computed, unless otherwise specifically provided herein, in accordance with GAAP as consistently applied and using the same method for inventory valuation as used in the preparation of the Financial Statements.

1.3 Other Terms. All other undefined terms contained in this Agreement shall, unless the context indicates otherwise, have the meanings provided for by the UCC to the extent the same are used or defined therein. Wherever appropriate in the context, terms used herein in the singular also include the plural, and vice versa, and each masculine, feminine, or neuter pronoun shall also include the other genders.

2. LOANS AND LETTERS OF CREDIT.

2.1 Total Facility. Subject to the terms and conditions of this Agreement, the Lender shall make available up to a \$60,000,000 total credit facility (the "Total Facility") for the Borrower's use from time to time during the term of this Agreement. The Total Facility shall be comprised of a revolving line of credit up to the limits of the Availability, consisting of Revolving Loans and Letters of Credit as described in Sections 2.2 and 2.3.

2.2 Revolving Loans. (a) Subject to all the terms and conditions of this Agreement and in the absence of an Event or Event of Default (either before or after giving effect to the relevant Revolving Loan), the Lender shall, upon the Borrower's request from time to time in accordance with paragraph (b) below, make revolving loans (the "Revolving Loans") to the

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Borrower up to the limits of the Availability. Each Revolving Loan shall be either a Reference Rate Loan or a Eurodollar Rate Loan as the Borrower may request pursuant to paragraph (b) below. The Lender, in its sole discretion, may elect to exceed the limits of the Availability on one or more occasions, but if it does so, the Lender shall not be deemed thereby to have changed the limits of the Availability or to be obligated to exceed the limits of the Availability on any other occasion. In addition, the Lender may, in its sole discretion (exercised in good faith), based on such collateral and credit considerations as the Lender deems appropriate, at any time and from time to time decrease one or more of the amounts or percentages used to determine the Availability. Without intending to limit the Lender's discretion with respect to Revolving Loans, if the unpaid balance of the Revolving Loans exceeds the Availability (with Availability determined as if the amount of the Revolving Loans were zero), then the Lender may refuse to make or may otherwise restrict Revolving Loans on such terms as the Lender determines until such excess has been eliminated.

(b) The Borrower shall give the Lender irrevocable written or facsimile notice (promptly confirmed in writing) of each borrowing of a Revolving Loan (including, without limitation, a conversion or continuation as permitted by paragraph (e) below) not later than 12:00 Noon, New York City time, (i) three (3) Business Days before a proposed Eurodollar Rate Loan borrowing or conversion to or continuation of a Eurodollar Rate Loan or portion thereof and (ii) on the same Business Day of a proposed Reference Rate Loan borrowing or conversion to a Reference Rate Loan. Such notice shall specify (w) whether the Revolving Loans then being requested are to be Reference Rate Loans or Eurodollar Rate Loans and if a Eurodollar Rate Loan or portion thereof is to be converted or continued, the particular Eurodollar Rate Loan, (x) the date of such borrowing or conversion or continuation (which shall be a Business Day) and the amount of such borrowing or conversion or continuation and (y) if such Revolving Loans are to be Eurodollar Rate Loans (including, without limitation, a conversion to or continuation of a Eurodollar Rate Loan or portion thereof), the Interest Period with respect thereto. If no election as to the type of Revolving Loan is specified in any such notice, all such Revolving Loans shall be Reference Rate Loans. If no Interest Period with respect to any Eurodollar Rate Loan is specified in any such notice, then an

Interest Period of one (1) month's duration shall be deemed to have been selected. Each such notice for a Revolving Loan shall be conclusively presumed to be made by a person authorized by the Borrower to do so and the crediting of a Revolving Loan to the Borrower's deposit or operating account shall conclusively establish the obligation of the Borrower to repay such Revolving Loan. The Borrower shall not be permitted to make a borrowing of a Eurodollar Rate Loan or convert to or continue a Eurodollar Rate Loan or portion thereof if an Event or Event of Default shall have occurred and be continuing.

(c) The Lender will charge all Revolving Loans and other Obligations to a Loan Account. All fees, commissions, costs, expenses, and other charges due from the Borrower pursuant to the Loan Documents, and all payments made and out-of-pocket expenses incurred by the Lender and authorized to be charged to the Borrower pursuant to the Loan Documents, will be charged as Reference Rate Loans to a Loan Account as of the date due from the Borrower or the date paid or incurred by the Lender, as the case may be.

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(d) The Revolving Loans made by the Lender on any date shall be in integral multiples of \$1,000; provided, however, that each Eurodollar Rate Loan made on any date shall be in a minimum principal amount of \$5,000,000 or an integral multiple of \$1,000,000 in excess thereof. Not more than five (5) Eurodollar Rate Loans may be outstanding at any one time and the Borrower may only request a borrowing of a Eurodollar Rate Loan (or any conversion of a Reference Rate Loan into a Eurodollar Rate Loan) once in any calendar month. Conversions to and continuations of Eurodollar Rate Loans of portions thereof shall be in the amount of \$5,000,000 or an integral multiple of \$1,000,000 in excess thereof.

(e) The Borrower shall have the right at any time upon prior irrevocable written or facsimile notice (promptly confirmed in writing) to the Lender given in the manner and at the times specified in paragraph (b) above with respect to the Revolving Loans into which conversion or continuation is to be made, to convert all or any portion of Eurodollar Rate Loans into Reference Rate Loans, to convert all or any portion of Reference Rate Loans into Eurodollar Rate Loans (specifying the Interest Period to be applicable thereto) and to continue all or any portion of any Eurodollar Rate Loans into a subsequent Interest Period (specifying the Interest Period to be applicable thereto), subject to the terms and conditions hereof (including, without limitation, the provisions of paragraphs (b) and (d) above) and to the following:

(i) accrued interest on a Revolving Loan (or portion thereof) being converted or continued shall be paid by the Borrower at the time of such conversion or continuation;

(ii) no Eurodollar Rate Loan or portion thereof may be converted to a Reference Rate Loan or continued as a Eurodollar Rate Loan other than at the end of the Interest Period applicable thereto;

(iii) any portion of a Eurodollar Rate Loan which is subject to

an Interest Period ending on a date that is less than one (1) month prior to the last day of the scheduled term of this Agreement may not be converted into, or continued as, a Eurodollar Rate Loan, and shall be automatically converted at the end of such Interest Period into a Reference Rate Loan; and

(iv) no Event or Event of Default shall have occurred and be continuing.

The Interest Period applicable to any Eurodollar Rate Loan resulting from a conversion or continuation shall be specified by the Borrower in the irrevocable notice of conversion or continuation delivered pursuant hereto; provided, however, that if no such Interest Period shall be specified, the Borrower shall be deemed to have selected an Interest Period of one (1) month's duration. If the Borrower shall not have given timely notice to continue any Eurodollar Rate Loan into a subsequent Interest Period (and shall not otherwise have given notice to convert such Revolving Loan), such Revolving Loan (unless repaid or required to be repaid pursuant to the terms hereof) shall automatically be converted into a Reference Rate Loan.

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(f) Notwithstanding anything to the contrary herein contained, if any change in any law or regulation or in the interpretation thereof by any governmental authority charged with the administration or interpretation thereof shall make it unlawful for the Lender to make or maintain any Eurodollar Rate Loan or to give effect to its obligations to make Eurodollar Rate Loans as contemplated hereby, then, by written notice to the Borrower, the Lender may:

(i) declare that Eurodollar Rate Loans will not thereafter be made hereunder, whereupon the Borrower shall be prohibited from requesting Eurodollar Rate Loans hereunder (including, without limitation, the conversion to or continuation of Eurodollar Rate Loans or portions thereof) unless such declaration is subsequently withdrawn; and

(ii) require that all outstanding Eurodollar Rate Loans be converted to Reference Rate Loans, in which event (A) all such Eurodollar Rate Loans shall be automatically converted to Reference Rate Loans as of the effective date of such notice as provided below and (B) all payments of principal which would otherwise have been applied to repay the converted Eurodollar Rate Loans shall instead be applied to repay the Reference Rate Loans resulting from the conversion of such Eurodollar Rate Loans.

For purposes of this paragraph (f), a notice to the Borrower shall be effective, if lawful, on the last day of the then current Interest Period or, if there are then two or more current Interest Periods, on the last day of each such Interest Period, respectively; otherwise, such notice shall be effective with respect to the Borrower on the date of receipt by the Borrower.

(g) In the event, and on each occasion, that on the day two (2) Business Days prior to the commencement of any Interest Period for a Eurodollar Rate

Loan the Lender shall have determined that dollar deposits in the amount of each Eurodollar Rate Loan are not generally available in the London interbank market, or that the rate at which dollar deposits are being offered will not reflect adequately and fairly the cost to the Lender of making or maintaining such Eurodollar Rate Loan during such Interest Period, or that reasonable means do not exist for ascertaining LIBOR, the Lender shall as soon as practicable thereafter give written notice (or facsimile notice) of such determination to the Borrower, and any request by the Borrower for the making of a Eurodollar Rate Loan or conversion or continuation of any Revolving Loan or portion thereof into a Eurodollar Rate Loan shall, until the circumstances giving rise to such notice no longer exist, be deemed to be a request for a Reference Rate Loan. Each determination by the Lender made hereunder shall be conclusive absent manifest error.

2.3 Letters of Credit. The Lender may, in its sole discretion, and upon the Borrower's request from time to time, cause merchandise and standby letters of credit to be issued for the Borrower's account (each, a "Letter of Credit"). The expiration date of any (i) merchandise Letter of Credit shall not be later than 180 days from the date of issuance thereof and (ii) standby Letter of Credit shall not be later than 365 days from the date of issuance thereof (and no standby Letters of Credit shall have any automatic or "evergreen" renewal provisions) and, in any event, no Letter of Credit shall

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have an expiration date later than the last day of the scheduled term of this Agreement. Without intending to limit the Lender's discretion with respect to Letters of Credit, the Lender will not cause to be opened any Letter of Credit if: (a) the maximum face amount of the requested Letter of Credit, plus the aggregate undrawn amount of all outstanding Letters of Credit and the aggregate amount of unreimbursed drawings under Letters of Credit to the extent not included in the Revolving Loans, would exceed \$15,000,000; or (b) the maximum face amount of the requested Letter of Credit, and all commissions, fees, and charges due from the Borrower to the Lender in connection with the opening thereof, exceed the Availability at such time. The Letters of Credit shall be governed by a Letter of Credit Financing Agreement - Supplement to Loan and Security Agreement between the Lender and the Borrower ("Letter of Credit Agreement"), attached hereto as Exhibit E, in addition to the terms and conditions hereof. All payments made and expenses incurred by the Lender pursuant to or in connection with the Letters of Credit and Letter of Credit Agreement will be charged to a Loan Account as Reference Rate Loans.

3. INTEREST AND OTHER CHARGES.

3.1 Interest. (a) The Borrower agrees to pay the Lender interest on the unpaid daily principal balance of the Revolving Loans constituting Reference Rate Loans at the close of each day at a fluctuating per annum rate equal to one percent (1.00%) plus the Reference Rate. The Borrower agrees to pay the Lender interest on the unpaid daily principal balance of each Revolving Loan constituting a Eurodollar Rate Loan at the close of each day at a per annum rate equal to three percent (3.00%) plus the Eurodollar Rate for such Eurodollar Rate Loan. Such per annum rates shall, subject to the fifth

sentence of this subsection (a), decline to three-quarters percent (.75%) plus the Reference Rate and two and three-quarters percent (2-3/4%) plus the Eurodollar Rate, as the case maybe, effective as provided in the sixth sentence of this subsection (a), after the Lender shall have determined, based upon the audited financial statements of the Borrower for the 1994 Fiscal Year delivered to the Lender pursuant to Section 7.2(a), that the Interest Coverage Ratio and Fixed Maturity Coverage Ratio for such Fiscal Year are not less than 3.96/1 and 1.54/1, respectively. In the event that the Lender shall have determined, based upon the audited financial statements of the Borrower for the 1995 Fiscal Year delivered to the Lender pursuant to Section 7.2(a), that the Interest Coverage Ratio and Fixed Maturity Coverage Ratio for such Fiscal Year are not less than 5.72/1 and 1.51/1, respectively, then, subject to the fifth sentence of this subsection (a), the interest rates payable on the Loans shall continue at the reduced rates described in the immediately preceding sentence (or if not reduced the prior Fiscal Year, will be reduced, effective as provided in the sixth sentence of this subsection (a), to the interest rates described in the immediately preceding sentence) for the remaining scheduled initial term of this Agreement. During the continuance of an Event of Default, the Borrower shall not be entitled to the benefit of the two immediately preceding sentences and the interest rates payable on the Loans shall be those rates set forth in the first two sentences of this subsection (a) plus the two percent (2%) increase set forth in subsection (b) below. Any reduction in the interest rate provided for in this subsection (a) shall become effective on the first day of the month following receipt by the Lender of the appropriate audited financial statements showing compliance with the

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financial tests described above. At the request of the Lender and if so requested as a condition to any reduction in the interest rate, the Borrower shall deliver to the Lender a certificate of the chief financial officer of the Borrower stating that at such time there exists no Event of Default. For purposes of this Section 3.1 only, the Fixed Maturity Coverage Ratio shall be calculated without giving effect to Capital Expenditures made and incurred by the Borrower with respect to the relocation, leasing and improvement of the Borrower's new corporate headquarters to replace the existing headquarters at 200 Union Street, Braintree, Massachusetts. The Lender agrees that it shall consider in its sole discretion a greater interest rate reduction for the second reduction referred to above if the Borrower achieves certain performance standards acceptable to the Lender in its sole discretion. Each change in the Reference Rate shall be reflected in the foregoing interest rates for Reference Rate Loans as of the effective date of such change. Interest charges shall be computed on the basis of a year of 360 days and actual days elapsed and will be payable to the Lender on each applicable Interest Payment Date and on the date of the termination of this Agreement.

(b) If any Event of Default occurs, then, from the date such Event of Default occurs until it is cured, or until all Obligations are paid and performed in full, the Borrower agrees to pay interest on the unpaid principal balance of the Revolving Loans at a per annum rate two percent (2%) greater than the rate(s) of interest otherwise specified herein.

3.2 Maximum Interest Rate. In no event shall the interest rate and

other charges hereunder exceed the highest rate permissible under any law which a court of competent jurisdiction shall, in a final determination, deem applicable hereto. In the event that a court determines that the Lender has received interest and other charges hereunder in excess of the highest rate applicable hereto, such excess shall be deemed received on account of, and shall automatically be applied to reduce, the Obligations other than interest and the provisions hereof shall be deemed amended to provide for the highest permissible rate. If there are no Obligations outstanding, the Lender shall refund to the Borrower such excess.

3.3 Facility Fee. The Borrower agrees to pay the Lender on the Closing Date a facility fee (the "Facility Fee") with respect to the revolving credit facility herein provided in the amount of \$600,000 subject to the application of the \$250,000 commitment fee and \$75,000 deposit already paid by the Borrower in accordance with and as provided in the Commitment Letter, dated November 12, 1993, between the Borrower and the Lender. The Lender and the Borrower agree that the Facility Fee shall be financed by the Lender as a Revolving Loan.

3.4 Commitment Fee. The Borrower agrees to pay the Lender on the first Business Day of each calendar month through the termination of this Agreement and on the date of the termination of this Agreement and upon any earlier maturity of the Revolving Loans, a commitment fee with respect to the Revolving Loans for the month or shorter period just ended, computed at the rate of one-half of one percent (1/2%) per annum (computed on the basis of the actual number of days elapsed over a year of 360 days) on an amount equal to the excess of (a) \$50,000,000 over (b) the average daily outstanding principal balance of the Revolving Loans during such month or shorter period.

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4. PAYMENTS AND PREPAYMENTS.

4.1 Revolving Loans. The Borrower agrees to pay to the Lender the interest on the Revolving Loans (as determined under Section 3.1 hereof) on each Interest Payment Date until the termination of this Agreement and to repay the outstanding principal balance of the Revolving Loans, plus all accrued but unpaid interest thereon, upon the termination of this Agreement. In addition, the Borrower agrees to pay to the Lender, on demand, the amount by which (A) the sum of (x) the unpaid principal balance of the Revolving Loans at any time plus (y) the amount, if any, of (1) amounts drawn under the Letters of Credit at such time to the extent not already included in Revolving Loans and (2) the undrawn amount of all Letters of Credit at such time exceeds (B) the Availability at such time (with clause (b) of such defined term determined as if the amount of the Revolving Loans, the undrawn amount of Letters of Credit and the amount of unreimbursed drawings under Letters of Credit were zero). If after repaying in full the Revolving Loans as provided in the immediately preceding sentence any portion of such excess still remains, then the Borrower shall deposit cash in the amount thereof in a cash collateral account with the Lender to be held in such account on terms satisfactory to the Lender. Any prepayments required pursuant to the second preceding sentence shall be first applied to outstanding Reference Rate Loans up to the full amount thereof before they are applied to outstanding

Eurodollar Rate Loans; provided, however, that absent the existence of an Event or Event of Default the Borrower shall not be required to make any prepayment of any Eurodollar Rate Loan pursuant to this Section 4.1 until the last day of the Interest Period with respect thereto so long as an amount equal to such prepayment is deposited by the Borrower in a cash collateral account with the Lender to be held in such account on terms satisfactory to the Lender.

4.2 Place and Form of Payments; Extension of Time. All payments of principal, interest, and other sums due to the Lender shall be made on the day when due in U.S. dollars at the Lender's address set forth in Section 13.11 not later than 12:00 Noon (New York City time) or charged by the Lender to a Loan Account as a Reference Rate Loan. All such payments shall be made in immediately available funds. If any payment of principal, interest, or other sum to be made hereunder becomes due and payable on a day other than a Business Day, the due date of such payment shall be extended to the next succeeding Business Day (except as otherwise specified in the definition of "Interest Period") and interest thereon shall be payable at the applicable interest rate during such extension.

4.3 Application and Reversal of Payments. Except as otherwise provided in Section 4.1 hereof, the Lender shall determine in its sole discretion the order and manner in which Proceeds of Collateral and other payments that the Lender receives are applied to the Revolving Loans, interest thereon, and the other Obligations, and the Borrower hereby irrevocably waives the right to direct the application of any payment or Proceeds. The Lender shall have the continuing and exclusive right to apply and reverse and reapply any and all such Proceeds and payments to any portion of the Obligations.

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4.4 Indemnity for Returned Payments. If after receipt of any payment of, or Proceeds applied to the payment of, all or any part of the Obligations, the Lender is for any reason required to surrender such payment or Proceeds to any Person because such payment or Proceeds is invalidated, declared fraudulent, set aside, determined to be void or voidable as a preference, or a diversion of trust funds, or for any other reason, then: the Obligations or part thereof intended to be satisfied shall be revived and continue and this Agreement shall continue in full force as if such payment or Proceeds had not been received by the Lender and the Borrower shall pay to the Lender, and hereby does indemnify the Lender and hold the Lender harmless for, the amount of such payment or Proceeds surrendered. The provisions of this Section 4.4 shall be and remain effective notwithstanding any contrary action which may have been taken by the Lender in reliance upon such payment or Proceeds, and any such contrary action so taken shall be without prejudice to the Lender's rights under this Agreement and shall be deemed to have been conditioned upon such payment or Proceeds having become final and irrevocable. The provisions of this Section 4.4 shall survive the termination of this Agreement.

5. LENDER'S BOOKS AND RECORDS; MONTHLY STATEMENTS.

5.1 Lender's Books and Records; Monthly Statements. The Borrower agrees that the Lender's books and records showing the Obligations and the transactions pursuant to this Agreement and the other Loan Documents shall be admissible in any action or proceeding arising therefrom, and shall constitute prima facie proof thereof, irrespective of whether any Obligation is also evidenced by a promissory note or other instrument. The Lender will provide to the Borrower a monthly statement of Loans, payments, and other transactions pursuant to this Agreement. Such statement shall be deemed correct, accurate, and binding on the Borrower, absent manifest error, and as an account stated (except for reversals and reapplications of payments made as provided in Section 4.3 and corrections of errors discovered by the Lender), unless the Borrower notifies the Lender in writing to the contrary within thirty (30) days after such statement is delivered, sent or mailed to the Borrower. In the event a timely written notice of objections is given by the Borrower, only the items to which exception is expressly made will be considered to be disputed by the Borrower.

6. COLLATERAL.

6.1 Grant of Security Interest. (a) As security for the Obligations, the Borrower hereby grants to the Lender a continuing security interest in, lien on, and assignment of:

(i) all Receivables, Inventory, Proprietary Rights, and Proceeds, wherever located and whether now existing or hereafter arising or acquired;

(ii) all moneys, securities and other Personal Property and the Proceeds thereof, now or hereafter held or received by, or in transit to, the Lender from or for the Borrower, whether for safekeeping, pledge, custody, transmission, collection or otherwise, including, without

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limitation, all of the Borrower's deposit accounts, credits, and balances with the Lender and all claims of the Borrower against the Lender at any time existing;

(iii) all of the Borrower's deposit accounts with any financial institutions with which the Borrower maintains deposits; and

(iv) all books, records and other Property relating to or referring to any of the foregoing, including, without limitation, all books, records, ledger cards, data processing records, computer software and other property and general intangibles at any time evidencing or relating to the Receivables, Inventory, Proprietary Rights, Proceeds, and other property referred to above (all of the foregoing, together with all other property in which the Lender may at any time be granted a Lien, being herein collectively referred to as the "Collateral").

The Lender shall have all of the rights of a secured party with respect to the Collateral under the UCC and other applicable laws.

(b) As additional security for the Obligations (and not in limitation of Section 11.2(e)), the Borrower shall simultaneously upon the acquisition of any Real Property during the continuance of an Event of Default (but only if at such time the Borrower's 14% debentures maturing January 1, 1996 are repaid or discharged in full or the terms of the documents governing such debentures permit same or the relevant restriction therein is waived), execute and deliver to the Lender one or more mortgages or deeds of trust, in form and substance satisfactory to the Lender, to grant to the Lender continuing and perfected first (or second behind a purchase money Lien thereon permitted hereunder) mortgage liens on such Real Property and shall cause to be delivered to the Lender such title insurance, surveys, non-disturbance agreements, waivers, leasehold amendments, legal opinions, certificates and other documents as the Lender may request in connection with such mortgages and deeds of trust. The Lender and the Borrower agree that, with respect to the acquisition by the Borrower of any Real Property for which the Borrower shall have granted a purchase money Lien permitted hereunder, if the Person providing the financing to the Borrower for the acquisition thereof shall not permit a second Lien for such Real Property in favor of the Lender (after the Borrower shall have provided evidence satisfactory to the Lender that the Borrower used its best efforts (without the expenditure of money or the giving of financial or business consideration) to persuade such Person to permit same), the Lien on such property in favor of the Lender shall no longer be required so long as the Debt with respect to such purchase money Lien is outstanding.

(c) All Obligations shall constitute a single loan secured by the Collateral. The Lender may, in its sole discretion, (i) exchange, waive, or release any of the Collateral; (ii) during the continuance of an Event of Default and as otherwise provided herein, apply Collateral and direct the order or manner of sale thereof as the Lender may determine; and (iii) during the continuance of an Event of Default, settle, compromise, collect, or otherwise liquidate any Collateral in any manner, all without affecting the Obligations or the Lender's right to take any other action with respect to any other Collateral.

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(d) Notwithstanding anything contained in Section 6.1(a), the Obligations shall not be secured by (i) any Equipment and fixtures in which a Lien has been granted by the Borrower under any agreement entered into by the Borrower prior to the date hereof and which is listed on Schedule 9.14 hereto which validly prohibits the creation by the Borrower of a security interest in favor of the Lender in such Equipment or fixtures (but only so long as the debt owing by the Borrower under any such agreement remains unpaid) or (ii) any monies received by the Borrower in respect of the sale of Real Property not subject to a Lien in favor of the Lender to the extent such monies are used to prepay the Debt secured by such Real Property in accordance with Section 9.10.

6.2 Perfection and Protection of Security Interest. (a) The Borrower shall, at its expense, perform all steps reasonably requested by the Lender at any time to perfect, maintain, protect, and enforce the Security Interest

including, without limitation: (a) executing and recording of the Patent and Trademark Assignments and any mortgage or deed of trust required pursuant to Section 6.1(b) or 11.2(e) and executing and filing financing or continuation statements, and amendments thereof, in form and substance reasonably satisfactory to the Lender; (b) delivering to the Lender, when a Lien is required to be granted to the Lender on Equipment as provided in Section 11.2(e), the original certificates of title for motor vehicles now owned or hereafter acquired with the Security Interest properly endorsed thereon to the extent requested by the Lender; (c) delivering to the Lender the originals of all instruments, documents, and chattel paper, and all other Collateral of which the Lender determines it should have physical possession in order to perfect and protect the Security Interest therein, duly endorsed or assigned to the Lender without restriction; (d) delivering to the Lender warehouse receipts covering any portion of the Collateral with a value in excess of \$50,000 located in a warehouse and for which warehouse receipts are issued, or, in lieu thereof, within fifteen days after the knowledge by any member of the Borrower's senior management or by any other personnel of the Borrower which deal with the Lender that any such Collateral is located in a warehouse either (x) delivering to the Lender a warehouseman's letter, in form and substance satisfactory to the Lender, duly executed by the relevant warehouseman or (y) removing such Collateral to premises owned by the Borrower; (e) placing notations on the Borrower's books of account to disclose the Security Interest; (f) delivering to the Lender all letters of credit on which the Borrower is named beneficiary; and (g) taking such other steps as are deemed necessary by the Lender to maintain the Security Interest. The Lender may file, without the Borrower's signature, one or more financing statements disclosing the Security Interest. The Borrower agrees that a carbon, photographic, photostatic, or other reproduction of this Agreement or of a financing statement is sufficient as a financing statement. If any Collateral having a value in excess of \$1,000,000 is at any time in the possession or control of any warehouseman, bailee or any of the Borrower's agents or processors or if the aggregate value of Collateral in the possession or control of warehousemen, bailees or the Borrower's agents or processors is in excess of \$5,000,000 at any time, then the Borrower shall notify the Lender thereof and shall notify such Person(s) of the Security Interest in such Collateral and, upon the Lender's request after the occurrence of an Event of Default, instruct such Person(s) to hold all such Collateral for the Lender's account subject to the Lender's instructions (it being understood that any

Inventory in the possession or control of a warehouseman, bailee or any of the Borrower's agents or processors shall not constitute Eligible Inventory except as expressly provided in the parenthetical in clause (d) of the defined term "Eligible Inventory"). Subject to Section 6.2(b), if at any time any Collateral having an aggregate value in excess of \$50,000 is located on any premises that are not owned by the Borrower or on any premises subject to a mortgage, the Lender shall establish reserves against Availability with respect to such premises unless and until the Borrower shall have obtained written waivers, in form and substance satisfactory to the Lender, of all present and future Liens to which the owner or lessor or any mortgagee of such premises may be entitled to assert against the Collateral. From time to time, the Borrower shall, upon the Lender's request, execute and deliver

confirmatory written instruments pledging to the Lender the Collateral, but the Borrower's failure to do so shall not affect or limit the Security Interest. So long as this Agreement is in effect and until all Obligations have been fully satisfied, the Security Interest shall continue in full force and effect in all Collateral (whether or not deemed eligible for the purpose of calculating the Availability or as the basis for any advance, loan, or other financial accommodation).

(b) The Borrower and the Lender agree that with respect to any premises which are leased to the Borrower on the date hereof at which Collateral is or may in the future be located for which the Borrower has not on the date hereof obtained a written waiver, duly executed by the appropriate landlord and in form and substance satisfactory to the Lender, of any present and future statutory, common law or contractual Liens which the lessor of such premises may be entitled to assert against such Collateral as follows:

(i) with respect to each such premises located in the states of Nevada, New Jersey and Pennsylvania, the Lender shall, commencing on the date hereof and until a waiver described above shall be obtained from the appropriate landlord for such premises, establish reserves against Availability therefor as permitted by clause (b) (iii) of such defined term;

(ii) with respect to each such premises located in other states, the Lender shall not establish reserves against Availability therefor as permitted by clause (b) (iii) of such defined term until the date ninety (90) days after the date hereof; provided, that, subject to clause (iii) below, no such reserves shall be established under clause (b) (iii) of the defined term "Availability" with respect to any such premises if on or prior to such ninetieth day the Borrower shall have delivered to the Lender either (i) a waiver described above from the appropriate landlord for such premises or (ii) an opinion, addressed to the Lender and in form and substance satisfactory to the Lender, from counsel acceptable to the Lender which is admitted to practice law in the state where such premises are located to the effect that such state has no statutory or common law landlord Lien or similar Lien afforded landlords for unpaid rent and the terms of the lease agreement between the landlord and the Borrower with respect to the lease of such premises contains no provision for a contractual Lien on any Collateral (provided, that with respect to the portion of the opinion relating to contractual Liens under lease agreements, the Borrower shall be permitted to obtain such portion of the opinion from other counsel acceptable to the Lender in lieu of utilizing local counsel therefor); and

(iii) if after the Borrower has delivered to the Lender a waiver or opinion of counsel with respect to any premises leased to the Borrower on the date hereof as provided above, there shall occur a change in law in the state where such premises are located or the lease agreement with respect to such premises is amended or replaced or such premises shall be conveyed by such landlord to another person or any other event shall occur, in each instance, which results in the Lender determining in its

sole discretion (exercised in good faith) that a reserve under clause (b) (iii) of the defined term "Availability" is now necessary with respect to such premises, then the Lender may, upon not less than 10 days prior notice to the Borrower, establish any such reserve with respect to such premises.

6.3 Location of Collateral. The Borrower represents and warrants to the Lender that: (a) Schedule 6.3 hereto is a correct and complete list of the Borrower's chief executive office, the location of its books and records, the locations of the Collateral, and the locations of all of its other places of business; (b) Schedule 6.3 correctly identifies any of such facilities and locations that are not owned by the Borrower and sets forth the names of the owners and lessors of such facilities and locations and the holders of any mortgages on any such facilities and locations and (c) on or after the ninetieth day after the date hereof the aggregate value of all Collateral at all the facilities and locations identified on Schedule 6.3 which are not owned by the Borrower and for which, subject to Section 6.2(b), a landlord waiver in form and substance satisfactory to the Lender or an opinion of counsel as provided in Section 6.2(b) (ii) has not been obtained will not at any time exceed \$2,500,000. The Borrower agrees that it will not maintain any Collateral at any location other than those listed on Schedule 6.3, and it will not otherwise change or add to any of such locations, unless it gives the Lender at least 15 days' prior written notice and executes such financing statements and other documents that the Lender requests in connection therewith.

6.4 Title to, Liens on, and Sale and Use of Collateral. The Borrower represents and warrants to the Lender that: (a) all Collateral is and will continue to be owned by the Borrower free and clear of all Liens whatsoever, except for the Security Interest and other Permitted Liens; (b) the Security Interest will not be subject to any prior Lien except Permitted Liens, if any; (c) the Borrower will use, store, and maintain the Collateral with all reasonable care and will use the Collateral for lawful purposes only; and (d) the Borrower will not, without the Lender's prior written approval, sell or dispose of or permit the sale or disposition of any Collateral, except as permitted by Section 9.5. The inclusion of Proceeds as part of the Collateral shall not be deemed the Lender's consent to any sale or other disposition of the Collateral except as expressly permitted herein.

6.5 Reimbursement for Appraisals. The Borrower shall, within three Business Days after demand therefor by the Lender, reimburse the Lender for any and all costs and expenses incurred by the Lender with respect to appraisals or updates thereof of any or all of the Collateral from time to time conducted or ordered by the Lender, such appraisals or updates to include, without limitation, any of the foregoing required under any applicable laws or regulations or any internal policies of the Lender or any

of its affiliates; provided, however, that the Lender shall not, at the expense of the Borrower, perform or cause to be performed more than one such appraisal in any calendar year unless an Event of Default shall have occurred and be continuing or unless additional appraisals are required by law, in

which case the foregoing limitation shall not apply.

6.6 Access and Examination. The Lender may at all reasonable times have access to, examine, audit, make extracts from and inspect the Borrower's records, files and books of account and the Collateral and to discuss the Borrower's affairs with the Borrower's officers and management; provided, however, that with respect to examinations, audits and inspections at the Borrower's stores, the Lender shall use reasonable efforts to provide the Borrower (at its address set forth in Section 13.11 hereof) two Business Days' notice (written or telephonic) prior to such examination, audit or inspection. The Borrower will deliver to the Lender any instrument necessary for the Lender to obtain records from any service bureau maintaining records for the Borrower. The Lender may, at any time and at the Borrower's expense, make copies of all of the Borrower's books and records, or require the Borrower to deliver such copies to the Lender. The Lender may, without expense to the Lender, use such of the Borrower's personnel, supplies, and premises as may be reasonably necessary for maintaining or enforcing the Security Interest. The Lender shall have the right, at any time, in the Lender's name or in the name of a nominee of the Lender, to verify the validity, amount or any other matter relating to the Accounts, by mail, telephone, or otherwise.

6.7 Insurance. (a) The Borrower shall insure the Collateral and all other tangible Property of the Borrower against loss or damage by fire with extended coverage, theft, burglary, pilferage, loss in transit, and such other hazards as the Lender shall specify and shall also maintain, and cause each of its Subsidiaries to maintain, such other insurance as the Lender may reasonably require, including, without limitation, liability insurance, in each case in amounts, under policies and by insurers acceptable to the Lender.

(b) The Borrower shall also maintain flood insurance, in the event of a designation of the area in which any Real Property is located as "flood prone" or a "flood risk area," as defined by the Flood Disaster Protection Act of 1973, in an amount to be reasonably determined by the Lender, and shall comply with the additional requirements of the National Flood Insurance Program asset forth therein.

(c) The Borrower shall cause the Lender to be named in each such policy as secured party or mortgagee and loss payee or additional insured, as appropriate, in a manner acceptable to the Lender. Schedule 6.7 is a certificate of insurance certified by the Borrower's insurer as to the insurance maintained by the Borrower and its Subsidiaries as of the date hereof naming the Lender as loss payee and additional insured as and to the extent herein required. Each policy of insurance shall contain a clause or endorsement requiring the insurer to give not less than thirty (30) days prior written notice to the Lender in the event of cancellation of the policy for any reason whatsoever and a clause or endorsement stating that the interest of the Lender shall not be impaired or invalidated by any act or neglect of the Borrower or the owner of any premises where Collateral is located nor by the use of such premises for purposes more hazardous than are permitted by such policy.

(d) All premiums for such insurance shall be paid by the Borrower when

due, and certificates of insurance and, if requested, photocopies of the policies shall be delivered to the Lender. If the Borrower fails to procure such insurance or to pay the premiums therefor when due, the Lender may (but shall not be required to) do so and charge the costs thereof to a Loan Account.

(e) The Borrower shall promptly notify the Lender of any loss, damage, or destruction to the Collateral or any other tangible Property with a value in excess of \$50,000 of the Borrower or any of its Subsidiaries or arising from its use, whether or not covered by insurance.

(f) The Lender is hereby authorized to collect directly all insurance proceeds with respect to property damage insurance or liability insurance for which the Lender is named as loss-payee (as its interests may appear), beneficiary or additional insured. After deducting from such proceeds the expenses, if any, incurred by the Lender in the collection or handling thereof, the Lender may apply such proceeds to the reduction of the Obligations, in such order as the Lender determines (subject to Section 4.3 hereof), or at the Lender's option if such proceeds are received with respect to the loss, damage or destruction to Collateral, may permit or require the Borrower to use such money, or any part thereof, to replace, repair, restore or rebuild the Collateral in a diligent and expeditious manner with materials and workmanship of substantially the same quality as existed before the loss, damage or destruction (it being agreed by the Lender that so long as no Event or Event of Default shall be continuing, the Borrower shall be entitled to use such money to replace, repair, restore or rebuild the Collateral as aforesaid where the amount of such moneys on account of a single event of loss, damage or destruction is less than \$25,000), provided, further, that the Borrower first (i) provides the Lender with plans and contracts reasonably satisfactory to the Lender and (ii) demonstrates to the Lender's reasonable satisfaction that the funds available to it will be sufficient to complete such project in the manner provided therein.

6.8 Collateral Reporting. The Borrower will provide the Lender with the following documents at the following times in form satisfactory to the Lender:

(a) upon request, copies of shipping and delivery documents, invoices of Accounts and customer statements and credit memos;

(b) monthly agings of accounts receivable;

(c) semi-monthly (based upon the Borrower's fiscal month) inventory reports and monthly perpetual inventory reports;

(d) on a monthly basis, reconciliations of all amounts listed in the reports delivered pursuant to subsections (b) and (c) hereof with the general ledger of the Borrower;

(e) on a weekly basis, a weekly cash statement report (or if such reports are no longer available, the equivalent thereof), the weekly cash receipts report and the weekly roll forward of accounts receivable;

(f) on a weekly basis, a duly executed borrowing base certificate substantially in the form of Exhibit F hereto;

(g) such other reports as to the Collateral as the Lender shall reasonably request from time to time; and

(h) certificates of an officer of the Borrower certifying as to the foregoing.

If any of the Borrower's records or reports of the Collateral are prepared by an accounting service or other agent, the Borrower hereby authorizes such service or agent to deliver such records, reports, and related documents to the Lender.

6.9 Accounts. (a) The Borrower represents and warrants to the Lender that:

(i) each existing Account represents, and each future Account will represent, a bona fide sale or lease and delivery of goods by the Borrower, or rendition of services by the Borrower, in the ordinary course of its business;

(ii) each existing Account is, and each future Account will be, for a liquidated amount payable by the Account Debtor thereon on the terms set forth in the invoice therefor or in the schedule thereof delivered to the Lender, without offset, deduction, defense or counterclaim;

(iii) each copy of an account statement with respect to an Account Debtor delivered to the Lender by the Borrower will be a true copy of the original account statement sent to such Account Debtor; and

(iv) all goods described in each invoice will have been shipped to the Account Debtor and all services of the Borrower described in each invoice will have been performed.

(b) Without the prior written consent of the Lender, the Borrower shall not re-date any invoice or sale or make sales on extended dating beyond that customary in the Borrower's business or extend or modify any Account.

(c) The Borrower shall not accept any note or other instrument (except a check or other instrument for the immediate payment of money) with respect to any Account without the Lender's written consent except for any note or other instrument for any Account which when first created was an Eligible Account and which due to the failure of the Account Debtor to pay such Account on a timely basis became an ineligible Account. If the Lender consents to the acceptance of any such instrument, it shall be considered as evidence of the Account and not payment thereof and the Borrower will promptly deliver such instrument to the Lender appropriately endorsed. Regardless of the form of presentment, demand, notice of dishonor, protest, and notice of protest with respect thereto, the Borrower will remain liable thereon until such instrument is paid in full.

(d) The Borrower shall notify the Lender promptly of all disputes and claims in excess of \$50,000 in the aggregate with any Account Debtor and settle, contest or adjust them at no expense to the Lender, but no discount, credit or allowance shall be granted to any Account Debtor without the Lender's consent, except for discounts, credits and allowances made or given in the ordinary course of the Borrower's business when no Event of Default exists hereunder. The Lender may, at all times when an Event of Default exists hereunder, settle or adjust disputes and claims directly with Account Debtors for amounts and upon terms which the Lender considers advisable and, in all cases, the Lender will credit a Loan Account with only the net amounts received by the Lender in payment of any Accounts.

(e) If an Account Debtor returns any Inventory to the Borrower when no Event of Default exists, then the Borrower shall promptly determine the reason for such return and, if credit is to be given to such Account Debtor for such return, shall issue a credit memorandum to the Account Debtor in the appropriate amount. All returned Inventory shall remain subject to the Security Interest. Whenever any Inventory is returned, the related Account shall be deemed ineligible to extent of the amount owing by the Account Debtor with respect to such returned Inventory (unless the Account Debtor fails to pay such Account (other than the portion thereof relating to the returned Inventory) when due and payable as provided in the original invoice therefor in which case the entire Account shall be deemed ineligible) and Availability shall be adjusted accordingly.

6.10 Collection of Accounts; Payments. (a) The Borrower will, at its own cost and expense, cause all payments received by the Borrower on account of Receivables, inventory and other collateral and all other payments received by any of the Borrower's stores, whether in the form of cash, checks, notes, drafts, bills of exchange, money orders or otherwise (referred to herein as "Payments"), (i) to be deposited not less often than weekly in one or more bank accounts maintained by the Borrower and acceptable to the Lender and (ii) to be transferred on each business day from the accounts referred to in clause (i) to one or more concentration accounts designated by the Lender with a bank acceptable to the Lender. Each bank requested by the Lender at which an account referred to in clause (i) of the first sentence of this Section 6.10(a) is maintained and each bank at which a concentration account referred to in clause (ii) of such sentence shall execute and deliver to the Lender such agreements, in form and substance satisfactory to the Lender, as the Lender shall request with respect to such accounts, including, without limitation, with respect to prohibitions on the Borrower, upon notice from the Lender to the bank, withdrawing funds from such accounts or otherwise directing or modifying actions with respect to such accounts. The Lender may, at any time during the continuance of an Event of Default, notify obligors that the Accounts have been assigned to the Lender and of the Security Interest therein, and may collect them directly and charge the collection costs and expenses to a Loan Account. The Borrower, at the Lender's request, shall execute and deliver to the Lender such documents as the Lender shall require to grant the Lender access to any post office box in which collections of Accounts are received.

(b) If sales of Inventory are made for cash, the Borrower shall immediately deposit them into a Payment Account (and until so deposited, such payment shall be received by the Borrower in trust for the Lender).

(c) All payments received by the Lender on account of Accounts or as Proceeds of other Collateral will be the Lender's sole property and will be credited to a Loan Account upon receipt of immediately available funds by the Lender at its bank account in New York City.

(d) In the event the Borrower repays all of the Obligations upon the termination of this Agreement, other than through the Lender's receipt of payments on account of Accounts or Proceeds of other Collateral, such payment will be credited to a Loan Account one (1) Business Day after receipt of good funds by the Lender at its bank account in New York City.

6.11 Inventory; Perpetual Inventory. The Borrower represents and warrants to the Lender that all of the Inventory is and will be held for sale or lease, or to be furnished in connection with the rendition of services in the ordinary course of the Borrower's business, and is and will be fit for such purposes. The Borrower will keep the Inventory in good and marketable condition, at its own expense. The Borrower will not, without prior written notice to the Lender, acquire or accept any inventory on consignment or approval; provided, that no such notice is necessary so long as not greater than \$1,000,000 at any one time in inventory is so acquired, accepted or held by the Borrower. After written notice to the Lender as required by the previous sentence, the Borrower may acquire or accept inventory on consignment or approval provided that the Borrower (i) at all times as such inventory is not located in the Borrower's stores, segregates such inventory from all other Inventory or (ii) if such inventory is located in the Borrower's stores, indicates on its records and reports (which shall promptly be provided to the Lender) that such inventory is owned by a Person other than the Borrower. The Borrower agrees that any Inventory produced by the Borrower will be produced in accordance with the Federal Fair Labor Standards Act of 1938, as amended, and all rules, regulations, and orders thereunder. The Borrower will conduct a physical count of the Inventory at least once per Fiscal Year, and after and during the continuation of an Event of Default, at such other times as the Lender requests, and shall promptly, when available, supply the Lender with a copy of the results of such count accompanied by a report of the value of such Inventory (valued in accordance with GAAP at the lower of average cost, determined in accordance with the Borrower's accounting practices, or market value). The Borrower will maintain a perpetual inventory reporting system at all times. The Borrower will not, without the Lender's written consent, sell any Inventory on a guaranteed sale, sale on approval, consignment, or other repurchase or return basis (other than on the Borrower's historical customer return policy as in effect on the date hereof) if the aggregate amount of all such transactions in any Fiscal Year, including the contemplated transaction, would exceed \$2,500,000, provided, that in any event all such transactions shall be done in the ordinary course of business of the Borrower. The Borrower will not, without the Lender's written consent, sell any Inventory on a bill-and-hold basis if the aggregate amount of all such bill-and-hold transactions, at any one time shall exceed \$1,000,000, provided that in any event all such transactions shall be done in the ordinary course of business of the Borrower.

6.12 Equipment. The Borrower represents and warrants to the Lender that all of the Equipment is and will be used or held for use in the Borrower's business. The Borrower shall keep and maintain the Equipment in good operating condition and repair (ordinary wear and tear excepted) and shall make all necessary replacements thereof. If the Borrower shall be required to grant the Lender a Lien in Equipment as provided in Section 11.2(e), the Borrower shall not permit any Equipment to become a fixture to real property or an accession to other personal property, unless the Lender has a valid, perfected, and first (subject to Permitted Liens) priority Security Interest in such Equipment. If the Borrower shall be required to grant the Lender a Lien in Equipment as provided in Section 11.2(e), the Borrower will not, without the Lender's prior written consent, alter or remove any identifying symbol or number on the Equipment. The Borrower shall not, without the Lender's prior written consent, sell, lease as a lessor, or otherwise dispose of any of the Equipment; provided, however, so long as no Event of Default has occurred and is continuing, the Borrower may dispose of obsolete or unusable Equipment or other Equipment no longer necessary for the proper conduct of the Borrower's business, in each instance, in the ordinary course of its business without the Lender's consent. All Equipment shall be free and clear of all liens, claims and encumbrances, except for Permitted Liens.

6.13 Documents, Instruments, and Chattel Paper. The Borrower represents and warrants to the Lender that: (a) all documents, instruments, and chattel paper describing, evidencing, or constituting Collateral, and all signatures and endorsements thereon, are and will be complete, valid, and genuine and (b) all goods evidenced by such documents, instruments, and chattel paper are and will be owned by the Borrower free and clear of all Liens other than Permitted Liens.

6.14 Right to Cure. The Lender may in its sole discretion pay any amount or do any act required of the Borrower hereunder or under any other Loan Document in order to preserve, protect, maintain or enforce the Obligations, the Collateral or the Security Interest, and which the Borrower fails to pay or do, including, without limitation, payment of any judgment against the Borrower, any insurance premium, any warehouse charge, processing charge, any landlord's claim, and any other Lien upon the Collateral. All payments that the Lender makes under this Section and all out-of-pocket costs and expenses that the Lender pays or incurs in connection with any action taken by it hereunder shall be charged to a Loan Account. Any payment made or other action taken by the Lender under this Section shall be without prejudice to any right to assert an Event of Default hereunder and to proceed accordingly.

6.15 Power of Attorney. (a) The Borrower hereby appoints the Lender and the Lender's designees as the Borrower's attorney, with power:

(i) during the continuance of an Event or an Event of Default to endorse the Borrower's name on any checks, notes, acceptances, money orders, or other forms of payment or security that come into the Lender's possession;

(ii) to sign the Borrower's name on financing statements with respect to Collateral and other public records;

(iii) to sign the Borrower's name on any invoice, bill of lading, or other document of title relating to any Collateral, on drafts against customers, on assignments of Accounts, on notices of assignment and on verification of Accounts and on notices to Account Debtors;

(iv) to notify the post office authorities, upon the acceleration of any of the Obligations, to change the address for delivery of the Borrower's mail to an address designated by the Lender and to receive, open and dispose of all mail addressed to the Borrower;

(v) to send requests for verification of Accounts to Account Debtors; and

(vi) during the continuance of an Event or an Event of Default to do all things necessary to carry out this Agreement.

(b) The Borrower hereby ratifies and approves all acts of such attorney taken in accordance with this Agreement. Neither the Lender nor the attorney will be liable for any acts or omissions or for any error of judgment or mistake of fact or law, except the Lender's own willful misconduct or bad faith.

(c) This power, being coupled with an interest, is irrevocable until this Agreement has been terminated and the Obligations have been fully satisfied.

6.16 Lender's Rights, Duties, and Liabilities. The Borrower assumes all responsibility and liability arising from or relating to the use, sale, or other disposition of the Collateral. Neither the Lender nor any of its officers, directors, employees, and agents shall be liable or responsible in any way for the safekeeping of any of the Collateral, or for any act or failure to act with respect to the Collateral, or for any loss or damage thereto, or for any diminution in the value thereof, or for any act of default by any warehouseman, carrier, forwarding agency or other person whomsoever, all of which shall be at the Borrower's sole risk. Notwithstanding the foregoing, the Lender agrees to use reasonable care in the custody and preservation of Collateral in its possession. The Obligations shall not be affected by any failure of the Lender to take any steps to perfect the Security Interest or to collect or realize upon the Collateral, nor shall loss of or damage to the Collateral release the Borrower from any of the Obligations. The Lender may (but shall not be required to), without notice to or consent from the Borrower, sue upon or otherwise collect, extend the time for payment of, modify or amend the terms of, compromise or settle for cash or credit, grant other indulgences, extensions, renewals, compositions, or releases, and take or omit to take any other action with respect to the Collateral, any security therefor, any agreement relating thereto, any insurance applicable thereto, or any Person liable directly or indirectly in connection with any of the foregoing, without discharging or otherwise affecting the liability of the Borrower for the Obligations.

7. BOOKS AND RECORDS; FINANCIAL INFORMATION; NOTICES.

7.1 Books and Records. The Borrower shall maintain, at all times, correct and complete books, records and accounts in which complete, correct and timely entries are made of its transactions in accordance with GAAP. The Borrower shall, by means of appropriate entries, reflect in such accounts and in all Financial Statements proper liabilities and reserves for all taxes and proper provision for depreciation and amortization of Property and bad debts, all in accordance with GAAP. The Borrower shall maintain at all times books and records pertaining to the Collateral in such detail, form, and scope as the Lender shall reasonably require, including without limitation records of: (a) all payments received and all credits and extensions granted with respect to the Accounts; (b) the return, repossession, stoppage in transit, loss, damage, or destruction of any Inventory; and (c) all other dealings affecting the Collateral.

7.2 Financial Information. The Borrower shall promptly furnish to the Lender all such financial information as the Lender shall reasonably request. The Borrower hereby authorizes the Lender to meet with and/or contact the Borrower's auditors and accountants regarding the financial condition of the Borrower and its Subsidiaries. The Borrower will authorize its accountants and auditors to cooperate with the Lender. Without limiting the foregoing, the Borrower will furnish to the Lender, in such detail as the Lender shall request, the following:

(a) As soon as available, but in any event not later than 90 days after the close of each Fiscal Year, (i) consolidated and consolidating audited balance sheets of the Borrower and its Subsidiaries as of the end of such Fiscal Year and (ii) consolidated and consolidating audited statements of income and expense, retained earnings and cash flow for the Borrower and its Subsidiaries for such Fiscal Year, and the accompanying notes thereto, setting forth in each case in comparative form figures for the previous Fiscal Year, all in reasonable detail, fairly presenting the financial position and the results of operations of the Borrower and its Subsidiaries as at the date thereof and for the Fiscal Year then ended, and prepared in accordance with GAAP. Such statements shall be examined in accordance with generally accepted auditing standards by and accompanied by a report thereon unqualified as to scope of independent certified public accountants selected by the Borrower and reasonably satisfactory to the Lender.

(b) As soon as available, but in any event not later than 45 days after the close of each fiscal quarter of the Borrower other than the fourth quarter of a Fiscal Year, (i) consolidated and consolidating unaudited balance sheets of the Borrower and its Subsidiaries as at the end of such quarter and (ii) consolidated and consolidating unaudited statements of income and expense and cash flow for the Borrower and its Subsidiaries for such quarter and for the period from the beginning of the Fiscal Year to the end of such quarter, together with the accompanying notes thereto, all in reasonable detail, fairly presenting the financial position and results of operation of the Borrower and its Subsidiaries as at the date thereof and for such periods, and prepared in accordance with GAAP consistent with the audited Financial Statements required pursuant to Section 7.2(a). The Borrower shall certify, by a certificate signed by its chief financial officer, that all such statements have been prepared in accordance with GAAP and present fairly, subject to normal year-end adjustments, the Borrower's financial position as at the dates thereof and its results of operations for the periods then ended.

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(c) As soon as available, but in any event not later than (x) 30 days after the end of each fiscal month of the Borrower (other than the last fiscal month of each fiscal quarter of the Borrower), and (y) 45 days after the end of the last fiscal month of each fiscal quarter of the Borrower, (i) consolidated and consolidating unaudited balance sheets of the Borrower and its Subsidiaries as at the end of such month and (ii) consolidated and consolidating unaudited statements of income and expense and cash flow for the Borrower and its Subsidiaries for such month and for the period from the beginning of the Fiscal Year to the end of such month, in each instance setting forth next to such monthly figures and year to end of month figures, the budgeted figures for such periods and the actual figures for the corresponding periods of the previous Fiscal Year, respectively, all in reasonable detail, fairly presenting the financial position and results of operation of the Borrower and its Subsidiaries as at the date thereof and for such periods. The Borrower shall certify, by a certificate signed by its chief financial officer, that all such statements present fairly, subject to normal year-end adjustments, the Borrower's financial position as at the dates thereof and its results of operations for the periods then ended.

(d) With each of the audited Financial Statements delivered pursuant to Section 7.2(a), a certificate of the independent certified public accountants that examined such statements to the effect that they have reviewed and are familiar with the Loan Documents and that, in the course of examining such Financial Statements, they did not become aware of any fact or condition which then constituted an Event or Event of Default, except for those, if any, described in reasonable detail in such certificate.

(e) With each of the annual audited and quarterly unaudited Financial Statements delivered pursuant to Sections 7.2(a) and 7.2(b), a certificate of the chief financial officer of the Borrower (i) setting forth in reasonable detail the calculations required to establish that the Borrower was in compliance with its covenants set forth in Sections 9.18 through 9.22 during the period covered in such Financial Statements; (ii) stating that, except as explained in reasonable detail in such certificate, (A) all of the representations, warranties and covenants of the Borrower contained in this Agreement and the other Loan Documents are correct and complete in all material respects as at the date of such certificate, and (B) no Event of Default then exists or existed during the period covered by such Financial Statements, (iii) describing and analyzing in reasonable detail all material trends, changes and developments in each and all Financial Statements and (iv) explaining the variances of the figures in such Financial Statements from those figures in the corresponding budgets and prior Fiscal Year financial statements. If such certificate discloses that a representation or warranty is not correct or complete, or that a covenant has not been complied with, or that an Event of Default existed or exists, such certificate shall set forth what action the Borrowers have taken or proposes to take with respect thereto.

(f) No less than 30 days prior to the beginning of each Fiscal Year, annual forecasts (to include forecasted consolidated and consolidating balance sheets, statements of income and expenses and statements of cash flow) for the Borrower and its Subsidiaries as at the end of and for each month of such Fiscal Year.

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(g) As soon as available, but in any event not later than 15 days after the Borrower's receipt thereof, a copy of all management reports and management letters prepared for the Borrower by Ernst & Young or any other independent certified public accountants of the Borrower.

(h) Promptly upon their becoming available, copies of each proxy statement, financial statement, and report which the Borrower sends to its stockholders.

(i) Promptly after filing with the PBGC and the IRS a copy of each annual report or other filing filed with respect to each Plan of the Borrower or any Related Company.

(j) Promptly upon the filing thereof, copies of all reports, if any, to or other documents filed by the Borrower or any of its Subsidiaries with the Securities and Exchange Commission under the Securities Act of 1933 or the Securities Exchange Act of 1934, and all reports, notices or statements sent or received by the Borrower or any of its Subsidiaries to or from the holders of any equity interests of the Borrower (other than routine non-material correspondence sent by shareholders of the Borrower to the Borrower) or any such Subsidiary or of any Debt for borrowed money of the Borrower or any of its Subsidiaries registered under the Securities Act of 1933 or to or from the trustee under any indenture under which the same is issued.

(k) Such additional information as the Lender may from time to time reasonably request regarding the financial and business affairs of the Borrower or any Subsidiary of the Borrower.

7.3 Notices to Lender. The Borrower shall notify the Lender in writing of the following matters at the following times:

(a) Immediately after becoming aware of the existence of any Event or Event of Default.

(b) Within two Business Days of becoming aware that the holder of any Debt in excess of \$1,000,000 owing by the Borrower or any Subsidiary of the Borrower has given notice or taken any action with respect to a claimed default or of becoming aware of the existence of a default or an event of default under or with respect to any such Debt.

(c) Within two Business Days after becoming aware of any material adverse change in the Borrower's Property, business, operations, prospects or condition (financial or otherwise).

(d) Within two Business Days of becoming aware of any pending or threatened action, proceeding, or counterclaim by any Person, or any pending or threatened investigation by a Public Authority, which in either case may materially and adversely affect the Collateral, the repayment of the Obligations, the Lender's rights under the Loan Documents, or the Borrower's Property, business, operations, prospects or condition (financial or otherwise).

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(e) Within two Business Days after becoming aware of any pending or threatened strike, work stoppage, unfair labor practice claim, or other labor dispute affecting the Borrower or any of its Subsidiaries in a manner which could reasonably be expected to have a material adverse affect on the Borrower's or any of its Subsidiaries' Property, business, operations, prospects or condition (financial or otherwise).

(f) Within two Business Days after becoming aware of any violation of any law, statute, regulation, or ordinance of a Public Authority applicable to the Borrower, which may materially and adversely affect the Collateral, the repayment of the Obligations, the Lender's rights under the Loan Documents, or the Borrower's Property, business, operations, prospects or condition (financial or otherwise).

(g) Within two Business Days after becoming aware of any material violation by the Borrower of Environmental Laws or that its compliance is being investigated.

(h) Immediately after becoming aware of any Termination Event with respect to a Plan, or any other Reportable Event with respect to a Plan, accompanied by any materials required to be filed with the PBGC with respect thereto; immediately upon the establishment of any Plan not existing at the date hereof or the commencement of contributions by the Borrower to any Plan to which the Borrower was not contributing at the date hereof; immediately upon becoming aware that an application is to be or has been made to the Secretary of the Treasury for a waiver of the minimum funding standard under the provisions of Section 412 of the Internal Revenue Code, together with a copy of such application; and immediately upon becoming aware of any other event or condition regarding a Plan or the Borrower's or a Related Company's compliance with ERISA which may materially and adversely affect the Borrower's Property, business, operations, prospects or condition (financial or otherwise).

(i) Thirty (30) days prior to the Borrower changing its name.

Each notice given under this Section shall describe the subject matter thereof in reasonable detail and shall set forth the action that the Borrower has taken or proposes to take with respect thereto.

8. GENERAL WARRANTIES AND REPRESENTATIONS.

The Borrower continuously warrants and represents to the Lender, at all times during the term of this Agreement (other than a representation or warranty which is stated to be made as of a specific date which shall be deemed repeated as of such date) and until all Obligations have been satisfied, that, except as hereafter disclosed to and accepted by the Lender in writing:

8.1 Authorization, Validity, and Enforceability of this Agreement and the Loan Documents. The Borrower has the corporate power and authority to execute, deliver and perform this Agreement and the other Loan Documents, to incur the Obligations, and to grant the Security Interest. The Borrower has

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approval of its stockholders if necessary) to authorize its execution, delivery, and performance of this Agreement and the other Loan Documents. No consent, approval, or authorization of, or filing with, any Public Authority, and no consent of any other Person, is required in connection with the Borrower's execution, delivery, and performance of this Agreement and the other Loan Documents, except for those already duly obtained and in full force and effect. This Agreement and the other Loan Documents have been duly executed and delivered by the Borrower and constitute the legal, valid and binding obligation of the Borrower, enforceable against it in accordance with its terms without defense, setoff, or counterclaim except as enforceability may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting creditors' rights generally and by general principles of equity. The Borrower's execution, delivery, and performance of this Agreement and the other Loan Documents do not and will not conflict with, or constitute a violation or breach of, or constitute a default under, or result in the creation or imposition of any Lien upon the Property of the Borrower or any of its Subsidiaries (except as contemplated by this Agreement and the other Loan Documents) by reason of the terms of (a) any mortgage, lease, agreement or instrument to which the Borrower or any of its Subsidiaries is a party or which is binding upon it, (b) any judgment, law, statute, rule or governmental regulation applicable to the Borrower or any of its Subsidiaries, or (c) the Certificate or Articles of Incorporation or By Laws or other charter documents of the Borrower or any of its Subsidiaries.

8.2 Validity and Priority of Security Interest. The provisions of this Agreement and the other Loan Documents create legal and valid Liens on all the Collateral in the Lender's favor and when all proper filings, recordings, and other actions necessary to perfect such Liens have been made or taken such Liens will constitute perfected and continuing Liens on all the Collateral, having priority over all other Liens on the Collateral, except for Permitted Liens, securing all the Obligations, and enforceable against the Borrower and all third parties.

8.3 Organization and Qualification. The Borrower: (a) is duly incorporated and organized and validly existing in good standing under the laws of the state of its incorporation; (b) is qualified to do business as a foreign corporation and is in good standing in each jurisdiction in which the failure to so qualify or be in good standing could reasonably be expected to have a material adverse effect on the Borrower's Property, business, operations, prospects or condition (financial or otherwise); and (c) has all requisite power and authority to conduct its business and to own its Property.

8.4 Corporate Name; Prior Transactions. The Borrower, during the past five years, has not been known by or used any other corporate or fictitious name, or been a party to any merger or consolidation, or acquired all or substantially all of the assets of any Person, or acquired any of its Property out of the ordinary course of business, except as otherwise set forth on Schedule 8.4.

8.5 Subsidiaries and Affiliates. Schedule 8.5 is a correct and complete list of the name and relationship to the Borrower of each and all of

the Borrower's Subsidiaries and other Affiliates. Each Subsidiary (a) is duly incorporated and organized and validly existing in good standing under the

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laws of its jurisdiction of incorporation set forth on Schedule 8.5, (b) is qualified to do business as a foreign corporation and in good standing in the jurisdictions set forth opposite its name on Schedule 8.5, which are the only jurisdictions in which the failure to so qualify or be in good standing could reasonably be expected to have a material adverse effect on any such Subsidiaries' business, operations, prospects, Property or condition (financial or otherwise) and (c) has all requisite power and authority to conduct its business and own its Property.

8.6 Financial Statements and Forecasts. (a) The Latest Forecasts when submitted to the Lender as required herein represent the Borrower's best estimate at that time of the Borrower's future financial performance for the periods set forth therein. The Latest Forecasts have been prepared on the basis of the assumptions set forth therein, which the Borrower believes are fair and reasonable in light of current and reasonably foreseeable business conditions at the time submitted to the Lender.

(b) The Borrower has delivered to the Lender on or prior to the date hereof the audited balance sheet and related statements of income and expense, retained earnings, changes in financial position, changes in stockholders equity and cash flow for the Borrower and its Subsidiaries (and related footnotes), as of December 31, 1992 and for the Fiscal Year then ended, accompanied by the report thereon of Ernst & Young, the Borrower's independent certified public accountants. The Borrower has also delivered to the Lender the unaudited balance sheet and related statements of income and expense, retained earnings, changes in financial position, changes in stockholders equity and cash flow for the Borrower and its Subsidiaries, as of November 30, 1993 and for the eleven months then ended. Since the date of such unaudited financial statements, no material adverse change has occurred in the Collateral or in the Borrower's business, operations, prospects, condition (financial or otherwise), performance or properties, except as reflected in such financial statements. All such financial statements present fairly the Borrower's financial position as at the dates thereof and its results of operations for the periods then ended. The December 31, 1992 audited financial statements of the Borrower have been prepared in accordance with GAAP.

8.7 Capitalization. The Borrower's authorized capital stock consists of 50,000,000 shares of common stock, par value \$0.01 per share, of which 25,678,926 shares are validly issued and outstanding as of November 30, 1993, and all of which outstanding shares are fully paid and non-assessable.

8.8 Solvency. The Borrower was and is Solvent prior to and after giving effect to the transactions contemplated by this Agreement and the making of the Revolving Loans and the issuance of the Letters of Credit. The Borrower possesses adequate assets for the conduct of its business.

8.9 Title to Property. Except for Permitted Liens, and except for Property which the Borrower leases, the Borrower has good and marketable title in fee simple to its real property listed on Schedule 8.9 and good,

indefeasible, and merchantable title to all of its other Property free of all Liens except Permitted Liens.

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8.10 Real Property; Leases. Schedule 8.10 hereto is a correct and complete list of all real property owned by the Borrower, all leases and subleases of real or personal property by the Borrower as lessee or sublessee (other than leases of personal property as to which the Borrower is lessee or sublessee for which the value of such personal property is less than \$50,000 individually or \$300,000 in the aggregate), and all leases and subleases of real or personal property by the Borrower as lessor or sublessor. Each of such leases and subleases is valid and enforceable in accordance with its terms (except as enforceability may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting creditors' rights generally and by general principles of equity), and is in full force and effect and no default by any party to any such lease or sublease exists.

8.11 Proprietary Rights. Schedule 8.11 hereto is a correct and complete list of all registered or material Proprietary Rights. None of the Proprietary Rights is subject to any licensing agreement or similar arrangement except as set forth on Schedule 8.11. None of the Proprietary Rights, to the best of the Borrower's knowledge, infringes on any other Person's Property. The Proprietary Rights described on Schedule 8.11 constitutes all of the Property of such type necessary to the current and anticipated future conduct of the Borrower's business.

8.12 Trade Names and Terms of Sale. All trade names or styles under which the Borrower will sell Inventory or create Accounts, or to which instruments in Payment of Accounts may be made payable, are listed on Schedule 8.12. The customary terms of payment on which sales of Inventory on credit will be made are set forth on Schedule 8.12.

8.13 Litigation. Except as set forth on Schedule 8.13, there is no pending or, to the best of the Borrower's knowledge, threatened suit, proceeding, or counterclaim by any Person, or investigation by any Public Authority, or any basis for any of the foregoing, which is reasonably likely to have a material adverse effect on the Collateral, the repayment of the Obligations, the Lender's rights under the Loan Documents, or the Borrower's Property, business, operations, prospects or condition (financial or otherwise).

8.14 Restrictive Agreements. Except as set forth on Schedule 8.14, the Borrower is not a party to any agreement, or subject to any corporate restriction, which affects its ability to execute, deliver, and perform the Loan Documents and repay the Obligations or which materially and adversely affects the Borrower's Property, business, operations, prospects or condition (financial or otherwise).

8.15 Labor Disputes. Except as set forth on Schedule 8.15: (a) there is no collective bargaining agreement or other labor contract covering employees of the Borrower or any of its Subsidiaries; (b) no such collective bargaining agreement or other labor contract is scheduled to expire during the term of this Agreement; (c) to the best of the Borrower's knowledge, no union

or other labor organization is seeking to organize, or to be recognized as, a collective bargaining unit of employees of the Borrower or any of its Subsidiaries; and (d) there is no pending or, to the best of the Borrower's

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knowledge, threatened strike, work stoppage, material unfair labor practice claims, or other material labor dispute against or affecting the Borrower or any of its Subsidiaries, or any of its employees.

8.16 Environmental Laws. The Borrower has not generated, handled, used, stored, or disposed of any hazardous or toxic waste or substance, as defined pursuant to Environmental Laws, on or off its premises (whether or not owned by it) in violation of any Environmental Laws, and the Borrower has complied in all material respects with all Environmental Laws applicable to transfer, construction on, and operation of its Property and business. Except as disclosed in Schedule 8.16, the Borrower has no material contingent liability with respect to non-compliance with Environmental Laws or the generation, handling, use, storage, or disposal of hazardous or toxic wastes or substances. Except as disclosed in Schedule 8.16, the Borrower has not received any summons, complaint, order or similar notice that the Borrower is not in compliance with, or that any Public Authority is investigating its compliance with, Environmental Laws where the Borrower is reasonably expected to have a liability in excess of \$500,000 or which is reasonably likely to materially and adversely affect the Collateral, the repayment of the Obligations, the Lender's rights under the Loan Documents or the Borrower's Property, business, operations, prospects or condition (financial or otherwise).

8.17 No Violation of Law. The Borrower is not in violation of any law, statute, regulation, ordinance, judgment, order, or decree applicable to it which violation would in any respect materially and adversely affect the Collateral, the repayment of the Obligations, the Lender's rights under the Loan Documents, or the Borrower's Property, business, operations, prospects or condition (financial or otherwise).

8.18 No Default. The Borrower is not in default with respect to any note, loan agreement, mortgage, lease, or other agreement to which the Borrower is a party or bound, which default would materially and adversely affect the Collateral, the repayment of the Obligations, the Lender's rights under the Loan Documents, or the Borrower's Property, business, operations, prospects or condition (financial or otherwise).

8.19 ERISA. Neither the Borrower nor any Related Company maintains or contributes to any Plan other than those listed on Schedule 8.19. The Borrower has given to the Lender (i) a summary plan description or copy of the Plan document of each Plan in existence as of the date of this Agreement and (ii) a list designating each multiemployer Plan to which the Borrower or any Related Company is obligated to make an annual contribution and a copy of the collective bargaining agreement pursuant to which such contribution is required to be made. The Borrower has made available to the Lender copies of all Plans which are in existence as of the date of this Agreement. No Plan has incurred any "accumulated funding deficiency", as defined in Section 302(a)(2) of ERISA and Section 412(a) of the Code, whether or not waived, nor has any Reportable Event occurred with respect to any Plan. Each Plan which

is intended to be a qualified plan under Section 401(a) of the Code as currently in effect has been determined to be qualified under Section 401(a) of the Code and the trust related thereto is exempt from federal income tax under Section 501(a) of the Code. Neither the Borrower nor any Related

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Company has incurred any liability to the PBGC other than the payment of premiums, and there are no premiums payments which have become due which are unpaid. Neither the Borrower nor any of its Subsidiaries has breached any of the responsibilities, obligations or duties imposed on it by ERISA with respect to any Plan. Neither the Borrower nor any Related Company nor any fiduciary of or any trustee to any Plan has engaged in a nonexempt "prohibited transaction" described in Section 406 of ERISA or Section 4975 of the Code nor taken any action which would constitute or result in a Termination Event with respect to any such Plan which is subject to ERISA. There are no actions, suits or claims pending (other than routine claims for benefits) or, to the knowledge of the Borrower, which could reasonably be expected to be asserted against any Plan, or the assets of any such Plan. No Plan has been terminated by the plan administrator thereof or by the PBGC. With respect to each Plan that is subject to the provisions of Title I, Subtitle B, Part 3 of ERISA, the funding method used in connection with such Plan is acceptable under ERISA, and the actuarial assumptions and methods used in connection with funding such Plan satisfies the requirements of Section 302 of ERISA. As of October 31, 1993, the assets of all such Plans (other than multiemployer Plans) in the aggregate were approximately \$48,500,000 and, as of December 31, 1993, the "accumulated benefit obligations" of all such Plans (determined in accordance with the same actuarial assumptions and methods as those used by the Plans' actuary in its valuation of such Plans as of October 31, 1993, except that the interest rate used for this purpose was 8%) in the aggregate were approximately \$56,000,000, and thereafter such shortfall (determined using the same assumptions and interest rate) will not and has not increased to an amount that is reasonably likely to have a material adverse effect on the Borrower's Property, business, operations or condition (financial or otherwise). The Borrower is currently contributing (and will continue to contribute) to each Plan in accordance with the requirements of ERISA and the Code. Neither the Borrower nor any Related Company has suffered a complete or partial withdrawal from a Multiemployer Plan.

8.20 Taxes. The Borrower has filed all tax returns and other reports which it was required by law to file on or prior to the date hereof and has paid all taxes, assessments, fees, and other governmental charges, and penalties and interest, if any, against it or its Property, income, or franchise, that are due and payable (except to the extent that (i) any such taxes, assessments, fees, and other governmental charges, and penalties and interests are diligently contested in good faith by appropriate proceedings and proper reserves are established on the books of the Borrower as provided in GAAP and (ii) a stay of enforcement of any Liens arising from the nonpayment thereof when due is in effect).

8.21 Use of Proceeds. None of the transactions contemplated in this Agreement (including, without limitation, the use of certain proceeds from the Loans) will violate or result in the violation of Section 7 of the Securities Exchange Act of 1934, as amended, or any regulations issued pursuant thereto, including, without limitation, Regulations G, T, U and X of the Board of

Governors of the Federal Reserve System ("Federal Reserve Board"), 12 C.F.R., Chapter II. The Borrower does not own or intend to carry or purchase any "margin stock" within the meaning of said Regulation G (other than treasury shares of its own capital stock). None of the proceeds of the Loans will be used, directly or indirectly, to purchase or carry (or refinance any

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borrowing, the proceeds of which were used to purchase or carry) any "margin stock" within the meaning of said Regulation G.

8.22 Private Offerings. The Borrower has not, directly or indirectly, offered the Revolving Loans for sale to, or solicited offers to buy part thereof from, or otherwise approached or negotiated with respect thereto with, any prospective purchaser other than the Lender. The Borrower hereby agrees that neither it nor anyone acting on its behalf has offered or will offer the Revolving Loans or any part thereof or any similar securities for issue or sale to or solicit any offer to acquire any of the same from anyone so as to bring the issuance thereof within the provisions of Section 5 of the Securities Act of 1933, as amended.

8.23 Broker's Fees. The Borrower represents that it has not made any commitment or taken any action which will result in a claim for any finders' or similar fees or commitments in respect to the transaction described in this Agreement. The Borrower agrees to defend the Lender and save it harmless from all claims of any Person for any such fees and this indemnity shall include reasonable attorneys' fees and legal expenses. This indemnity shall survive the repayment of the Obligations and the termination of this Agreement.

8.24 No Material Adverse Change. No material adverse change has occurred in the Property, business, operations, prospects or condition (financial or otherwise) of the Borrower and its Subsidiaries, taken as a whole, since the date of the Financial Statements delivered to the Lender, except as reflected in the financial statements of the Borrower as of and for the period ending September 30, 1993 heretofore delivered to the Lender.

8.25 Disclosure. Neither this Agreement nor any document or statement furnished to the Lender by or on behalf of the Borrower hereunder contains any untrue statement of a material fact or omits to state any material fact necessary in order to make the statements contained herein or therein not misleading.

8.26 Material Agreements. Schedule 8.26 hereto sets forth all agreements and contracts (other than purchase orders, true leases, stock option plans, computer hardware and software license agreements and employment agreements) to which the Borrower or any of its Subsidiaries is a party or is bound as of the date hereof which involve obligations in excess of \$300,000.

9. AFFIRMATIVE AND NEGATIVE COVENANTS.

The Borrower covenants that, so long as any of the Obligations remain outstanding or this Agreement is in effect:

9.1 Taxes and Other Obligations. The Borrower shall, and shall cause each of its Subsidiaries to: (a) file when due all tax returns and other

reports which it is required to file, pay when due all taxes, fees, assessments and other governmental charges against it or upon its Property, income and franchises, make all required withholding and other tax deposits, and establish adequate reserves for the payment of all such items, and shall provide to the Lender, upon request, satisfactory evidence of its timely compliance with the foregoing; and (b) pay when due all Debt owed by it and

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perform and discharge in a timely manner all other obligations undertaken by it; provided, however, that, so long as the Borrower has notified the Lender in writing, the Borrower or its Subsidiary, as the case may be, need not pay any tax, fee, assessment, governmental charge, or Debt, or perform or discharge any other obligation, that (i) it is contesting in good faith by appropriate proceedings diligently pursued, (ii) the Borrower or its Subsidiary, as the case may be, has established proper reserves for as provided in GAAP and (iii) a stay of enforcement is in effect with respect to any Lien arising or securing the non-payment thereof.

9.2 Corporate Existence and Good Standing. The Borrower shall, and shall cause each of its Subsidiaries to, maintain its corporate existence. The Borrower shall, and shall cause each of its Subsidiaries to, maintain its qualification and good standing in all jurisdictions in which the failure to maintain such qualification or good standing could reasonably be expected to have a material adverse effect on the Borrower's or such Subsidiary's Property, business, operations, prospects or condition (financial or otherwise), and shall, and shall cause each of its Subsidiaries to, obtain and maintain all licenses, permits, franchises and governmental authorizations the failure of which to obtain or maintain could reasonably be expected to have a material adverse effect on the Borrower's or such Subsidiary's Property, business, operations, prospects or condition (financial or otherwise).

9.3 Maintenance of Property and Insurance. (a) The Borrower shall, and shall cause each of its Subsidiaries to, maintain all of its Property necessary in its business in good operating condition and repair, ordinary wear and tear excepted; and (b) in addition to the insurance required by Section 6.7, the Borrower shall, and shall cause each of its Subsidiaries to, maintain with financially sound and reputable insurers that have received a rating of A VII or better by A.M. Best & Co. (or similar rating by another nationally recognized rating service) such other insurance with respect to its Property and business against casualties and contingencies of such types (including, without limitation, business interruption, environmental liability, public liability, product liability, and larceny, embezzlement or other criminal misappropriation) and in such amounts as is customary for Persons of established reputation engaged in the same or a similar business and similarly situated, naming the Lender, at its request, as additional insured under each such policy.

9.4 Environmental Laws. Except for any violation of Environmental Laws disclosed on Schedule 8.16, the Borrower shall, and shall cause each of its Subsidiaries to, conduct its business in material compliance with all Environmental Laws applicable to it, including, without limitation, those relating to the Borrower's or such Subsidiary's generation, handling, use, storage, and disposal of hazardous and toxic wastes and substances. The Borrower shall, and shall cause each of its Subsidiaries to, take prompt and

appropriate action to respond to any non-compliance with Environmental Laws and shall regularly report to the Lender on such response. Without limiting the generality of the foregoing, whenever there is potential non-compliance with any Environmental Law with respect to Real Property on which the Borrower granted the Lender a Lien pursuant to Section 11.2(e), the Borrower shall, at the Lender's request and the Borrower's expense: (a) cause an independent environmental engineer acceptable to the Lender to conduct such tests of the

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site on such Real Property where the Borrower's or such Subsidiary's non-compliance or alleged non-compliance with Environmental Laws has occurred and prepare and deliver to the Lender a report setting forth the results of such tests, a proposed plan for responding to any environmental problems described therein, and an estimate of the costs thereof; and (b) provide to the Lender a supplemental report of such engineer whenever the scope of the environmental problems, or the Borrower's or the Subsidiary's response thereof or the estimated costs thereof, shall materially change.

9.5 Mergers, Consolidations, Acquisitions, or Sales. The Borrower shall not, and shall not permit any of its Subsidiaries to, enter into any transaction of merger, reorganization, or consolidation, or transfer, sell, assign, lease, or otherwise dispose of all or any part of its Property, or wind up, liquidate or dissolve, or agree to do any of the foregoing, except (i) sales of inventory in the ordinary course of business; (ii) sales of those stores listed on Schedule 9.5 to non-Affiliates of the Borrower; (iii) sales of stores other than those listed on Schedule 9.5 in the ordinary course of business of the Borrower to non-Affiliates of the Borrower, provided, that the gross sales of all such stores in the Fiscal Year just ended does not exceed 15% of the total gross sales of the Borrower for such prior Fiscal Year; (iv) the merger of a Subsidiary of the Borrower into the Borrower, provided, that, immediately after giving effect to the merger, the net worth of the Borrower is not less than the net worth of the Borrower immediately prior to the merger and (v) as permitted by Section 6.12.

9.6 Distributions; Issuance of Shares; Etc. (a) The Borrower shall not, and shall not permit any of its Subsidiaries to, directly or indirectly declare or make, or incur any liability to make, any Distribution, except Distributions to the Borrower by any of its Subsidiaries.

(b) The Borrower shall not after the Closing Date authorize or issue any shares of its capital stock so as to result in a Change of Control.

(c) The Borrower shall not after the Closing Date amend or modify its certificate of incorporation in a manner which might materially adversely affect the repayment of the Obligations or the Lender's rights under the Loan Documents without the prior written consent of the Lender provided that the Borrower may change its name upon thirty (30) days' prior written notice to the Lender.

9.7 Transactions Affecting Collateral or Obligations; Landlord Waivers. (a) The Borrower shall not, and shall not permit any of its Subsidiaries to, enter into any transaction which materially and adversely affects the Collateral or the Borrower's ability to repay the Obligations.

(b) Subject to the provisions of Section 6.2(b), if at any time any Collateral having an aggregate value in excess of \$50,000 is located on any premises that are not owned by the Borrower or on mortgaged premises owned by the Borrower, the Borrower shall obtain and deliver to the Lender a written waiver, duly executed on behalf of the appropriate landlord or mortgagee and in form and substance satisfactory to the Lender, of all present and future statutory, common law or contractual Liens which the owner or lessor or any mortgagee of such premises may be entitled to assert against such Collateral.

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If any such waiver is not obtained with respect to any premises, then the Lender shall, subject to Section 6.2(b), establish reserves against Availability with respect thereto as permitted under such defined term.

9.8 Guarantees. The Borrower shall not, and shall not permit any of its Subsidiaries to, make, issue, or become liable on any Guaranty, except

(a) Guarantees in favor of the Lender;

(b) endorsements of instruments for deposit;

(c) unsecured Guarantees by the Borrower of obligations of the Borrower's Subsidiaries existing on the date hereof and listed on Schedule 9.8 (c) hereto and other Guarantees by the Borrower of obligations of the Borrower's Subsidiaries not prohibited under Section 9.9 (other than clause (e) thereof) incurred by such Subsidiaries in the ordinary course of their business; provided, that the aggregate liability of the Borrower under all Guarantees permitted under this clause (c) shall not exceed at any one time \$4,000,000;

(d) reimbursement obligations of the Borrower with respect to those letters of credit issued by The First National Bank of Boston existing on the date hereof described on Schedule 9.8(d) hereto; provided, that (i) the expiration date of any such letters of credit may not be extended, the undrawn amount of any such letters of credit may not be increased or reinstated and none of such letters of credit may otherwise be amended, (ii) any inventory the purchase of which is financed or assured by any such letter of credit shall not be Eligible Inventory until the reimbursement obligations with respect to all letters of credit on such Schedule 9.8(d) have been paid in full and all such letters of credit have expired or have otherwise terminated or been cancelled, and (iii) the Borrower shall cause all such letters of credit to be terminated or cancelled by October 31, 1994 to the extent that such letters of credit shall not expire by such date;

(e) reimbursement obligations of the Borrower with respect to letters of credit issued for the account of the Borrower (other than Letters of Credit and letters of credit described in clause (d) above) to finance or assure the payment by the Borrower of the purchase price of inventory of the Borrower purchased by the Borrower in the ordinary course of the Borrower's business (which inventory shall in no event constitute Eligible Inventory until any Lien thereon in favor of the issuer of the relevant letter of credit is released); provided, that (i) the aggregate undrawn and unreimbursed amount of all such letters of credit shall not at any time exceed \$2,500,000, (ii) the terms of all applications and other agreements with respect to such letters of

credit shall be satisfactory to the Lender, (iii) the Borrower shall, not later than 2 days after the end of each week, deliver to the Lender a certificate, in form and substance satisfactory to the Lender, as to each such letter of credit and the inventory purchased therewith (including, without limitation, as to which inventory is purchased with such letters of credit, the undrawn amount of each such letter of credit outstanding as of the end of such week just ended and the amount of all payments made during such week just ended with respect to reimbursement obligations under any such letters of credit), (iv) so long as the issuer of any letter of credit under this clause

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(e) shall have a Lien on inventory purchased with such letter of credit all inventory purchased with any such letter of credit shall be segregated from all other inventory of the Borrower, except at store locations to the extent impracticable and (v) not less than three (3) Business Days prior to the issuance of any such letter of credit, the Borrower shall have provided the Lender with written notice of the terms of such letter of credit; and

(f) unsecured Guarantees by the Borrower of lease obligations and other customary contingent liabilities (not constituting Debt for borrowed money) incurred in connection with sales of the Borrower's stores permitted by Section 9.5(ii) or (iii); provided, that such Guarantees do not exceed in the aggregate in connection with any such sale of a store 25% of the purchase price paid to the Borrower upon such sale and all obligations so guaranteed shall be obligations for which the Borrower was the primary obligor immediately prior to the relevant store sale.

9.9 Debt. The Borrower shall not, and shall not permit any of its Subsidiaries to, incur or maintain any Debt, other than:

(a) the Obligations;

(b) trade payables and other current liabilities (other than Debt for borrowed money or with respect to letters of credit) incurred in the ordinary course of business (subject, in the case of any such trade payables and other current liabilities owing by the Borrower to Affiliates of the Borrower, to Section 9.11);

(c) Debt incurred to finance the purchase of Equipment constituting Capital Expenditures permitted by Section 9.18, so long as the principal amount of Debt incurred for any such purchase of Equipment does not exceed 100% of the cost of such Equipment;

(d) Permitted Rentals;

(e) Debt permitted under Section 9.8;

(f) Debt existing on the Closing Date and listed on Schedule 9.9 hereto (but not any increase in the principal amount of any thereof), and any extension or refinancing thereof (other than of the Borrower's 14% debentures due January 1, 1996) (but not any increase in any of the principal amounts thereof); provided that in any event (A) the principal amount of such new Debt is not greater than that of the Debt being refinanced at the time of such refinancing, (B) the terms and conditions of such new Debt, including each of

the effective cash interest rate, the amortization schedule, the covenants and the events of default, governing such new Debt are no less favorable to the Borrower or its Subsidiaries or to the Lender's interest under the Loan Documents than were the terms and conditions of the Debt being refinanced, (C) the maturity of the new Debt does not occur prior to the maturity of the Debt being refinanced and (D) to the extent the Debt being refinanced is subordinated to other Debt, the new Debt is likewise subordinated to such other Debt and the terms of subordination with respect to such new Debt are no less favorable to the beneficiaries of such other Debt than were the terms of subordination under the Debt being refinanced;

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(g) Debt owing to the Prior Lender in connection with the Prior Loan, so long as all such Debt is paid in full on the Closing Date and all commitments under the Prior Loan are terminated on the Closing Date;

(h) Debt incurred by the Borrower with the prior written consent of the Lender and having terms satisfactory to the Lender, the proceeds of which Debt shall be used to repay or repurchase on or before scheduled maturity the Borrower's 14% debentures due January 1, 1996; and

(i) Debt described in the defined term "Permitted Liens".

9.10 Prepayment. The Borrower shall not, and shall not permit any of its Subsidiaries to, voluntarily prepay any Debt, except (i) the Obligations in accordance with their terms and trade payables in order to obtain the benefits of discounts on such payables, (ii) the prepayment in full of the Prior Loan on the Closing Date, (iii) the repayment or repurchase before scheduled maturity of the Borrower's 14% debentures due January 1, 1996 as and in the manner contemplated by Section 9.9(h), (iv) Debt permitted to be incurred by the Borrower hereunder which is secured by Real Property on which is located one or more stores of the Borrower permitted to be sold hereunder, provided, that such Debt shall only be prepaid upon the sale of any such store and only to the extent required by the documents governing such Debt or the lender to whom such Debt is owed as a result of such sale and (v) so long as (1) there shall exist no Event of Default either immediately before or after giving effect thereto, (2) for each day of the 60 day period immediately preceding such event Availability was not less than \$10,000,000 and (3) on the date of such event Availability (less the aggregate amount of all payables owing by the Borrower which are more than thirty (30) days overdue on such date) shall not be less than \$10,000,000, the repayment or repurchase before scheduled maturity of the Borrower's 14% debentures due January 1, 1996 with proceeds from sales permitted under Sections 9.5 (ii) and (iii) and the voluntary prepayment of unsubordinated Debt (other than the aforementioned debentures), including, without limitation, Capital Leases.

9.11 Transactions with Affiliates. Except as set forth on Schedule 9.11 hereto, the Borrower shall not, and shall not permit any of its Subsidiaries to, sell, transfer, distribute, or pay any money or Property to any Affiliate, or lend or advance money or Property to any Affiliate, or invest in (by capital contribution or otherwise) or purchase or repurchase any stock or indebtedness, or any Property, of any Affiliate, or become liable on any Guaranty of the indebtedness, dividends, or other obligations of any Affiliate, or otherwise become indebted to any Affiliate, other than upon

terms (including, without limitation, pricing) no less favorable to it than it would be able to obtain in a comparable arm's length transaction with a third party who is not an Affiliate.

9.12 [Intentionally Omitted].

9.13 Business Conducted. The Borrower shall not, and shall not permit any of its Subsidiaries to, engage, directly or indirectly, in any line of business other than the businesses in which they are engaged on the date hereof.

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9.14 Liens. The Borrower shall not, and shall not permit any of its Subsidiaries to, create, incur, assume, or permit to exist any Lien on any Property now owned or hereafter acquired by any of them, except Permitted Liens.

9.15 Sale and Leaseback Transactions. The Borrower shall not, and shall not permit any of its Subsidiaries to, directly or indirectly, enter into any arrangement with any Person providing for the Borrower or a Subsidiary to lease or rent Property that the Borrower or Subsidiary has or will sell or otherwise transfer to such Person, other than with respect to stores acquired by the Borrower after the date hereof permitted to be sold under Sections 9.5(ii) or (iii) and other sale and leaseback arrangements reasonably satisfactory to the Lender.

9.16 New Subsidiaries. The Borrower shall not, directly or indirectly, organize or acquire any Subsidiary other than those listed on Schedule 8.5.

9.17 Restricted Investments. The Borrower shall not, and shall not permit any of its Subsidiaries to, make any Restricted Investment.

9.18 Capital Expenditures. The Borrower shall not, and shall not permit any of its Subsidiaries to, make or incur any Capital Expenditure (other than the relocation, leasing and improvement of a new corporate headquarters for the Borrower to replace the current corporate headquarters of the Borrower at 200 Union Street, Braintree, Massachusetts) during any of the periods set forth below if, after giving effect thereto, the aggregate amount of all Capital Expenditures (other than the relocation, leasing and improvement of a new corporate headquarters for the Borrower to replace the current corporate headquarters of the Borrower at 200 Union Street, Braintree, Massachusetts) by the Borrower and its Subsidiaries during any such period would exceed the amount set forth opposite such period:

<TABLE>

<CAPTION>

Period	Amount
<S> 1994 Fiscal Year	<C> \$8,800,000
1995 Fiscal Year	13,900,000
1996 Fiscal Year and each Fiscal Year thereafter	11,600,000

The Lender agrees that if the actual Capital Expenditures made and incurred by the Borrower and its Subsidiaries in any of the periods set forth above (other than with respect to the new corporate headquarters of the Borrower as described above) shall be less than the amount set forth above in the above schedule for such period, then 50% of such difference may be expended by the Borrower and its Subsidiaries as Capital Expenditures (other than with respect to the new corporate headquarters of the Borrower as described above) in the immediately succeeding period set forth above (and only such period).

The Lender further agrees that on and after such time as the Net Cash Proceeds received by the Borrower with respect to sales permitted under Sections

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9.5(ii) and (iii) which occur after the date hereof shall exceed an amount necessary to pay in full upon scheduled maturity the then outstanding principal amount of the Borrower's 14% debentures due January 1, 1996 the Capital Expenditure limitations set forth in the above schedule shall be increased in total by 50% of such excess. Any such increase resulting from such a sale (with respect to the first such sale which causes such excess, the portion of the Net Cash Proceeds thereof received by the Borrower causing such excess and with respect to all subsequent sales, 50% of the Net Cash Proceeds thereof) shall be added to the Capital Expenditure limitation for the period set forth above in which such sale occurred.

The Borrower shall not make or incur (or permit any of its Subsidiaries to make or incur) any Capital Expenditures with respect to the relocation, leasing and improvement of a new corporate headquarters for the Borrower to replace the current corporate headquarters of the Borrower at 200 Union Street, Braintree, Massachusetts, in excess of \$5,000,000.

9.19 Operating Lease Obligations. The Borrower shall not enter into or suffer to exist, and shall not permit any of its Subsidiaries to enter into or suffer to exist, any lease of real or personal property as lessee or sublessee (other than Capital Leases), if, after giving effect thereto, the aggregate amount of Rentals (as hereinafter defined) payable by the Borrower and its Subsidiaries in any Fiscal Year in respect of such lease and all other such leases would exceed 3% of the gross revenues of the Borrower and its Subsidiaries for the immediately preceding Fiscal Year (such amount being referred to herein as "Permitted Rentals"). The term "Rentals" means all payments due from the lessee or sublessee under a lease, including, without limitation, basic rent, percentage rent, property taxes, utility or maintenance costs, and insurance premiums.

9.20 Minimum Interest Coverage. The Borrower shall not permit the ratio (the "Interest Coverage Ratio") of (a) Adjusted Net Earnings from Operations for any period specified below plus interest expense of the Borrower and its Subsidiaries for such period and provision for income taxes of the Borrower and its Subsidiaries for such period plus depreciation and amortization expense of the Borrower and its Subsidiaries for such period to (b) interest expense of the Borrower and its Subsidiaries for such period to be less than the ratio set forth opposite any such period:

<TABLE>
<CAPTION>

Period	Ratio
Second fiscal quarter of 1994 Fiscal Year	4.7/1
Third fiscal quarter of 1994 Fiscal Year	6.4/1
Fourth fiscal quarter of 1994 Fiscal Year	2.2/1
1994 Fiscal Year	2.5/1
1995 Fiscal Year	3.4/1
1996 Fiscal Year and each Fiscal Year thereafter	7.2/1

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Promptly upon the receipt by the Lender of the forecasts required to be delivered to the Lender under Section 7.2(f) for each of the Borrower's 1995 and 1996 Fiscal Years, respectively, the Borrower and the Lender agree to enter into and diligently pursue in good faith negotiations to amend this financial covenant so as to additionally test this covenant at the end of each fiscal quarter of the Borrower during the respective Fiscal Year for which the forecasts were just delivered.

9.21 Adjusted Tangible Net Worth. The Borrower shall not permit Adjusted Tangible Net Worth to be less than the following amounts at any time during any of the following respective periods or on any of the following respective dates, as appropriate:

<TABLE>
<CAPTION>

Period or Date	Amount
First fiscal quarter of 1994 Fiscal Year	\$78,500,000
Second fiscal quarter of 1994 Fiscal Year (other than last day of such quarter)	78,000,000
Last day of second fiscal quarter of 1994 Fiscal Year	81,800,000
Third fiscal quarter of 1994 Fiscal Year (other than last day of such quarter)	83,100,000
Last day of third fiscal quarter of 1994 Fiscal Year	88,200,000

Fourth fiscal quarter of 1994 Fiscal Year	87,100,000
1995 Fiscal Year	89,000,000
1996 Fiscal Year and each Fiscal Year thereafter	92,000,000

</TABLE>

Promptly upon the receipt by the Lender of the forecasts required to be delivered to the Lender under Section 7.2(f) for each of the Borrower's 1995 and 1996 Fiscal Years, respectively, the Borrower and the Lender agree to enter into and diligently pursue in good faith negotiations to amend this financial covenant so as to additionally test this covenant at the end of each fiscal quarter of the Borrower during the respective Fiscal Year for which the forecasts were just delivered.

9.22 Fixed Maturity Coverage. The Borrower shall not permit the ratio (the "Fixed Maturity Coverage Ratio") of (a) Adjusted Net Earnings from Operations for any period specified below plus interest expense of the Borrower and its Subsidiaries for such period and provision for income taxes of the Borrower and its Subsidiaries for such period plus depreciation and

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amortization expense of the Borrower and its Subsidiaries for such period to (b) the sum of (i) scheduled principal payments which the Borrower was required to make on Debt for borrowed money during such period (other than on the Borrower's 14% debentures due and payable on January 1, 1996), plus (ii) interest expense of the Borrower and its Subsidiaries for such period plus (iii) Capital Expenditures of the Borrower and its Subsidiaries during such period and, to the extent not included in clause (i) above, payments on Capital Leases made during such period to the extent permitted hereunder to be less than the ratio set forth opposite any such period:

<TABLE>

<CAPTION>

Period	Ratio
<S> 1994 Fiscal Year	<C> 1.0/1
1995 Fiscal Year	1.0/1
1996 Fiscal Year and each Fiscal Year thereafter	1.3/1

</TABLE>

9.23 Further Assurances. The Borrower shall execute and deliver, or cause to be executed and delivered, to the Lender such documents and agreements, and shall take or cause to be taken such actions, as the Lender may, from time to time, reasonably request to carry out the terms and conditions of this Agreement and the other Loan Documents.

10. CLOSING; CONDITIONS TO CLOSING.

The Lender will not be obligated to make any Loans or obtain any Letters of Credit unless the following conditions precedent have been satisfied as determined by the Lender on or prior to January 14, 1994 and the Closing Date shall have occurred on or prior to such date:

10.1 Representations and Warranties; Covenants; Events. The Borrower's representations and warranties contained in this Agreement and the other Loan Documents shall be correct and complete as of the Closing Date; the Borrower shall have performed and complied with all covenants, agreements, and conditions contained herein and in the other Loan Documents which are required to have been performed or complied with on or before the Closing Date; and there shall exist no Event or Event of Default on the Closing Date.

10.2 Delivery of Documents. The Borrower shall have delivered, or caused to be delivered, to the Lender this Agreement, the Letter of Credit Agreement, the Patent and Trademark Assignments, the Pledge Agreement and the other documents listed on Schedule 10.2 hereto and such other documents, instruments and agreements as the Lender shall request in connection herewith, duly executed by all parties thereto other than the Lender and, in each instance, in form and substance satisfactory to the Lender and its counsel.

10.3 Financing Statements; Termination of Liens. (a) The Lender shall have received acknowledgment copies of proper financing statements, duly filed on or before the Closing Date under the UCC of all jurisdictions that the Lender may deem necessary or desirable in order to perfect the Lender's security interests in the Collateral.

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(b) The Lender shall have received duly executed UCC-3 Termination Statements from such parties who maintain liens (other than Permitted Liens) on the Property of the Borrower, and shall have received such other instruments, in form and substance satisfactory to the Lender, in each instance, as shall be necessary to terminate and satisfy all Liens on the Property of the Borrower and its Subsidiaries (except Permitted Liens).

10.4 [Intentionally Omitted].

10.5 Environmental Compliance. The Lender shall be satisfied that there does not exist on the Real Property or in connection with the operation thereof or of the Borrower's business any material violation of any Environmental Laws, except as set forth on Schedule 8.16.

10.6 Release and Termination. The Borrower shall have received a complete and unconditional release and termination of the financing arrangements between the Borrower and the Prior Lender, satisfactory in form, scope and substance to the Lender, from the Prior Lender with respect to the Prior Loan.

10.7 Fees. The Borrower shall have paid in full to the Lender all fees due hereunder to the Lender on or prior to the Closing Date.

10.8 Required Approvals. The Lender shall have received certified copies of all consents or approvals of any Public Authority or other Person which the Lender determines is required in connection with the transactions

contemplated by this Agreement.

10.9 Financial Statements. The Borrower shall have delivered to the Lender the audited financial statements of the Borrower and its Subsidiaries as of December 31, 1992 and for the Fiscal Year then ended and the unaudited interim financial statements of the Borrower and its Subsidiaries as of November 30, 1993 and for the eleven months then ended, each as required under Section 8.6(b), and each in form and substance satisfactory to the Lender.

10.10 No Material Adverse Change. There shall have occurred no material adverse change in the business, operations, Property, profits, prospects or condition (financial or otherwise) of the Borrower or the Borrower and its Subsidiaries taken as a whole or in the Collateral since September 30, 1993 and the Lender shall have received a certificate of the Borrower's chief financial officer to such effect.

10.11 Availability. Availability on the Closing Date, after giving effect to the consummation of the transactions contemplated hereby and all borrowings of Loans on the Closing Date and all issuances of Letters of Credit on the Closing Date, less the aggregate amount of all payables owing by the Borrower which are more than thirty (30) days overdue on the Closing Date, shall be no less than \$6,000,000.

10.12 Proceedings. All proceedings to be taken in connection with the transactions contemplated by this Agreement, the Loan Documents and other documents, contemplated in connection herewith, shall be satisfactory in form, scope and substance to the Lender and its counsel.

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10.13 Opinions of Counsel. The Lender shall have received such opinions of counsel for the Borrower and its Subsidiaries as the Lender shall request, each such opinion to be in form, scope and substance satisfactory to the Lender.

10.14 Evidence of Insurance. The Lender shall have received evidence, in form, scope and substance reasonably satisfactory to the Lender, of all insurance coverage as required pursuant to Sections 6.7 and 9.3.

10.15 Absence of Litigation. Except as disclosed on Schedule 8.13, there shall exist no action, suit, investigation, litigation or proceeding affecting the Borrower or any of its Subsidiaries pending or threatened before any court, governmental agency or arbitrator that might reasonably be expected to have a material adverse effect upon the business, operations, Property, prospects or condition (financial or otherwise) of the Borrower or any of its Subsidiaries or upon the creditworthiness of the Borrower or that purports to affect the legality, validity or enforceability of this Agreement or any other Loan Document or the consummation of the transactions contemplated hereby and the Lender shall have received a certificate of the Borrower's chief financial officer to such effect.

10.16 Collection Account. The Borrower shall have established blocked accounts or collection accounts at banks acceptable to the Lender and the Borrower for depositing its collections and/or proceeds of Collateral and the Lender shall have received agreements, in form and substance acceptable to the

Lender, from such banks restricting the Borrower's access to funds deposited in such accounts upon notice to such banks from the Lender after an Event has occurred.

10.17 Net Worth. The Lender shall have received evidence in form and substance satisfactory to the Lender that the Adjusted Tangible Net Worth of the Borrower shall be at least \$79,000,000 immediately prior to the Closing Date and the Lender shall have received a certificate of the Borrower's chief financial officer to such effect.

11. DEFAULT; REMEDIES.

11.1 Events of Default. It shall constitute an event of default ("Event of Default") if any one or more of the following shall occur for any reason:

(a) any failure to make payment of principal, interest, fees or premium on any of the Obligations when due;

(b) any representation or warranty made by the Borrower in this Agreement, any of the other Loan Documents, any Financial Statement, or any certificate furnished by the Borrower or any Subsidiary at any time to the Lender shall prove to be untrue in any material respect as of the date when made or furnished;

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(c) any default shall occur in the observance or performance of any of the covenants and agreements contained in this Agreement, any other Loan Documents, or any other agreement entered into at any time to which the Borrower or any Subsidiary and the Lender are party and such default shall continue for ten (10) days after such default first occurs or if any such agreement or document shall terminate (other than in accordance with its terms or the terms hereof or with the written consent of the Lender) or become void or unenforceable without the written consent of the Lender;

(d) any default by the Borrower or any Subsidiary under any material agreement or instrument (other than an agreement or instrument evidencing the lending of money), which default continues for ten (10) days after such default first occurs; provided, however, that such grace period shall not apply, and an Event of Default shall exist promptly upon such default, if (i) parties other than the Lender commence to pursue remedies against the Borrower or such Subsidiary, or (ii) such default may not, in Lender's reasonable determination, be cured by the Borrower or such Subsidiary during such ten (10) day grace period;

(e) any default by the Borrower or any Subsidiary in any payment of principal of or interest on any indebtedness (other than the Obligations) for borrowed money of greater than \$500,000 (including, without limitation, any guarantee thereof) beyond any period of grace provided with respect thereto or in the performance of any other agreement, term or condition contained in any agreement under which any such obligation is created if the effect of such

default is to cause, or permit the holder or holders of such obligation to cause, such obligation to become due prior to its stated maturity, unless in each instance any such default is unconditionally waived in writing by the necessary party and such written waiver is in form and substance satisfactory to the Lender;

(f) the Borrower or any Subsidiary shall make a general assignment for the benefit of creditors; or any proceeding shall be instituted by the Borrower or any Subsidiary seeking to adjudicate it a bankrupt or insolvent, or seeking liquidation, winding up, reorganization, arrangement, adjustment, protection, relief, or composition of it or its debts under law relating to bankruptcy, insolvency or reorganization or relief of debtors, or seeking entry of an order for relief or the appointment of a receiver, trustee, or other similar official for it or for any substantial part of its property; or the Borrower or any Subsidiary shall take any corporate action to authorize any of the actions set forth above in this Section 11.1(f);

(g) an involuntary petition shall be filed or an action or proceeding otherwise commenced against the Borrower or any Subsidiary seeking reorganization, arrangement or readjustment of the Borrower's or any Subsidiary's debts or for any other relief under the Federal Bankruptcy Code, as amended, or under any other bankruptcy or insolvency act or law, state, federal or foreign, now or hereafter existing and remain undismissed or unvacated for a period of sixty (60) days; provided that the Lender shall have no obligations to make any Revolving Loans or obtain Letters of Credit during such sixty (60) day grace period;

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(h) a receiver, assignee, liquidator, trustee or similar officer for the Borrower or any Subsidiary or for all or any material part of its Property shall be appointed involuntarily;

(i) the Borrower or any Subsidiary of the Borrower having at least 5% of the assets or annual sales of the Borrower and its Subsidiaries on a consolidated basis shall file a certificate of dissolution under applicable state or foreign law or shall be liquidated, dissolved or wound-up or shall commence or have commenced against it any action or proceeding for dissolution, winding-up or liquidation, or shall take any corporate action in furtherance thereof;

(j) all or any material part of the Property of the Borrower or any Subsidiary shall be nationalized, expropriated or condemned, seized or otherwise appropriated, or custody or control of such Property or of the Borrower or any Subsidiary shall be assumed by any Public Authority or any court of competent jurisdiction at the instance of any Public Authority, except where contested in good faith by proper proceedings diligently pursued where a stay of enforcement is in effect;

(k) one or more final judgments for the payment of money aggregating in excess of \$500,000 not fully covered by insurance (except customary deductibles) shall be rendered against the Borrower or any Subsidiary and the Borrower or such Subsidiary shall fail to discharge the same within twenty (20) days from the date of notice of entry thereof or to appeal therefrom and

a stay of execution shall not then be in effect pending determination of such appeal;

(l) any loss, theft, damage or destruction of any item or items of Collateral or other Property of the Borrower or any Subsidiary occurs which: (i) materially and adversely affects the operation of the Borrower's or any of its Subsidiaries' business; or (ii) is material in amount and is not adequately covered by insurance;

(m) any event or condition shall occur or exist with respect to a Plan that could, in the Lender's reasonable judgment, subject the Borrower or any Subsidiary to any tax, penalty or other liabilities under ERISA or the Code in the aggregate material in relation to the business, operations, Property or financial or other condition of the Borrower and its Subsidiaries taken as a whole;

(n) there occurs any material adverse change in the Property, business, operations, prospects or condition (financial or otherwise) of the Borrower and its Subsidiaries, taken as a whole;

(o) a Change of Control occurs;

(p) the Borrower or any Subsidiary shall generally not pay its debts as such debts become due or shall admit its inability to pay its debts generally; or

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(q) the Borrower shall have failed to demonstrate to the Lender's satisfaction on or after June 1, 1995 but on or prior to September 1, 1995 that the Borrower shall have the ability (other than through the Borrower's operations after September 1, 1995) to repay upon scheduled maturity the Borrower's 14% debentures maturing January 1, 1996.

11.2 Remedies. (a) If an Event of Default exists, the Lender may, without notice to or demand on the Borrower, do one or more of the following at any time or times and in any order: (i) reduce the amount of or refuse to make Revolving Loans and restrict or refuse to arrange for Letters of Credit; (ii) terminate this Agreement; (iii) declare any or all Obligations to be immediately due and payable (provided however that upon the occurrence of any Event of Default described in Section 11.1(f), 11.1(g), 11.1(h), or 11.1(i), all Obligations shall automatically become immediately due and payable and all obligations of the Lender to make Revolving Loans or obtain Letters of Credit shall terminate); and (iv) pursue its other rights and remedies under the Loan Documents and applicable law. The foregoing shall not be construed to limit the Lender's discretion to take the actions described in clause (i) at any other time.

(b) If an Event of Default exists: (i) the Lender shall have, in addition to all other rights, the rights and remedies of a secured party under the UCC; (ii) the Lender may, at any time, take possession of the Collateral and keep it on the Borrower's premises, at no cost to the Lender, or remove

any part of it to such other place or places as the Lender may desire, or the Borrower shall, upon the Lender's demand, at the Borrower's cost, assemble the Collateral and make it available to the Lender at a place reasonably convenient to the Lender; and (iii) the Lender may sell and deliver any Collateral at public or private sales, for cash, upon credit or otherwise, at such prices and upon such terms as the Lender deems advisable, in its sole discretion, and may, if the Lender deems it reasonable, postpone or adjourn any sale of the Collateral by an announcement at the time and place of sale or of such postponed or adjourned sale without giving a new notice of sale. Without in any way requiring notice to be given in the following manner, the Borrower agrees that any notice by the Lender of sale, disposition or other intended action hereunder or in connection herewith, whether required by the UCC or otherwise, shall constitute reasonable notice to the Borrower if such notice is mailed by registered or certified mail, return receipt requested, postage prepaid, or by overnight mail or is delivered personally against receipt, at least five (5) days prior to such action to the Borrower's address specified in or pursuant to Section 13.11. If any Collateral is sold on terms other than payment in full at the time of sale, no credit shall be given against the Obligations until the Lender receives payment, and if the buyer defaults in payment, the Lender may resell the Collateral without further notice to the Borrower. In the event the Lender seeks to take possession of all or any portion of the Collateral by judicial process, the Borrower irrevocably waives: (a) the posting of any bond, surety or security with respect thereto which might otherwise be required; (b) any demand for possession prior to the commencement of any suit or action to recover the Collateral; and (c) any requirement that the Lender retain possession and not dispose of any Collateral until after trial or final judgment. The Borrower agrees that the Lender has no obligation to preserve rights to the Collateral

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or marshal any Collateral for the benefit of any Person. The Lender is hereby granted a license or other right to use, without charge, the Borrower's labels, patents, copyrights, name, trade secrets, trade names, trademarks, and advertising matter, or any similar property, in completing production of, advertising or selling any Collateral, and the Borrower's rights under all licenses and all franchise agreements shall inure to the Lender's benefit. The proceeds of sale shall be applied first to all expenses of sale, including attorneys' fees, and second, in whatever order the Lender elects, to all Obligations. The Lender will return any excess to the Borrower and the Borrower shall remain liable for any deficiency.

(c) If an Event of Default occurs, the Borrower hereby waives, to the full extent permitted by law, all rights to notice and hearing prior to the exercise by the Lender of the Lender's rights to repossess the Collateral without judicial process or to replevy, attach or levy upon the Collateral without notice or hearing.

(d) If the Lender terminates this Agreement due to an Event of Default existing, the Borrower shall pay the Lender, immediately upon termination, an early termination fee equal to the early termination fee that would have been payable under Article 12 if this Agreement had been terminated on that date pursuant to the Borrower's election.

(e) Without limiting the rights and remedies of the Lender upon the

occurrence of an Event of Default, upon the occurrence and during the continuance of an Event of Default, the Borrower shall, upon the request of the Lender, duly execute and deliver to the Lender one or more security agreements, mortgages or deeds of trust, all consents of third parties necessary to permit the effective granting of the Liens created in such agreements, financing statements pursuant to the Uniform Commercial Code and other documents, all in form and substance satisfactory to the Lender, as may be required by the Lender to grant to the Lender a valid, perfected and enforceable first priority Lien on and security interest in (subject only to Permitted Liens) all now owned or hereafter acquired or created Equipment, Real Property and fixtures of the Borrower and all proceeds thereof (with respect to Real Property and fixtures, only if the Borrower's 14% debentures maturing January 1, 1996 are repaid or discharged in full at such time or the terms of the documents governing such debentures permit such Lien or the relevant restriction therein is waived). The Borrower shall at such time additionally execute and deliver or cause to be executed and delivered to the Lender such other documents, evidences of corporate authority and action, opinions of counsel and the like (including, without limitation, with respect to Real Property, those items described in Section 6.1(b)), all in form and substance satisfactory to the Lender, as the Lender shall request in connection therewith.

(f) In such an instance as provided in paragraph (e) above, the Borrower shall, at its sole cost and expense, cause all instruments and documents given as evidence of security pursuant to this Agreement to be duly recorded and/or filed or otherwise perfected in all places necessary, in the opinion of the Lender, and take such other actions as the Lender may request, in order to perfect and protect the Liens of the Lender in such Collateral.

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12. TERM AND TERMINATION.

12.1 Term and Termination. The initial term of this Agreement shall be until the third anniversary of the Closing Date. This Agreement shall automatically be renewed thereafter for successive one-year terms, unless this Agreement is terminated as provided below. The Lender and the Borrower shall each have the right to terminate this Agreement, without premium, penalty or termination fee, at the end of the initial term or at the end of any renewal term by giving the other written notice not less than ninety (90) days prior to the end of such term by registered or certified mail. The Borrower may also terminate this Agreement at any time during its initial term or any successive renewal term if: (a) it gives the Lender ninety (90) days' prior written notice of termination by registered or certified mail, (b) it pays and performs all Obligations on or prior to the effective date of termination and all Letters of Credit are cancelled on or prior to the effective date of termination and (c) with respect to a termination during the initial term only, except only as otherwise expressly provided in the last sentence of Section 13.9(a), it pays the Lender, on or prior to the effective date of termination, an early termination fee equal to (i) three percent (3%) of the average daily unpaid principal balance of the Revolving Loans and undrawn amount of the Letters of Credit during the period commencing on the Closing Date and ending on the effective date of such termination if the effective date of termination is on or before the first anniversary of the Closing Date, (ii) two percent (2%) of the average daily unpaid principal balance of the

Revolving Loans and undrawn amount of the Letters of Credit during the twelve month period ending on the effective date of such termination if the effective date of termination is after the first anniversary of the Closing Date and on or before the second anniversary of the Closing Date or (iii) one percent (1%) of the average daily unpaid principal balance of the Revolving Loans and undrawn amount of the Letters of Credit during the twelve month period ending on the effective date of such termination if the termination is after the second anniversary of the Closing Date and prior to the last day of the initial term of this Agreement. The Lender may also terminate this Agreement without notice upon an Event of Default. Upon the effective date of termination of this Agreement for any reason whatsoever, all Obligations shall become immediately due and payable. Notwithstanding the termination of this Agreement, until all Obligations are paid and performed in full, the Lender shall retain all its rights and remedies hereunder (including, without limitation, in all then existing and after-arising Collateral). Upon the indefeasible payment in full of all Obligations and the termination of this Agreement, the Lender shall, at the Borrower's cost and expense, execute and deliver to the Borrower such releases and terminations as the Borrower may reasonably request to evidence the payment in full of the Obligations and the termination of the Lender's Lien on the Collateral.

13. MISCELLANEOUS.

13.1 Cumulative Remedies; No Prior Recourse to Collateral. The enumeration herein of the Lender's rights and remedies is not intended to be exclusive, and such rights and remedies are in addition to and not by way of limitation of any other rights or remedies that the Lender may have under the UCC or other applicable law. The Lender shall have the right, in its sole discretion, to determine which rights and remedies are to be exercised and in

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which order. The exercise of one right or remedy shall not preclude the exercise of any others, all of which shall be cumulative. The Lender may, without limitation, proceed directly against the Borrower to collect the Obligations without any prior recourse to the Collateral.

13.2 No Implied Waivers. No act, failure or delay by the Lender shall constitute a waiver of any of its rights and remedies. No single or partial waiver by the Lender of any provision of this Agreement, or any other Loan Document, or of breach or default hereunder or thereunder, or of any right or remedy which the Lender may have, shall operate as a waiver of any other provision, breach, default, right or remedy or of the same provision, breach, default, right or remedy on a future occasion. No waiver by the Lender shall affect its rights to require strict performance of this Agreement.

13.3 Severability. If any provision of this Agreement shall be prohibited or invalid, under applicable law, it shall be ineffective only to such extent, without invalidating the remainder of this Agreement.

13.4 Governing Law. This Agreement shall be deemed to have been made in the State of New York and shall be governed by and interpreted in accordance with the internal laws of such state, except that no doctrine of choice of law shall be used to apply the laws of any other state or jurisdiction.

13.5 Consent to Jurisdiction and Venue; Service of Process. (a) The Borrower agrees that, in addition to any other courts that may have jurisdiction under applicable laws, any action or proceeding to enforce or arising out of this Agreement or any of the other Loan Documents may be commenced in the Courts of the State of New York, or in the United States District Court for the Southern District of New York, and the Borrower consents and submits in advance to such jurisdiction and agrees that venue will be proper in such courts on any such matter. The Borrower hereby waives personal service of process and agrees that a summons and complaint commencing an action or proceeding in any such court shall be properly served and shall confer personal jurisdiction if served by registered or certified mail return receipt requested to the Borrower. Should the Borrower fail to appear or answer any summons, complaint, process or papers so served within thirty (30) days after the mailing or other service thereof, it shall be deemed in default and an order or judgment may be entered against it as demanded or prayed for in such summons, complaint, process or papers. The choice of forum set forth in this section shall not be deemed to preclude the enforcement of any judgment obtained in such forum, or the taking of any action under this Agreement to enforce the same, in any appropriate jurisdiction.

(b) NOTWITHSTANDING ANY OTHER PROVISION OF THIS AGREEMENT TO THE CONTRARY, ANY CONTROVERSY OR CLAIM BETWEEN OR AMONG THE PARTIES, INCLUDING BUT NOT LIMITED TO THOSE ARISING OUT OF OR RELATING TO THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT AND ANY CLAIM BASED ON OR ARISING FROM AN ALLEGED TORT, SHALL AT THE REQUEST OF EITHER PARTY HERETO BE DETERMINED BY ARBITRATION. The arbitration shall be conducted in accordance with the United States Arbitration Act (Title 9, U.S. Code), notwithstanding any choice of law provision in this Agreement, and under the Commercial Rules of the American Arbitration Association ("AAA"). The arbitrator(s) shall give effect to statutes of limitation in determining any claim. Any controversy concerning

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whether an issue is arbitrable shall be determined by the arbitrator(s). Judgment upon the arbitration award may be entered in any court having jurisdiction. The institution and maintenance of an action for judicial relief or pursuant to a provisional or ancillary remedy shall not constitute a waiver of the right of either party, including the plaintiff, to submit the controversy or claim to arbitration if any other party contests such action for judicial relief.

(c) Notwithstanding the provisions of subparagraph (b), no controversy or claim shall be submitted to arbitration without the consent of all parties if, at the time of the proposed submission, such controversy or claim arises from or related to an obligation to the Lender which is secured by real estate property collateral (exclusive of real estate space lease assignments). If all parties do not consent to submission of such a controversy or claim to arbitration, the controversy or claim shall be determined as provided in Section 13.5(d).

(d) At the request of either party a controversy or claim which is not submitted to arbitration as provided and limited in Section 13.5(b) and (c) shall be determined by judicial reference. If such an election is made, the parties shall designate to the court a referee or referees selected under the auspices of the AAA in the same manner as arbitrators are selected in

AAA-sponsored proceedings. The presiding referee of the panel, or the referee if there is a single referee, shall be an active attorney or retired judge. Judgment upon the award rendered by such referee or referees shall be entered in the court in which such proceeding was commenced.

(e) No provision of Sections 13.5(b) through (d) shall limit the right of either party to this Agreement to exercise self-help remedies such as setoff, foreclosure against or sale of any real or personal property collateral or security, or obtaining provisional or ancillary remedies from a court of competent jurisdiction before, after, or during the pendency of any arbitration or other proceeding. The exercise of a remedy does not waive the right of either party to resort to arbitration or reference. At the Lender's option, foreclosure under a deed of trust or mortgage may be accomplished either by exercise of power of sale under the deed of trust or mortgage or by judicial foreclosure.

13.6 Waiver of Jury Trial, Etc. THE BORROWER HEREBY WAIVES TRIAL BY JURY, RIGHTS OF SETOFF, AND THE RIGHT TO IMPOSE COUNTERCLAIMS (OTHER THAN THOSE RIGHTS OF SETOFF AND COUNTERCLAIMS WHICH COULD NOT, BY REASON OF ANY APPLICABLE FEDERAL OR STATE PROCEDURAL LAWS, BE INTERPOSED, PLEADED OR ALLEGED IN ANY OTHER ACTION) IN ANY LITIGATION IN ANY COURT WITH RESPECT TO, IN CONNECTION WITH, OR ARISING OUT OF THIS AGREEMENT, THE OTHER LOAN DOCUMENTS, THE OBLIGATIONS OR THE COLLATERAL, OR ANY INSTRUMENT OR DOCUMENT DELIVERED PURSUANT HERETO OR THERETO, OR ANY OTHER CLAIM OR DISPUTE HOWSOEVER ARISING, BETWEEN THE BORROWER AND THE LENDER. THE BORROWER CONFIRMS THAT THE FOREGOING WAIVERS WERE NEGOTIATED AND ARE INFORMED AND FREELY MADE. NO CLAIM MAY BE MADE AGAINST THE LENDER FOR ANY LOST PROFITS OR OTHER CONSEQUENTIAL DAMAGES IN RESPECT OF ANY BREACH OR ANY WRONGFUL CONDUCT IN CONNECTION WITH, ARISING OUT OF, OR IN ANY WAY RELATED TO, THE TRANSACTIONS CONTEMPLATED HEREBY, OR ANY ACT, OMISSION OR EVENT OCCURRING IN CONNECTION THEREWITH; AND THE BORROWER HEREBY WAIVES, RELEASES AND AGREES NOT TO SUE UPON ANY SUCH CLAIM FOR ANY SUCH DAMAGES.

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13.7 Survival of Representations and Warranties. All of the Borrower's representations and warranties contained in this Agreement shall survive the execution, delivery and acceptance thereof by the parties, notwithstanding any investigation by the Lender or its agents.

13.8 General Indemnification. (a) The Borrower hereby indemnifies, defends and holds the Lender and its affiliates, and their respective directors, officers, agents, employees, counsel and consultants (each, an "Indemnified Party"), harmless from and against any and all losses, claims, damages, liabilities, deficiencies, judgments, penalties, costs or expenses (each, a "Claim"), imposed on, incurred by or asserted against any of them, whether direct, indirect or consequential arising out of or by reason of any litigation, investigations, claims, or proceedings (whether based on any federal, state or local laws or other statutes or regulations, including, without limitation, securities, environmental, or commercial laws and regulations, under common law or at equitable cause, or on contract or otherwise) commenced or threatened, which arise out of or are in any way based upon the negotiation, preparation, execution, delivery, enforcement, performance or administration of this Agreement, the Letter of Credit Agreement, any other Loan Document, or any undertaking or proceeding related

to any of the transactions contemplated hereby or any act, omission to act, event or transaction related or attendant thereto, including, without limitation, amounts paid in settlement, court costs, and the fees and expenses of counsel reasonably incurred in connection with any such litigation, investigation, claim or proceeding. The Borrower will not, however, be responsible to any Indemnified Party hereunder for any Claim to the extent that a court having jurisdiction shall have determined (which determination has not been successfully appealed by the Lender) that any such Claim shall have arisen out of or resulted from actions taken or omitted to be taken by such Indemnified Party which constitute the bad faith or willful misconduct of such Indemnified Party. Without limiting the foregoing, if, by reason of any suit or proceeding of any kind, nature, or description against the Borrower, or by the Borrower or any other party against the Lender, which in the Lender's sole discretion makes it advisable for the Lender to seek counsel for protection and preservation of its liens and security assets, or to defend its own interest, such expenses and counsel fees shall be allowed to the Lender. The Borrower shall have the right at any time during which a Claim is pending to select counsel reasonably acceptable to the applicable Indemnified Party to defend and control the defense thereof and settle any Claims for which it is an indemnitor hereunder so long as in any such event (i) the Borrower shall have stated in a writing delivered to the applicable Indemnified Party that, as between the Borrower and such Indemnified Party, the Borrower is responsible to such Indemnified Party with respect to such Claim and (ii) the applicable Indemnified Party shall have determined, in its reasonable judgment, that the Borrower has the financial ability to adequately pay such Claim or has adequate insurance coverage to pay same; provided, however, that the Indemnified Party (and not the Borrower) shall, at the expense of the Borrower, be entitled to control the defense of any Claim for which, in the reasonable opinion of counsel for the Indemnified Party, there are material defenses available to the Indemnified Party which are not available to the Borrower. In any other case, the Indemnified Party shall have the right to select counsel and control the defense of any Claims; provided, however, that no Indemnified Party shall settle any Claim as to which it is controlling the

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defense without the consent of the Borrower, which consent shall not be unreasonably withheld or delayed. With respect to any Claim for which the Borrower is entitled to select counsel, each Indemnified Party shall have the right, at its expense, to participate in the defense of such Claim. With respect to any Claim in which any Indemnified Party shall be entitled to control the defense thereof, the Borrower shall have the right, at its expense, to participate in the defense of such Claim. The Indemnified Parties and the Borrower shall cooperate with each other in all reasonable respects in any investigation, trial or defense of any such Claim and any appeal arising therefrom.

(b) To the extent that the undertaking to indemnify, pay and hold harmless set forth in this Section may be unenforceable because it is violative of any law or public policy, the Borrower shall contribute the maximum portion which it is permitted to pay and satisfy under applicable law, to the payment and satisfaction of all indemnified matters incurred by Lender and the other Indemnified Parties. The indemnity under this Section 13.8 shall survive the payment of the Obligations and the termination of this Agreement. All of the foregoing costs and expenses referred to in this

Section 13.8 shall be part of the Obligations and secured by the Collateral.

13.9 Indemnification for Increased Costs; Change in Circumstances. (a) If (A) on account of any law, rule, regulation or guideline adopted pursuant to or arising out of the July 1988 report of the Basle Committee on Banking Regulations and Supervisory Practices entitled "International Convergence of Capital Measurement and Capital Standards"; or (B) after the date hereof on account of (i) any change in or in the interpretation of any law, rule, regulation or guideline with respect to capital adequacy being introduced; or (ii) the Lender or any of its affiliates complying with any future guideline or request from any central bank or other governmental authority applying generally to a class of banks or its affiliates; or (iii) the Lender or any of its affiliates determining that the adoption after the date hereof of any applicable law, rule, regulation or guideline regarding capital adequacy, or any change therein, or any change in the interpretation or administration thereof by any governmental authority, central bank or comparable agency charged with the interpretation or administration thereof, has or would have the effect described below, or the Lender or any of its affiliates complies with any request or directive regarding capital adequacy (whether or not having the force of law) of any such authority, central bank or comparable agency applying generally to a class of banks or its affiliates, and in the case of clause (A), such law, rule, regulation or guideline, and in the case of clause (B), such adoption, change or compliance, has or would have the direct or indirect effect of reducing the rate of return on the Lender or any of its affiliate's capital as a consequence of its obligations hereunder or under or with respect to any Letter of Credit or Revolving Loan to a level below that which the Lender or its affiliate could have achieved but for such adoption, change or compliance (taking into consideration the Lender's and its affiliates' policies with respect to capital adequacy) by an amount deemed by the Lender to be material, or the result of any of the foregoing events described in clause (A) or (B) is an increase in the cost of the Lender or affiliate thereof of funding or maintaining the Lender's commitment to provide the Total Facility (including, without limitation, any Letters of Credit) herein contemplated or contemplated in the Letter of Credit Agreement, then

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the Borrower agrees to pay, from time to time upon demand by the Lender in accordance with the terms hereof, to the Lender additional amounts sufficient to compensate the Lender or its affiliate for such increased cost. In the event that any additional amounts shall be payable by the Borrower under this Section 13.9(a) which increase the effective lending rate hereunder to greater than 50 basis points in excess of the effective lending rate payable hereunder without giving effect to such additional amounts (and similar increases in effective lending rates due to events of the type requiring the Borrower to make payments under this Section 13.9(a) are not occurring generally under loan facilities of other lenders organized under the laws of the United States or any state thereof), then the Borrower may terminate this Agreement and prepay the Obligations as provided in Section 12.1 without the early termination fee set forth in such Section (but only if the Borrower notifies the Lender of its intention to so terminate this Agreement within 60 days after such increase in the Borrower's effective lending rate hereunder).

(b) Notwithstanding any other provision herein, if after the date hereof any change in applicable law or regulation or in the interpretation or

administration thereof by any governmental authority charged with the interpretation or administration thereof (whether or not having the force of law) shall (i) subject the Lender (which for purposes of this Section 13.9 shall include any assignee or lending office of the Lender or any affiliate of the Lender) to any tax with respect to any amount paid or to be paid by the Lender with respect to any Eurodollar Rate Loans or any Letter of Credit or with respect to any commitment to obtain or issue a Letter of Credit (other than (x) taxes imposed on the overall net income of the Lender and (y) franchise taxes imposed on the Lender, in either case by the jurisdiction in which the Lender has its principal office or its lending office with respect to such Eurodollar Rate Loan or any political subdivision or taxing authority thereof); (ii) change the basis of taxation of payments to the Lender of the principal of or interest on any Eurodollar Rate Loan or the payment of any amounts with respect to a Letter of Credit or any other fees or amounts payable hereunder (other than taxes imposed on the overall net income of the Lender by the jurisdiction in which the Lender has its principal office or by any political subdivision or taxing authority therein); (iii) impose, modify or deem applicable any reserve, special deposit or similar requirement against assets of, deposits with or for the account of, or loans or loan commitments extended by, or Letters of Credit or Letter of Credit obligations or commitments of, the Lender; or (iv) impose on the Lender or the London interbank market any other condition affecting this Agreement or Eurodollar Rate Loans or Letters of Credit; and the result of any of the foregoing shall be to increase the cost to the Lender of making or maintaining any Eurodollar Rate Loan, Letter of Credit or Letter of Credit obligation or commitment, or to reduce the amount of any payment (whether of principal, interest or otherwise) receivable by the Lender or to require the Lender to make any payment in respect of any Eurodollar Rate Loan or Letter of Credit, then the Borrower shall pay to the Lender, subject to paragraph (c) below, such additional amount or amounts as will compensate the Lender for such additional costs or reduction. The Lender agrees to give notice to the Borrower of any such change in law, regulation, interpretation or administration with reasonable promptness after becoming actually aware thereof and of the applicability thereof to the transactions herein contemplated.

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(c) A certificate as to the amount of and also setting forth the reasons for and, to the extent made available to other borrowers, the calculation of, such increased cost under paragraph (a) or (b) above shall be submitted to the Borrower by the Lender and shall be conclusive absent manifest error. The Borrower shall pay the amount of such certified cost to the Lender within 10 days after its receipt of such certificate from the Lender.

(d) Failure on the part of the Lender to demand compensation for any increased costs, reduction in amounts received or receivable with respect to any Interest Period or Letter of Credit or reduction in the rate of return earned on the Lender's capital, shall not constitute a waiver of the Lender's rights to demand compensation for any increased costs or reduction in amounts received or receivable or reduction in rate of return in such Interest Period or in any other Interest Period or with respect to such Letter of Credit or any other Letter of Credit. The protection hereunder shall be available to the Lender regardless of any possible contention of the invalidity or inapplicability of any law, regulation or other condition which shall give rise to any demand by the Lender for compensation.

(e) The Borrower shall indemnify the Lender against any loss (including, without limitation, loss of profits) or expense (including, but not limited to, any loss or expense sustained or incurred or to be sustained or incurred in liquidating or employing deposits from third parties acquired to affect or maintain any Revolving Loan or part thereof as a Eurodollar Rate Loan) which the Lender may sustain or incur as a consequence of the following events (regardless of whether such events occur as a result of the occurrence of an Event or an Event of Default or the exercise of any right or remedy of the Lender hereunder or under any other agreement, or at law): any failure of the Borrower to fulfill on the date of any borrowing hereunder the applicable conditions set forth herein applicable to it; any failure of the Borrower to borrow hereunder after irrevocable notice of borrowing pursuant to Article 2 has been given; any payment, prepayment or conversion of a Eurodollar Rate Loan on a date other than the last day of the relevant Interest Period; any default in payment or prepayment of the principal amount of any Eurodollar Rate Loan or any part thereof or interest accrued thereon, as and when due and payable (at the due date thereof, by irrevocable notice of prepayment or otherwise) or the occurrence of an Event of Default. Such loss or expense shall include, without limitation, an amount equal to the excess, if any, of (i) the amount of interest which would have accrued on the principal amount so paid, prepaid or converted or not borrowed for the period from the date of such payment, prepayment or conversion or failure to borrow to the last day of the Interest Period for such Eurodollar Rate Loan (or, in the case of a failure to borrow, the Interest Period for such Revolving Loan which would have commenced on the date of such failure to borrow), at the applicable rate of interest for such Revolving Loan provided for herein over (ii) the amount of interest (as reasonably determined by the Lender) that would be realized by the Lender in reemploying the funds so paid, prepaid or converted or not borrowed in United States Treasury obligations with comparable maturities for comparable periods. The Lender shall provide to the Borrower a statement, signed by an officer of the Lender, explaining any loss or expense and setting forth, if applicable, the computation pursuant to the preceding sentence, and

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such statement shall be conclusive absent manifest error. The Borrower shall pay the Lender the amount shown as due on any such statement within 10 days after the receipt of the same.

13.10 Fees and Expenses. Whether or not any of the transactions herein contemplated are consummated and regardless of the reasons for which such transactions are not consummated, the Borrower agrees to pay to the Lender on demand all costs and expenses that the Lender pays or incurs in connection with the negotiation, preparation, consummation, administration, enforcement, and termination of this Agreement and the other Loan Documents, including, without limitation: (a) attorneys' and paralegals' fees and disbursements of counsel to the Lender (including allocated in-house counsel fees and disbursements); (b) costs and expenses (including attorneys' and paralegals' fees and disbursements) for any amendment, supplement, waiver, consent, or subsequent closing in connection with the Loan Documents and the transactions contemplated thereby; (c) costs and expenses of lien searches; (d) taxes, fees and other charges for filing financing statements and continuations, and other actions to perfect, protect, and continue the Security Interest (including

costs and expenses paid or incurred by the Lender in connection with the consummation of this Agreement); (e) sums paid or incurred to pay any amount or take any action required of the Borrower under the Loan Documents that the Borrower fails to pay or take; (f) subject to the provisions of Section 6.5, costs of appraisals, audits, inspections, and verifications of the Collateral, including, without limitation, travel, lodging, and meals for inspections of the Collateral and the Borrower's operations by the Lender's agents plus the Lender's then customary charge for field examinations and audits and the preparation of reports thereof (such charge currently being \$500 per day (or portion thereof) for each agent or employee of the Lender with respect to any such examination or audit); (g) costs and expenses of forwarding loan proceeds, collecting checks and other items of payment and establishing and maintaining Payment Accounts and lock boxes; (h) costs and expenses of preserving and protecting the Collateral; (i) all amounts that the Borrower is required to pay under the Letter of Credit Agreement and (j) costs and expenses (including attorneys' and paralegals' fees and disbursements) paid or incurred to obtain payment of the Obligations, enforce the Security Interest, sell or otherwise realize upon the Collateral, and otherwise enforce the provisions of the Loan Documents, or to defend any claims made or threatened against the Lender arising out of the transactions contemplated hereby (including without limitation, preparations for and consultations concerning any such matters). The foregoing shall not be construed to limit any other provisions of the Loan Documents regarding costs and expenses to be paid by the Borrower.

13.11 Notices. All notices, demands and requests that either party is required or elects to give to the other shall be in writing (unless otherwise expressly provided herein), shall be delivered personally against receipt, or sent by recognized overnight courier service, or mailed by registered or certified mail, return receipt requested, postage prepaid, or sent by telecopy, and shall be addressed to the party to be notified as follows:

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If to the Lender:

BankAmerica Business Credit, Inc.
40 East 52nd Street
New York, New York 10022
Attention: Division Manager
Telecopier: (212) 836-5169

with a copy to:

Bank of America National Trust and Savings Association
335 Madison Avenue
New York, New York 10017
Attention: Legal Department (Reference: Grossman's Inc.)
Telecopier: (212) 503-7255

with a copy to:

Kaye, Scholer, Fierman, Hays & Handler
425 Park Avenue
New York, New York 10022
Attention: Jeffrey Epstein, Esq.
Telecopier: (212) 836-7151

If to the Borrower:

Grossman's Inc.
200 Union Street
Braintree, Massachusetts 02184
Attention: General Counsel
Telecopier: (617) 848-8173

with a copy to:

Ropes & Gray
One International Place
Boston, Massachusetts 02110
Attention: David C. Chapin, Esq.
Telecopier: (617) 951-7050

or to such other address as each party may designate for itself by like notice. Any such notice, demand, or request shall be deemed given when received if personally delivered or sent by overnight courier, or when deposited in the United States mails, postage paid, if sent by registered or certified mail, or when sent, if sent by telecopy.

13.12 Waiver of Notices. Unless otherwise expressly provided herein, the Borrower waives presentment, protest and notice of demand or dishonor and protest as to any instrument, as well as any and all other notices to which it might otherwise be entitled. No notice to or demand on the Borrower which the Lender may elect to give shall entitle the Borrower to any further notice or demand in the same, similar or other circumstances.

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13.13 Binding Effect; Assignment; Participations; Disclosure. The provisions of this Agreement shall be binding upon and inure to the benefit of the respective representatives, successors and assigns of the parties hereto; provided, however, that no interest herein may be assigned by the Borrower without the prior written consent of the Lender. The rights and benefits of the Lender hereunder shall, if the Lender so agrees, inure to any party acquiring any interest in the Obligations or any part thereof; provided, that the Lender shall not, without the prior written consent of the Borrower, effect any assignments of the Loans unless at all times while this Agreement is in effect BankAmerica Business Credit, Inc. retains at least 51% of the voting rights hereunder with respect to amendments and modifications to the Loan Documents and waivers of observance of provisions of the Loan Documents (it being understood and agreed to by the Borrower that amendments, modifications and waivers with respect to fees payable, interest rates payable, extensions of payment, renewal or termination dates and releases or substitutions of Collateral shall require greater than 51% of the voting rights hereunder). The Lender may effect participations in the Loans, Letters of Credit and other Obligations or any portion thereof without the prior

written consent of the Borrower; provided, that in such an instance the participant shall not have any rights under this Agreement or any other Loan Documents (the participant's rights against the Lender in respect of such participation to be those set forth in the agreement executed by the Lender in favor of the participant relating thereto which agreement shall not, in any event, grant to the participant the right of consent as to any matter under the Loan Documents other than those referred to in the parenthetical at the end of the immediately preceding sentence). BankAmerica Business Credit, Inc. agrees that, so long as it retains any interest in the Loans and there shall be additional lenders hereunder, BankAmerica Business Credit, Inc. shall act as agent for all the lenders hereunder. The Borrower agrees that, subject to the Borrower's prior consent for uses other than in a traditional tombstone, which consent shall not be unreasonably withheld or delayed, the Lender may use the Borrower's name in advertising and promotional materials and in conjunction therewith disclose the general terms of this Agreement. The Lender is hereby authorized to deliver a copy of any financial statement or any other information relating to the business, operations or financial condition of the Borrower and its Subsidiaries which may be furnished to the Lender hereunder or otherwise, to any prospective assignee or Participating Lender. The Lender shall hold all non-public, proprietary or confidential information obtained pursuant to or in connection with the transactions contemplated by the Loan Documents (the "Confidential Information") in confidence and shall not use or disclose any such Confidential Information except for purposes of the transactions contemplated by and in accordance with the Loan Documents; provided, however, that the Lender may disclose any such Confidential Information (i) to its examiners, outside auditors, counsel, consultants, appraisers and other professional advisors in connection with the transactions contemplated by the Loan Documents, (ii) as required by any applicable laws and regulations or by any subpoena or similar legal process or as requested by any governmental, judicial or regulatory body, or (iii) to any proposed assignee or Participating Lender in connection with the contemplated transfer or assignment of any Loan (or portion thereof) or participation therein, provided that any such Person under the clause (iii) shall execute a confidentiality agreement containing confidentiality provisions substantially identical to those contained in this Section 13.13. Notwithstanding the

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foregoing, the confidentiality provisions of this Section 13.13 shall not apply to such portions of the Confidential Information that (i) are or become available to the public through no fault or action of the Lender or its representatives, (ii) become available to the Lender or its representatives on a non-confidential basis from a source other than the Borrower or its representatives, (iii) were available to the Lender on a non-confidential basis prior to its disclosure to the Lender by the Borrower, (iv) the Borrower shall have consented to in writing or (v) are disclosed in connection with the sale of any Collateral pursuant to the provisions of any of the Loan Documents.

13.14 Modification. This Agreement and the other Loan Documents are intended by the Borrower and the Lender to be the final, complete, and exclusive expression of the agreement between them as to the subject matter hereof. This Agreement and the other Loan Documents supersede any and all prior oral or written agreements relating to the subject matter hereof. No modification, rescission, waiver, release, or amendment of any provision of

this Agreement or any other Loan Document shall be made, except by a written agreement signed by the Borrower and a duly authorized officer of the Lender.

13.15 Counterparts. This Agreement may be executed in any number of counterparts, and by the Lender and the Borrower in separate counterparts, each of which shall be an original, but all of which shall together constitute one and the same agreement.

13.16 Captions. The captions contained in this Agreement are for convenience only, are without substantive meaning and should not be construed to modify, enlarge, or restrict any provision.

13.17 Right of Setoff. Whenever an Event of Default exists, the Lender is hereby authorized at any time and from time to time, to set off and apply any and all deposits (general or special, time or demand, provisional or final) at any time held and other indebtedness at any time owing by the Lender or any affiliate of the Lender to or for the credit or the account of the Borrower against any and all of the Obligations, whether or not then due and payable.

13.18 Participating Lender's Security Interests. If a Participating Lender shall at any time with the Borrower's knowledge participate with the Lender in the Loans or Letters of Credit, the Borrower hereby grants to such Participating Lender, and the Lender and such Participating Lender shall have and are hereby given, a continuing lien on and security interest in any money, securities and other property of the Borrower in the custody or possession of the Participating Lender, including the right of setoff, to the extent of the Participating Lender's participation in the Obligations, and such Participating Lender shall be deemed to have the same right of setoff to the extent of the Participating Lender's participation in the Obligations under this Agreement, as it would have if it were a direct lender.

13.19 Other Security and Guaranties. The Lender may, without notice or demand and without affecting the Borrower's obligations hereunder, from time to time: (a) take from any Person and hold collateral (other than the Collateral) for the payment of all or any part of the Obligations and

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exchange, enforce or release such collateral or any part thereof; and (b) accept and hold any endorsement or guaranty of payment of all or any part of the Obligations and release any such endorser or guarantor, or any Person who has given any Lien in any other collateral as security for the payment of all or any part of the Obligations, or any other Person in any way obligated to pay all or any part of the Obligations.

IN WITNESS WHEREOF, the parties have entered into this Agreement on the date first above written.

GROSSMAN'S INC.

By: /s/ Sydney L. Katz

Name: Sydney L. Katz

Title: Executive Vice President, Chief
Financial Officer and Treasurer

BANKAMERICA BUSINESS CREDIT, INC.

By: /s/ Ira A. Mermelstein

Name: Ira A. Mermelstein

Title: Vice President

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ERISA

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None, except as listed on Schedules 9.9 - Debt and 9.8(d) - Letters of Credit.

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Schedule 9.5

Stores to be Closed

<CAPTION>

Connecticut
<S>
Enfield
North Haven
Hartford
Stratford
West Haven

Maine
<C>
Eastport

Massachusetts
<C>
Brockton
Danvers
Hanover
Medford
New Bedford
Quincy
Shrewsbury

New Hampshire

New York

Rhode Island

Manchester
Nashua
Salem

Brighton
Colonie
Irondequoit
Port Jefferson

North Kingstown
Woonsocket

Pennsylvania

Erie

Corporate Headquarters site
200 Union Street
Braintree, Massachusetts

</TABLE>

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Schedule 9.8(c)

Existing Guarantees Schedule 9.8(d)

Letter of Expiration Credit No. Date	Undrawn Beneficiary Amount	Issue Date
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Debt

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Schedule 9.11

Transactions with Affiliates

None

Schedule 9.14

Permitted Liens

The interest of Chemical Bank in real property for which a mortgage has been given for the following locations:

Amherst, New York
Hamburg, New York
Depew, New York
Lakewood, New York
Camillus, New York
Hanover, Massachusetts
Manchester, Connecticut

The interest of Sanwa Business Credit Corporation in real property for which a mortgage has been given for the following locations:

Sacramento, California
Danvers, Massachusetts
Niagara, New York

The interest of the State of Connecticut - Department of Economic Development

in equipment (Rack) located at:

Distribution Center in Manchester, Connecticut

for which a lien has been given.

Interest in various Capitalized Leases for equipment reflected on Schedule 9.9.

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Grossman's Inc. 1993 Key Employee Stock Option Plan, dated April 27, 1993.

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GROSSMAN'S INC.

1993 Key Employee Stock Option Plan

1. Purpose

The Grossman's Inc. 1993 Key Employee Stock Option Plan (the "Plan") is intended to provide incentives and rewards to selected employees of Grossman's Inc. (the "Corporation") and its subsidiaries who are not executive officers, but whose performance is critical to the Corporation's success, by providing them with opportunities to purchase stock in the Corporation pursuant to options ("Options") which are not "incentive stock options" under section 422 of the Internal Revenue Code of 1986, as amended (the "Code").

2. Administration

The board of directors of the Corporation (the "Board") shall appoint an officer or director (or a committee of officers or directors) of the Corporation to administer the Plan (such officer, director or committee shall hereinafter be referred to as the "Administrator"). If the Board does not appoint an Administrator, the Corporation's Chief Executive

Officer shall be the Administrator.

The Administrator shall have the authority, subject to the terms of the Plan, to determine the employees to whom Options shall be granted, the number of shares to be covered by each Option, the purchase price of the stock covered by each Option, the time or times at which Options shall be granted, the time or times at which and the terms and conditions upon which Options shall become exercisable, and the terms and provisions of the instruments by which Options shall be evidenced. The Administrator shall also have the authority to interpret the Plan, to establish such rules and regulations not inconsistent with the terms of the Plan as it deems necessary or appropriate for the administration of the Plan and to make all determinations necessary or advisable for the administration of the Plan. With the consent of employees to whom Options have been granted, the Board or any committee thereof designated by the Board (the "Committee") may grant replacement Options, which may be at a lower exercise price, in substitution for outstanding Options and to cancel such outstanding options.

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No member of the Board or the Committee nor the individual or individuals serving as the Administrator shall be liable for any action or determination made in good faith with respect to the Plan or any Option granted under the Plan.

3. Eligibility

Options may be granted only to key employees of the Corporation or any of its subsidiaries, including, without limitation, store management personnel, administrative and professional staff and merchandising managers, selected by the Administrator. No executive officer of the Corporation (within the meaning of Section 16(a) of the Securities Exchange Act of 1934, as amended), shall be eligible to receive Options under the Plan. Unless otherwise determined by the Board or the Committee, no employee of the Corporation or any of its subsidiaries who has received an option grant under any other option plan maintained by the Corporation shall thereafter be eligible to receive any Options hereunder. Granting an Option to an employee shall neither entitle such employee to, nor disqualify him from, participation in any other grant of

Options or in any other incentive plan or give him any right to, or disqualify him from receiving, any additional Option grants under the Plan.

4. Stock

The stock as to which Options may be granted is the Corporation's Common Stock ("Stock"). When Options are exercised the Corporation may either issue unissued Stock or transfer issued Stock held in its treasury. The total amount of Stock of the Corporation which may be issued upon the exercise of Options granted under the Plan shall not exceed 600,000 shares. Any shares of Stock subject to an option which is forfeited due to termination of employment or which otherwise lapses without being exercised shall again be available for grant hereunder.

5. Granting of Options

Unless otherwise determined by the Board or the Committee, no employee shall receive Options under the Plan with respect to more than 5,000 shares of Stock and Options for not more than 300,000 shares shall be granted in any calendar year. The date of grant of an Option under the Plan will be the date on which the Option is awarded by Administrator, unless a later date is specified by the Administrator at the time of the award with respect to all or any portion of such award.

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6. Terms and Conditions of Options

Options shall be evidenced by instruments in such form as the Administrator may from time to time approve. Such instruments shall conform to the following terms and conditions:

(a) Option Price. The Option price per share shall be not less than the fair market value of a share of Stock on the day the Option is granted. For purposes of this Plan, fair market value of a share of Stock shall mean the closing price of a share on NASDAQ on the relevant date.

(b) Term of Options. Each Option shall expire no later than the tenth anniversary of the date of its grant.

(c) Exercisability. Each Option shall become exercisable immediately or in one or more installments at such time or times or upon the satisfaction of such conditions as may be determined by the Administrator and provided in the instrument evidencing the Option. Once an installment becomes exercisable it shall remain exercisable until expiration or termination of the Option.

An Option may be exercised from time to time, in whole or in part, up to the total number of shares with respect to which it is then exercisable.

(d) Payment. Each instrument evidencing an Option shall provide for the terms of payment of the Option price. In accordance with the terms of such instrument, an employee may purchase Stock upon exercise of the Option for cash or Stock. If Stock is used as whole or partial payment of the Option price, such Stock shall be valued at its fair market value on the date of exercise.

(e) Termination of Employment. If an employee to whom or for whose benefit an Option is granted ceases to be employed by the Corporation or any subsidiary other than by reason of death, no further installments of his Options will become exercisable, and his Options shall terminate after the passage of three months from the date of termination of his employment (or such shorter or longer period as may be approved by the Administrator and provided in the instrument evidencing the option), except in the case of termination due to a disability within the meaning of section 22(e)(3) of

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the Code, in which case his Options shall terminate after the passage of one year from the date of termination of his employment, but in any event not later than their specified expiration dates. Whether authorized leave of absence or absence on military or governmental service may constitute employment for the purposes of the Plan shall be conclusively determined by the Administrator.

(f) Death. If an employee to whom an Option is granted dies, such Option may be exercised, to the extent of the number of shares with respect to which the employee could have exercised it on the date of his

death, by his estate, personal representative or beneficiary who acquires the Option by will or by the laws of descent and distribution, at any time prior to the earlier of the specified expiration date of the Option or the first anniversary of the employee's death. On the earlier of such dates, the Option shall terminate.

(g) Assignability. Unless otherwise determined by the Board or the Committee, no Option shall be assignable or transferable by the employee to whom an Option is granted except by will or by the laws of descent and distribution, and during the lifetime of the employee each Option shall be exercisable only by him. At the request of an employee, stock purchased on exercise of an Option may be issued in or transferred into the name of the employee and another person jointly with the right of survivorship.

(h) Withholding. The Corporation's obligation to deliver stock upon the exercise of any Option shall be subject to applicable federal, state and local tax withholding requirements.

Instruments evidencing Options may contain such other provisions, not inconsistent with the Plan, as the Administrator deems advisable. Among these provisions may be a provision under which the Corporation, in the discretion of the Board or the Committee, shall have the right, in lieu of delivering any or all Stock as to which the Option has been exercised, to elect instead to pay the employee an amount in cash or Stock equal to the difference between the fair market value of such Stock on the date of exercise and the option exercise price that would otherwise be payable by the employee to acquire such Stock.

7. Capital Adjustments

The number and purchase price of shares covered by each Option and the total number of shares that may be sold under the Plan shall be proportionately adjusted to reflect, as deemed equitable and appropriate by the Board or the Committee, any stock dividend, stock split, combination or exchange of shares, recapitalization, reclassification, or other similar transaction of the Corporation. Such adjustment

may take the form of a grant of either a substitute option, an additional option, or a change in the number or purchase price of the shares of stock subject to an Option. To the extent deemed equitable and appropriate by the Board or the Committee, subject to any required action by stockholders, in any other merger, consolidation, reorganization, liquidation or dissolution, any Option granted under the Plan shall pertain to the stock and other property which a holder of the Stock covered by the Option would have been entitled to receive in connection with such event.

8. Indemnification

In addition to such other rights of indemnification as he may have by reason of his position with the Corporation, each member of the Board or the Committee and each and every individual serving as the Administrator shall be indemnified by the Corporation against all costs and expenses reasonably incurred by them in connection with any action, suit or proceeding to which they or any of them may be party by reason of any action taken or failure to act under or in connection with the Plan, or any Option granted thereunder, and against all amounts paid by them in settlement thereof (provided such settlement is approved by legal counsel selected by the Corporation) or paid by them in satisfaction of a judgment in any such action, suit or proceeding, except a judgment based upon a finding of bad faith. Upon the institution of any such action, suit or proceeding a Board or Committee member shall notify the Corporation in writing, giving the Corporation an opportunity, at its own expense, to handle and defend the same before such Board or Committee member undertakes to handle it on his own behalf.

9. Term and Amendment of the Plan

The Plan has been adopted by the Board on April 27, 1993. The Board or the Committee may terminate or amend the Plan in any respect at any time, except that no action of the Board or the Committee may alter or impair an employee's rights under any outstanding Option without his consent. The

Administrator may amend the Plan at any time provided that such amendment does not (a) materially increase the cost of the Plan to the Corporation, (b) increase the number of shares authorized for issuance under this Plan, (c) reduce the exercise price at which an Option may be granted below that

established under Section 6(a), (d) increase the maximum number of shares that may be purchased by any employee pursuant to Options granted under the Plan or (e) conflict with or violate any applicable provision of Federal, state or local law. 10.
Use of Proceeds

Proceeds from the sale of Stock pursuant to Options granted under the Plan shall constitute general funds of the Corporation. Shares of Stock tendered upon the exercise of Options granted under the Plan shall become treasury shares of the Corporation.

Statement re computation of earnings per share.

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<TABLE>

Exhibit 11(a)

GROSSMAN'S INC.
COMPUTATION OF EARNINGS PER SHARE
(In thousands, except per share data)

<CAPTION>

	Year Ended December 31, 1993	Year Ended December 31, 1992	Year Ended December 31, 1991
	-----	-----	-----
<S>	<C>	<C>	<C>
Net income (loss) for primary and fully diluted earnings per share	\$ (68,348) =====	\$ 6,232 =====	\$ 4,291 =====
Weighted average number of shares outstanding	25,661	25,518	25,475
Net effect of dilutive stock options	- -----	675 -----	403 -----
Total weighted average shares outstanding and common stock equivalents used in primary calculation of earnings per share	25,661	26,193	25,878
Additional dilution from stock options	- -----	48 -----	- -----
Total weighted average shares outstanding and common stock equivalents used in fully diluted calculation of earnings per share	25,661 =====	26,241 =====	25,878 =====
Net Income Per Common Share (Primary and Fully Diluted)	\$ (2.66) =====	\$0.24 =====	\$ 0.17 =====

</TABLE>

Consent of Ernst & Young, Independent Auditors.

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CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference in the Registration Statement (Form S-8 No. 33-18114) pertaining to the 1986 Nonqualified Stock Option Plan of Grossman's Inc. of our report dated January 31, 1994, with respect to the consolidated financial statements and schedules of Grossman's Inc. and subsidiaries included in the Annual Report (Form 10-K) for the year ended December 31, 1993.

ERNST & YOUNG

Boston, Massachusetts
March 16, 1994

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