

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

FOR THE FISCAL YEAR ENDED DECEMBER 31, 1999
COMMISSION FILE NUMBER 1-11893

GUESS ?, INC.

(Exact name of registrant as specified in its charter)

DELAWARE 95-3679695
(State or other jurisdiction (I.R.S. Employer Identification Number)
of incorporation or organization)

1444 SOUTH ALAMEDA STREET
LOS ANGELES, CALIFORNIA 90021
(213) 765-3100

(Address, including zip code, and telephone number, including area code)

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

TITLE OF EACH CLASS	NAME OF EACH EXCHANGE ON WHICH REGISTERED
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Common Stock, par value \$0.01 per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: NONE

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

Indicate by check mark if disclosure of delinquent filers pursuant to item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of 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. / /

As of the close of business on March 22, 2000, the aggregate market value of the voting and non-voting common equity stock held by non-affiliates of the registrant was \$214,459,553.

As of the close of business on March 22, 2000, the registrant had 43,398,885 shares of Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the proxy statement for the registrant's 2000 Annual Meeting of Stockholders are incorporated by reference into Part III herein.

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PART I

ITEM 1. BUSINESS

IMPORTANT FACTORS REGARDING FORWARD-LOOKING STATEMENTS

Various forward-looking statements have been made in this Form 10-K. Forward-looking statements may also be in the Company's other reports filed under the Securities Exchange Act of 1934, in its press releases and in other documents. In addition, from time to time, the Company, through its management, may make oral forward-looking statements.

Forward-looking statements are only expectations, and involve known and unknown risks and uncertainties, which may cause actual results in future periods and other future events to differ materially from what is currently anticipated. Certain statements in this Form 10-K, including those relating to the Company's expected results, the accuracy of data relating to, and anticipated levels of, its future inventory and gross margins, its anticipated cash requirements and sources, the relocation of its distribution center, its cost containment efforts, its plans regarding store openings and closings and its business seasonality, are forward-looking statements. Such statements involve risks and uncertainties, which may cause results to differ materially from those set forth in these statements. Factors which may cause actual results in future periods to differ from its current expectations include, among other things, the continued availability of sufficient working capital, the availability of adequate sources of capital, the successful integration of new stores into existing operations, the continued desirability and customer

acceptance of existing and future product lines, possible cancellations of wholesale orders, the success of competitive products, the success of the Company's programs to strengthen its inventory cost accounting controls and procedures and the success of technology being used in the Company's new distribution center. In addition to these factors, the economic and other factors identified in this Form 10-K, including but not limited to the risk factors discussed herein and in the Company's previously filed public documents could affect the forward-looking statements contained in herein and therein.

Forward-looking statements generally refer to future plans and performance, and are identified by the words "believe," "expect," "anticipate," "optimistic," "intend," "aim," "will" or the negative thereof and similar expressions. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of which they are made. The Company undertakes no obligation to update publicly or revise any forward-looking statements.

For additional information regarding forward-looking statements, refer to "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" contained herein.

GENERAL

Unless the context indicates otherwise, when we refer to "we," "us" or the "Company" in this Form 10-K, we are referring to Guess?, Inc. ("GUESS?") and its subsidiaries on a consolidated basis.

We design, market, distribute and license one of the world's leading lifestyle collections of casual apparel and accessories for men, women and children that reflect the American lifestyle and European fashion sensibilities. Our apparel is marketed under numerous trademarks including GUESS, GUESS?, GUESS U.S.A., GUESS Jeans, GUESS? and Triangle Design, Question Mark and Triangle Design, GUESS Kids, and GUESS Collection. The lines include full collections of denim and cotton clothing, including jeans, pants, overalls, skirts, dresses, shorts, blouses, shirts, jackets and knitwear. We also selectively grant licenses to manufacture and distribute a broad range of products that complement our apparel lines, including eyewear, watches, footwear, infant apparel and other fashion accessories.

Our products are sold through three distribution channels: in our own stores, to a network of wholesale accounts and through the Internet. GUESS? branded products, some of which are produced under license, are also sold internationally through a series of licensees and distributors. Our core customer is a style-conscious consumer between the ages of 15 and 25. These consumers are part of a highly desirable demographic group that we believe is growing rapidly and has significant disposable

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income. We also appeal to customers outside this group through specialty product lines that include GUESS Collection, a more sophisticated fashion line targeted to women, and GUESS Kids, targeted to boys and girls ages 6 through 12.

We were founded in 1981 by Maurice Marciano, Paul Marciano and Armand Marciano and we currently operate as a Delaware corporation.

BUSINESS SEGMENTS

Our business consists of three reportable business segments: retail operations, wholesale operations and licensing operations. Financial information about each segment for the fiscal years ended December 31, 1997, 1998 and 1999 are included under Note 11 to the Consolidated Financial Statements contained herein.

In 1999, 50.0% of our net revenue came from retail operations, 43.4% from wholesale operations and 6.6% from licensing operations. Our total net revenue in 1999 was \$599.7 million and net earnings were \$51.9 million.

BUSINESS STRENGTHS

We believe we possess a foundation of business strengths necessary for the execution of our business strategies. These business strengths include:

BRAND EQUITY. We believe that our name has become one of the most familiar in fashion and is one of our most valuable assets. We believe the enduring strength of the GUESS? brand name and image is due mainly to our consistent emphasis on innovative and distinctive product designs that stand for exceptional styling and quality. Our industry is highly competitive and subject to rapidly changing consumer preferences and tastes. The success of our brand depends on our ability to anticipate the fashion preferences of our customers. We have a team of designers who, under the direction of Maurice Marciano, seek to identify global fashion trends and interpret them for the style-conscious consumer while retaining the distinctive GUESS? image. Through our award-winning advertising, under the creative leadership and vision of Paul Marciano, we have achieved worldwide recognition of the GUESS? brand name. By retaining control over advertising and marketing activities from our headquarters in Los Angeles, we maintain the integrity, consistency and direction of the GUESS? brand image worldwide, while realizing substantial cost savings when compared to the use of outside advertising agencies.

We have developed the "GUESS? signature image" and "GUESS? lifestyle concept," through the use of our strong and distinctive images, merchandising display themes, logos, and trademarks which are registered in over 170 countries.

ADVERTISING AND MARKETING. All worldwide advertising, marketing activities and promotional materials are controlled from our headquarters in Los Angeles. GUESS Jeans, GUESS U.S.A. and Guess ?, Inc. images have been showcased in dozens of major publications, and outdoor and broadcast media throughout the United States and worldwide. Our advertising campaigns promote the GUESS? image with our award winning advertising and a consistent emphasis on innovative and distinctive designs.

We communicate this message through the use of our signature black and white print advertisements, as well as color print advertisements, designed by our in-house advertising department. Led by Paul Marciano, this team has won numerous awards and contributed to making the GUESS? brand one of the most recognizable fashion brands. We have maintained a high degree of consistency in our advertisements, by using similar themes and images. We require our licensees and distributors to invest a percentage of their net sales of licensed products and net purchases of GUESS? products, respectively, in Company-approved advertising, promotion and marketing.

RETAIL DISTRIBUTION. At December 31, 1999, we operated 92 full-price retail and 54 factory outlet stores in the United States and a retail store in Florence, Italy that is an integral part of our European design activities. Our 60% owned subsidiary, GUESS? Canada Corporation ("GUESS Canada"), operates

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13 retail stores in Canada. Our retail network creates an upscale and inviting shopping environment and enhances our image. Distribution through our retail stores allows us to influence the merchandising and presentation of our products, increase consumer awareness and build brand equity. Our retail stores carry a full assortment of men's and women's merchandise, including most of the GUESS? licensed products. Our factory outlet stores are primarily located in outlet malls, generally operating outside the shopping radius of our wholesale customers and our own retail stores. They appeal to value-conscious customers with a product line that is approximately 70% unique to that venue.

LICENSEE STORES. Our licensees and distributors also operate 229 international GUESS? stores. These stores carry apparel and accessories that are similar to those sold in the United States, including some that are tailored for local fashion sensibilities. We work closely with international licensees and distributors to ensure that their store designs and merchandise programs protect the reputation of the GUESS? trademarks. Our international licenses and distribution agreements also allow for the sale of GUESS? brand goods in better

department stores and upscale specialty retail stores.

WHOLESALE DISTRIBUTION. We have both domestic and international wholesale distribution channels. Domestic wholesale customers consist primarily of better department stores and select specialty retailers and upscale boutiques, which have the image and merchandising expertise that we require for the effective presentation of our products. Leading domestic wholesale customers include Federated Department Stores, Inc., The May Department Stores Company, Dillard's, Inc. and Dayton Hudson Corporation. During 1999, our products were sold directly to consumers from approximately 2,800 retail store locations in the United States. These locations include approximately 1,200 shop-in-shops, an exclusive selling area within a department store that offers a wide array of our products and incorporates GUESS? signage and fixture designs. These shop-in-shops allow us to reinforce our GUESS? brand image with our customers. Many department stores have more than one shop-in-shop, with each one featuring women's, men's or girls' apparel. Through our foreign subsidiaries and our network of international distributors, our products are also found in major cities throughout Asia, Europe, South America and the Middle East.

LICENSING OPERATIONS. The desirability of the GUESS? brand name among consumers has allowed us to selectively expand our product offerings and global markets through trademark licensing arrangements, with minimal capital investment or on-going operating expenses. We carefully select our trademark licensees and approve in advance all product design, advertising and packaging materials of all licensed products in order to maintain a consistent GUESS? image. We currently have 28 licenses that include watches, eyewear, shoes, handbags, leather apparel, jewelry and related accessories. We have granted licenses for the manufacture and sale of GUESS? branded products in markets which include Europe, Asia, South America, Australia and Africa.

BUSINESS GROWTH STRATEGIES

We regularly evaluate and implement initiatives that we believe will build brand equity, grow our business and enhance profitability. Our key growth strategies are as follows:

LEVERAGING THE GUESS? BRAND. We believe the GUESS? brand is an integral part of our business, a significant strategic asset and a primary source of sustainable competitive advantage. It communicates a distinctive image that is fun, fashionable and sexy. Brand loyalty, name awareness, perceived quality, strong brand images, public relations, publicity, promotional events and trademarks all contribute to brand equity. Our design teams visit the world's premier fashion locations in order to identify important style trends and to discover new fabrics. We will continue this practice while promoting our innovative designs through stylish advertising campaigns that advance the GUESS? image. Our marketing programs are designed to convey a uniform style image for the brand, aimed at increasing the desire of the target group to join our GUESS? customer group.

RETAIL STORE STRATEGY AND EXPANSION PLANS. We plan that our retail division will be our primary growth initiative over the next three to five years. We plan to achieve this growth by adding a significant number of

new stores, increasing the average size of our new stores and further increasing the sales productivity of all stores. During 1999, we opened 19 new stores in the United States and improved our operating base by closing 5 under performing stores. In 1999, we also increased our ownership in our Canadian licensee, GUESS Canada, which operates 13 retail stores in Canada, to 60%. We have an option to acquire the remaining 40% of our Canadian subsidiary commencing December 31, 2001.

We currently plan to more than double our retail square footage in the United States and Canada during the next three years. We plan to open 25 new retail stores and 10 new factory outlet stores in the United States in 2000. We also plan to open 10 GUESS Kids stores in the United States, which will carry girls', boys' and Baby GUESS apparel. We also expect that our Canadian licensee,

GUESS Canada, will open 15 new retail stores in Canada in 2000. It has been our experience that our retail locations build brand awareness and contribute to the growth of our wholesale operations.

In 1999, our retail stores open a minimum of one year realized comparable store sales gains averaging 28% over 1998 and our factory outlet stores realized net gains averaging 24%. We believe this growth reflects the re-emergence of the GUESS? brand nationally, and among other things, the effect of several ongoing initiatives, including:

- being a leader in new product development,
- producing a more fashion-focused product mix,
- improvements in merchandising and visual presentation,
- the remodeling of select stores to promote a consistent brand message and
- the development of a motivated team of sales professionals so that our customers have a favorable shopping experience.

The look and feel of GUESS? retail and factory outlet stores play an important role in building our brand equity. To enhance the quality of our presentation, we remodeled 14 stores during 1999 and plan to remodel an additional 25 stores during 2000.

EXPAND SHOP-IN-SHOP PROGRAMS. We are continuing to selectively expand our use of "shop-in-shops," which are exclusive selling areas within wholesale customers' department stores that use GUESS? signage and fixture designs. The GUESS? "shop-in-shop" concept is designed to enhance the presence and brand awareness of GUESS? products in department stores. The strategic product presentation, theme-based fixtures, displays, strong and distinctive images and point-of-sale materials in these premium department store locations are designed to reinforce and capitalize on the "GUESS? lifestyle" concept. These shops also facilitate consumer shopping by featuring a comprehensive presentation of our merchandise. In our wholesale business in 1998 and 1999, we focused on the department stores with the greatest sales potential while increasing our shop-in-shop presence in those stores. At the end of 1999, we had approximately 1,200 GUESS? shop-in-shops in the United States. We expect to continue to grow our domestic wholesale operations in 2000, and plan to add or remodel up to 500 additional shop-in-shops this year. We also plan to selectively increase our presence in department stores, specialty retail chains and upscale boutiques.

REPOSITION LICENSEE PORTFOLIO. A primary objective as a company is to maintain the quality and reputation of the GUESS? brand. In order to maintain quality and control of the GUESS? brand, we will continue to strategically reposition our licensing portfolio by bringing in-house apparel licenses, where appropriate. To maintain brand integrity and image, we aggressively monitor the performance of our licensees. If we determine that licensees are performing inadequately, we sometimes discontinue the existing relationship and seek out a stronger replacement licensee or if appropriate, produce the product line in-house. Over the past few years, we have converted our women's knits and girls' product lines from licenses to our own products, and we recently reacquired our boys' line. Our girls' and boys' apparel lines will both be prominently featured in our new GUESS Kids stores and a planned series of girls' and boys' shop-in-shops. We terminated our licensee for Baby GUESS in 1999 and have a new licensee producing the Baby GUESS line in 2000.

IMPROVED PRODUCT SOURCING. We have refocused our product sourcing strategies to increase efficiencies, reduce costs and improve quality. We currently purchase approximately 75% of our finished products from international vendors. This is a significant change from several years ago when we purchased the majority of our goods from domestic sources. We have increased our utilization of lower-cost, offshore "packaged purchases." in which we supply the product design and fabric selection, and the vendor manufacturers and delivers the finished product. We have strategically aligned ourselves with sourcing

vendors worldwide, who will take full responsibility for delivering a quality, finished product in a timely manner. We have substantially reduced our average cost per unit at the same time as we have lowered the price of many of our items. We also retain a close relationship with a number of domestic vendors located primarily in Los Angeles as it is important to react to last minute trends, as well as respond to rush reorders. By continuing to use packaged programs, we believe we can continue to achieve improved product gross margins, reduce carry costs of raw materials and improve deliveries and quality.

RELOCATE DISTRIBUTION CENTER. We have opened a new, automated distribution center in Louisville, Kentucky, to replace our distribution center in Los Angeles. Our new, 500,000 square-foot facility is near United Parcel Service's national transit hub and, when fully operational in the second quarter of fiscal year 2000, is expected to reduce our shipping time to the majority of our stores and wholesale accounts that are east. We expect the new distribution center, in addition to enabling us to get our products to market more rapidly, will allow us to reduce distribution operating costs per unit, reduce our shipping costs and provide better service to our customers.

E-COMMERCE. We are pursuing both business-to-consumer and business-to-business initiatives. Our web site, www.guess.com, a virtual storefront that promotes the GUESS? brand, became fully operational in April 1999. Designed as a customer center, the site showcases GUESS? products in an easy-to-navigate format, allowing customers to see and purchase our collections of casual apparel and accessories. This virtual store is designed to develop an additional retail distribution channel, improve customer service levels and create a fun and entertaining alternative-shopping environment. The site also provides fashion information, provides a mechanism for customer feedback, promotes customer loyalty and enhances our brand identity through interactive content. This site generates net revenue consistent with an average GUESS? retail store.

During 2000, we intend to introduce a business-to-business concept that will facilitate our interaction with wholesale customers, licensees and suppliers. The site, which will utilize Commerce One's MarketSite with PeopleSoft's eProcurement software, is designed to permit the purchase of both indirect items such as office and maintenance supplies and direct items such as trims, fabric, and finished goods. Our site has the potential to become an electronic marketplace that will facilitate various levels of interaction between buyers and sellers in the textile and apparel industries, and to reduce our operating costs, increase our sourcing efficiencies and improve customer service.

GUESS? PRODUCTS

We derive net revenue from three primary sources:

- the sale of GUESS? men's, women's, girls' and boys' apparel,
- the sale of our licensees' products through our network of retail and factory outlet stores primarily in the United States and
- the sale of GUESS? men's, women's, girls' and boys' apparel worldwide to wholesale customers and distributors and net royalties from worldwide licensing activities.

The following table sets forth our net revenue from our channels of distribution.

	YEAR ENDED DECEMBER 31,					
	1997		1998		1999	
	(DOLLARS IN THOUSANDS)					
Net Revenue:						
Retail operations.....	\$215,873	41.9%	\$222,624	47.2%	\$299,384	50.0%
Wholesale operations.....	250,040	48.5	212,504	45.0	260,628	43.4

Net revenue from product sales.....	465,913	90.4	435,128	92.2	560,012	93.4
Net royalties.....	49,459	9.6	36,803	7.8	39,638	6.6
Total net revenue.....	\$515,372	100%	\$471,931	100%	\$599,650	100%

PRODUCTS. Our product line is organized into four primary categories: men's, women's, girls' and boys' apparel. In 1999, we reacquired our boys' apparel line from a former licensee and now produce the line in-house. The product assortment was refocused with a more narrow and deep buying strategy using fewer stock keeping units ("SKUs") to be able to give our customers more depth of the styles they want. New fashioned-oriented product is offered monthly. To take advantage of the contemporary trends, we complement our core basic styles with more fashion-oriented items. Within our basic denim assortment, we have added new denim fabrics and washes. In addition, we have also been successful in adding "immediates" to our merchandise assortment. These are fashion forward styles that compliment our current product that continue to keep GUESS? as the fashion leader and trend setter in the industry.

Our line of women's apparel also includes the GUESS Collection product line, a better collection of women's skirts, dresses, tops, jackets, blazers and blouses incorporating a sophisticated, high fashion combination of colors and styles. These products are currently sold exclusively through our retail stores and the Internet and our primarily designed to appeal to the contemporary segment of the apparel market.

LICENSED PRODUCTS. The high level of desirability of the GUESS? brand name among consumers has allowed us to selectively expand our product offerings and distribution channels worldwide through trademark licensing arrangements. We currently have 28 trademark licenses. Worldwide sales of licensed products (as reported to us by our licensees) were approximately \$525 million in 1999. Our net royalties from these sales, including fees from new licensees, were \$39.6 million in 1999. Approximately 40% of our net royalties were derived from our top 3 licensed product lines in 1999.

DESIGN

Under the direction of Maurice Marciano, GUESS? apparel is designed by an in-house staff of five design teams (men's, women's, girls', boys' and GUESS Collection) located in Los Angeles, California. GUESS? design teams travel throughout the world in order to monitor fashion trends and discover new fabrics. Fabric shows in Europe, Asia and the United States provide additional opportunities to discover and sample new fabrics. These fabrics, together with the trends observed by our designers, serve as the primary source of inspiration for our lines and collections. We also maintain a fashion library consisting of antique and contemporary garments as an additional source of creative concepts. In addition, design teams regularly meet with members of the sales, merchandising and retail operations to further refine our products in order to meet the particular needs of our markets.

DOMESTIC RETAIL OPERATIONS

At December 31, 1999, our domestic retail operations consisted of 92 full-price retail and 54 factory outlet stores in the United States that we owned and operated directly, which sell GUESS?-label products. Since the beginning of 1996 through December 31, 1999, we have opened a total of 39 retail stores and 17 factory outlet stores and have closed or consolidated 9 retail and 10 factory outlet stores in the United

States. The percentage of net revenue generated by the retail network has increased from 47.2% to 50.0% of our net revenue from product sales from the beginning of 1996 through December 31, 1999.

RETAIL STORES. Our 92 domestic retail stores occupy 494,000 square feet and range in size from approximately 3,000 to 10,000 square feet. Our retail stores carry a full assortment of men's and women's GUESS? merchandise, including most

of our licensed products. In 1999, our retail division introduced its own fragrance line. During 1999, we opened 9 retail stores, remodeled another 10 retail stores and closed one retail store as a result of a store consolidation. We plan to open 25 new retail stores in the United States during 2000. During 2000, we also plan to launch our first 10 GUESS Kids stores to sell our girls' line and our boys' line as well as infant's clothing, which will be supplied by one of our licensees.

In 1999, our domestic retail stores achieved a 28% comparable store increase in net revenue. Every domestic retail store increased its sales over those in 1998. Our domestic retail stores open at the beginning of 1998 increased sales per square foot from \$346 in 1998 to \$434 in 1999.

FACTORY OUTLET STORES. Our 54 domestic factory outlet stores occupy approximately 300,000 square feet and range in size from approximately 3,500 to 8,900 square feet. They are primarily located in outlet malls generally operating outside the shopping radius of our wholesale customers and our retail stores. These stores sell selected styles of GUESS? apparel and licensed products at a discount to value-conscious customers. We also use the factory outlet stores to assist us to distribute excess inventory effectively, thereby protecting the GUESS? image. Approximately 70% of the products sold in our factory outlet stores are unique to those stores. During 1999, we opened 10 new factory stores and closed 4 under-performing stores. We plan to open another 10 factory outlet stores in 2000. In 1999, our domestic factory outlet stores achieved a 24% comparable store sales increase in net revenue. Our domestic factory outlet stores open at the beginning of 1998 increased sales per square foot from \$258 in 1998 to \$335 in 1999.

DOMESTIC WHOLESALE CUSTOMERS

Our domestic wholesale customers consist primarily of better department stores and select upscale specialty stores, which have the image and merchandising expertise that we require for the effective presentation of our products. Leading wholesale customers include Federated Department Stores, Inc., The May Department Stores Company and Dillard's, Inc., among others. During 1999, we sold our products directly to approximately 2,800 retail doors in the United States.

A key element of our merchandising strategy is the shop-in-shop merchandising format, an exclusive selling area within a department store that presents a full array of GUESS? products using GUESS? signage and fixture designs. At December 31, 1999, there were approximately 1,200 shop-in-shops (excluding shop-in-shops installed by licensees and distributors) that feature GUESS? products (other than the GUESS Collection). We added or remodeled approximately 135 shop-in-shops in 1999 and intend to add or remodel up to 500 shop-in-shops by the end of 2000.

We have sales representatives in our showrooms in New York, Los Angeles, Dallas, Chicago, Milan and Florence, Italy and Hong Kong. They coordinate with customers to determine the inventory level and product mix that should be carried in each store to maximize retail sell-through and enhance the customers' profit margins. The inventory level and product mix are then used as the basis for developing sales projections and product needs for each wholesale customer and for scheduling production. Additionally, we use merchandise coordinators, who work with the store to ensure that our products are appropriately displayed.

A few of our domestic wholesale customers, including some under common ownership, have accounted for significant portions of our net revenue. During 1999, Bloomingdale's, Macy's and other affiliated stores owned by Federated Department Stores, Inc. together accounted for approximately 12.4% of our net revenue.

INTERNATIONAL BUSINESS

We derive net revenue and earnings outside the United States from two principal sources:

- sales of GUESS? brand apparel directly to 5 foreign distributors who distribute it to better department stores, upscale specialty retail stores and GUESS? licensed retail stores operated by our international distributors, and
- royalties from licensees who manufacture and distribute GUESS? brand products outside the United States. We sell products through distributors and licensees throughout Asia, South America, Europe, South Africa, Australia and the Middle East.

At December 31, 1999, 229 GUESS? retail and outlet stores were owned and operated internationally by licensees and distributors, including 13 retail stores in Canada that our 60% owned subsidiary operates. We have an option to acquire the remaining 40% of our Canadian subsidiary commencing December 31, 2001. Our retail store license agreements generally provide detailed guidelines for store fixtures and merchandising programs. The appearance, merchandising and service standards of these stores are closely monitored to ensure that our image is maintained. We have been advised by our distributors and licensees that they plan to open approximately 45 new stores, including 15 stores in Canada, in 2000. We also own and operate a flagship GUESS? retail store located in Florence, Italy.

LICENSE AGREEMENTS AND TERMS

Our trademark license agreements customarily provide for a three- to five-year initial term with a possible option to renew prior to expiration for an additional multi-year period. In addition to licensing trademarks for products which complement our apparel products, we have granted trademark licenses for the manufacture and sale of GUESS? branded products similar to ours, including men's and women's denim and knitwear, in markets such as the Philippines, Canada, Mexico, Chile, South Africa, South Korea, Europe and Japan. Licenses granted to certain licensees that have produced high-quality products and otherwise have demonstrated solid operating performance, such as GUESS? Watches and GUESS? Eyewear, have been renewed and in some cases expanded to include new products or markets. In other cases, products that were formerly licensed, such as our women's knits, girls' and boys' lines, are now being produced in-house. The typical license agreement requires that the licensee pay us the greater of a royalty based on a percentage of the licensee's net sales of licensed products or a guaranteed annual minimum royalty that typically increases over the term of the license agreement. Generally, licensees are required to spend a percentage of the net sales of licensed products for advertising and promotion of the licensed products. In addition, certain licensees are required to contribute toward the protection of our trademarks within the territories granted to such licensees, thereby assisting us in our efforts to prevent counterfeiting and other trademark infringement in those territories.

To protect the GUESS? trademark and brand, our Licensing Department meets regularly with licensees to ensure consistency with our overall merchandising and design strategies and to ensure uniformity and quality control. The Licensing Department approves in advance all GUESS? brand products, advertising, promotional and packaging materials.

ADVERTISING AND MARKETING

Our advertising, public relations and marketing strategy is to promote a consistent high impact image which endures regardless of changing consumer trends. Since our inception, Paul Marciano has had principal responsibility for the GUESS? brand image and creative vision. All worldwide advertising and promotional material is controlled through our Advertising Department based in Los Angeles. GUESS Jeans, GUESS U.S.A. and Guess ?, Inc. images have been showcased in dozens of major publications and outdoor and broadcast media throughout the United States and the world.

emphasis on image. Our signature black and white print advertisements, as well as color print advertisements, have garnered prestigious awards, including Clio, Belding and Mobius awards for creativity and excellence. These awards, which we have received on numerous occasions, are generally awarded based on the judgment of prominent members of the advertising industry. We have maintained a high degree of consistency in our advertisements, using similar themes and images. We require our licensees and distributors to invest a percentage of their net sales of licensed products and net purchases of GUESS? products in approved advertising, promotion and marketing. We launched a new marketing campaign in 1999, which included Internet advertising sponsors and television commercials, strong and consistent images used in all media forms, fresh merchandising presentation themes and enhanced point-of-sale materials.

Our in-house advertising department is responsible for media placement of all advertising worldwide, which includes approval of all advertising campaigns from our licensees and distributors. We use a variety of media which emphasizes print and outdoor advertising. We have focused advertisement placement in national and international contemporary fashion/beauty and lifestyle magazines including Vanity Fair, Harpers Bazaar, Elle, W and Details. By retaining control over our advertising programs, we are able to maintain the integrity of the GUESS? brand image while realizing substantial cost savings when compared to the use of outside agencies.

We further strengthen communications with customers through our Web site (www.guess.com). This global medium enables us to provide timely information in an entertaining fashion to consumers about our history, GUESS? products and store locations and allows us to receive and respond directly to customer feedback.

SOURCING AND PRODUCT DEVELOPMENT

We source products through numerous suppliers, many of whom have established relationships with us. We seek to achieve the most efficient means for timely delivery of our high quality products. Our fabric specialists work with fabric mills in the United States, Europe and Asia to develop woven and knitted fabrics that enhance the products' comfort, design and appearance. For a substantial portion of our apparel products, production planning takes place generally four to five months prior to the corresponding selling season. Delivery of certain basic products is accomplished through our Quick Response EDI (Electronic Data Interchange) replenishment system which ensures shipment of such products generally within 48 hours of receipt of customer orders.

We do not own any production equipment other than cutting machinery. To remain competitive, in recent years we have increasingly been sourcing our finished products globally. During 1999, we sourced approximately 80% of our finished products from third-party suppliers located outside the United States. Most of these finished products are acquired as package purchases where we supply the design and fabric selection and the vendor supplies the finished product. Although we have long-term relationships with many of our vendors, we do not have long-term written agreements with them. The production and sourcing staff in Los Angeles oversee aspects of apparel manufacturing, quality control and production, as well as research and develop new sources of supply.

SOURCES AND AVAILABILITY OF RAW MATERIALS

Our products use a variety of raw materials, principally consisting of woven denim, woven cotton and knitted fabrics and yarns. Historically, we have had to make commitments for a significant portion of our fabric well in advance of sales. By increasing the use of packaged purchases, we have been able to reduce our raw materials inventory.

QUALITY CONTROL

Our quality control program is designed to ensure that products meet our high quality standards. We monitor the quality of our fabrics prior to the production of garments and inspect prototypes of each product before production

runs commence. We also perform random in-line quality control checks during and after production before the garments leave the contractor. Final random inspections occur when the garments are received in our distribution centers. We believe that our policy of inspecting our products at our distribution centers and at the vendors' facilities is important in maintaining the quality and reputation of our products.

DISTRIBUTION CENTER

We utilize distribution centers at strategically located sites. During 1999, distribution of our products in the United States was centralized in our Los Angeles, California facility, which we lease from a related party and operate. In January 2000, we opened a new, automated distribution center in Louisville, Kentucky, to replace the distribution center in Los Angeles. We expect the new facility, which we lease, to be fully operational in the second quarter of fiscal year 2000. We also hold a ten percent ownership interest in a licensee which operates a distribution center in Florence, Italy and services Europe. Additionally, we utilize a contract warehouse in Hong Kong which services the Pacific Rim.

At our distribution centers in the United States, we use fully integrated and automated distribution systems. The bar code scanning of merchandise, picking tickets and distribution cartons, together with radio frequency communications, provide timely, controlled, accurate and instantaneous updates to the distribution information systems.

COMPETITION

The apparel industry is highly competitive and fragmented, and is subject to rapidly changing consumer demands and preferences. We believe that our success depends in large part upon our ability to anticipate, gauge and respond to changing consumer demands and fashion trends in a timely manner and upon the continued appeal to consumers of the GUESS? image. We compete with numerous apparel manufacturers and distributors and several well-known designers which have recently entered or re-entered the designer denim market. Our retail and factory outlet stores face competition from other retailers, including some of our major wholesale customers. Our licensed apparel and accessories also compete with a substantial number of designer and non-designer lines and various other well-known brands. Many of our competitors have greater financial resources than we do. Although the level and nature of competition differ among our product categories, we believe that we compete on the basis of our brand image, quality of design, workmanship and product assortment.

TRADEMARKS

We own numerous trademarks, including GUESS, GUESS?, GUESS U.S.A., GUESS Jeans, GUESS? and Triangle Design, Question Mark and Triangle Design, GUESS Kids, and GUESS Collection. At December 31, 1999, we had more than 2,100 U.S. and international registered trademarks or trademark applications pending with the trademark offices of the United States and in over 170 countries around the world. From time to time, we adopt new trademarks in connection with the marketing of new product lines. We consider our trademarks to have significant value in the marketing of our products and act aggressively to register and protect our trademarks worldwide.

Like many well-known brands, our trademarks are subject to infringement. We have a staff devoted to the monitoring and aggressive protection of our trademarks worldwide.

WHOLESALE BACKLOG

We maintain a model stock program in our basic denim products which allows us generally to replenish a customer's inventory within 48 hours. We typically receive orders for our fashion apparel 90 to 120 days prior to the time the products are delivered to stores. At February 29, 2000, we had unfilled wholesale orders, consisting primarily of orders for fashion apparel, of

approximately \$167.7 million, compared to \$93.9 million for such orders at February 28, 1999. We expect to fill substantially all of these orders in 2000. The backlog of wholesale orders at any given time is affected by various factors, including seasonality and the scheduling of manufacturing and shipment of products. Accordingly, a comparison of backlogs of wholesale orders from period to period is not necessarily meaningful and may not be indicative of eventual actual shipments.

EMPLOYEES

We believe that our employees ("associates") are one of our most valuable resources. At December 31, 1999, there were approximately 3,600 associates. Associates include approximately 1,100 in wholesale operations and 2,500 in retail operations.

We are not a party to any labor agreements and none of our associates is represented by a labor union. We consider our relationship with our associates to be good. In addition, we were among the first in the apparel industry to implement a program to monitor the compliance of subcontractors with Federal minimum wage and overtime pay requirements.

ENVIRONMENTAL MATTERS

We are subject to federal, state and local laws, regulations and ordinances that govern activities or operations that may have adverse environmental effects (such as emissions to air, discharges to water, and the generation, handling, storage and disposal of solid and hazardous wastes). We are also subject to laws, regulations and ordinances that impose liability for the costs of clean up or other remediation of contaminated property, including damages from spills, disposals or other releases of hazardous substances or wastes, in certain circumstances without regard to fault. Certain of our operations routinely involve the handling of chemicals and wastes, some of which are or may become regulated as hazardous substances. We have not incurred, and do not expect to incur, any significant expenditures or liabilities for environmental matters. As a result, we believe that our environmental obligations will not have a material adverse effect on our financial condition or results of operations.

FINANCIAL INFORMATION ABOUT GEOGRAPHIC AREAS

See Note 11 to the Notes to the Consolidated Financial Statements for a discussion regarding our domestic and foreign operations.

ITEM 2. PROPERTIES

Certain information concerning our principal facilities, all of which are leased at December 31, 1999, is set forth below:

LOCATION	USE	APPROXIMATE AREA IN SQUARE FEET
1444 South Alameda Street Los Angeles, California	Principal executive and administrative offices, design facilities, sales offices, distribution and warehouse facilities, production control, and sourcing	565,000
1610 Freeport Drive Louisville, Kentucky	Distribution and warehousing facility	500,000
1385 Broadway New York, New York	Administrative offices, public relations, and showrooms	30,000
Kowloon, Hong Kong	Distribution and licensing coordination control	3,000
Florence, Italy	Administrative office and retail store	4,100

Our corporate, wholesale and retail headquarters and our production,

distribution and warehousing facilities are located in Los Angeles, California and consist of seven adjacent buildings totaling approximately 565,000 square feet. All of these properties are leased by us, and certain of these facilities are leased from limited partnerships in which the sole partners are trusts controlled by and for the benefit of Maurice Marciano, Paul Marciano and Armand Marciano and their families (the "Principal Stockholders") pursuant to leases that expire in July 2008. The total lease payments to these limited partnerships are \$225,000 per month with aggregate minimum lease commitments to these partnerships at December 31, 1999 totaling approximately \$23.4 million. See "Item 13. Certain Relationships and Related Transactions."

During 1999, distribution of our products in the United States was centralized in our Los Angeles, California facility. We have opened a new, automated distribution center in Louisville, Kentucky, which is leased by us, to replace the distribution center in Los Angeles. We also hold a ten-percent ownership interest in a licensee, which leases and operates a distribution center in Florence, Italy and services Europe. Additionally, we lease a contract warehouse in Hong Kong which services the Pacific Rim.

We lease our showrooms, advertising, licensing, sales and merchandising offices, remote distribution and warehousing facility and retail and factory outlet store locations under non-cancelable operating lease agreements expiring on various dates through May 2012. These facilities are located principally in the United States, with aggregate minimum lease commitments, at December 31, 1999, totaling approximately \$212.1 million.

The current terms of our store leases, excluding renewal options, expire as follows:

YEARS LEASE TERMS EXPIRE -----	NUMBER OF STORES -----
2000-2002.....	29
2003-2005.....	61
2006-2008.....	44
2009-2011.....	11
Thereafter.....	2

We believe our existing facilities are well maintained, in good operating condition and are adequate to support our present level of operations. See Notes 7 and 8 of the Notes to Consolidated Financial Statements for further information regarding current lease obligations.

ITEM 3. LEGAL PROCEEDINGS

On August 7, 1996, a class action complaint naming the Company and certain of its independent contractors was filed in the Superior Court of the State of California for the County of Los Angeles, titled as Brenda Figueroa et al. v. Guess ?, Inc. et al. The plaintiffs asserted claims for violation of state wage and hour laws, wrongful discharge, and breach of contract arising out of the Company's relationship with its independent contractors and actions taken by them with respect to their employees. The plaintiffs also alleged that the Company breached its agreement with the United States Department of Labor regarding the monitoring of its independent contractors. The Court has held two hearings on certifying the alleged class. The parties have agreed to settle the case. On March 1, 2000, the Court gave final approval to the parties' settlement. If no class member appeals within 60 days thereafter, the case will be finally resolved.

On July 7, 1998, the Union of Needletrades Industrial and Textile Employees ("UNITE") filed with the National Labor Relations Board ("NLRB") charges against the Company alleging that the Company violated the National Labor Relations Act

by failing to uphold certain obligations under a prior settlement agreement with the NLRB, by denying pro-union employees access to the Company's facilities, by conferring new benefits to employees, by making false accusations against UNITE, by conducting video surveillance of UNITE's offices, and by assisting and organizing an anti-union demonstration. These allegations were dismissed by the NLRB. UNITE appealed, and, on October 15, 1999, the NLRB dismissed the appeal.

On February 24, 1998, the Company and Maurice Marciano, Paul Marciano and Armand Marciano, as individuals, were named as defendants in a class action entitled John N. Robinson v. Guess ?, Inc., Maurice Marciano, Paul Marciano and Armand Marciano filed in the Los Angeles Superior Court. The complaint, as amended, purported to state claims under Sections 11, 12(a)(2) and 15 of the Securities Act of 1933 for alleged misrepresentations in connection with the Company's initial public offering (the "IPO") in August 1996. Mr. Robinson purported to represent a class of all purchasers of the Company's stock in the IPO and sought unspecified damages. On January 10, 2000, the complaint was dismissed in its entirety. However, Robinson has the right to appeal the dismissal.

On October 26, 1998, Maurice Marciano, Paul Marciano and Armand Marciano, as individuals (the "Marcianos"), as well as the Company, were named as defendants in a stockholder's derivative complaint entitled John N. Robinson v. Maurice Marciano, Paul Marciano and Armand Marciano and Guess ?, Inc. filed in the Los Angeles Superior Court. The complaint (the "Derivative Complaint") purports to state a claim for intentional breach of fiduciary duty, negligent breach of fiduciary duty, constructive fraud and abuse of control in connection with the Marcianos' management of the Company since its IPO. On July 26, 1999, the Court entered an Order that allows the case to proceed past the pleadings stage. While it is too soon to predict the outcome of the case with any certainty, the defendants believe they have meritorious defenses to each of the claims asserted and intend to vigorously defend themselves.

On May 21, 1999, the Company filed a demand for arbitration against Pour le Bebe, Inc. and Pour la Maison, Inc. (collectively, "PLB") seeking damages and injunctive relief in connection with four written license agreements between the parties. The Company alleged that PLB defaulted under the license agreements, that the license agreements properly were terminated and that PLB breached the license agreements. On July 19, 1999, PLB filed a counterdemand for arbitration against the Company. PLB sought damages and injunctive relief against the Company alleging breach of contract, violation of the California Franchise Relations Act, interference with prospective economic advantage, unlawful business practices, statutory unfair competition and fraud. The arbitration was conducted before the American Arbitration Association pursuant to arbitration clauses in the license agreements.

On March 3, 2000, the Arbitrators issued an interim award in favor of the Company and rejected each of PLB's counterclaims. The amount of the interim award was in excess of \$6 million. As the prevailing party, the Company is entitled to, and has applied for, an award of its attorneys' fees, costs, and expenses.

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Because of the uncertainty of the ultimate realization of the award, no recognition has been given to it in the accompanying consolidated financial statements.

On June 9, 1999, the Company commenced a lawsuit in the Los Angeles County Superior Court against Mr. Kyle Kirkland, Kirkland Messina LLC, and CKM Securities (collectively "Kirkland") for tortious interference, unfair competition, fraud and related claims. This action arises out of alleged misrepresentations and omissions of material fact made by Kirkland in connection with the operations and financial performance of PLB. Currently, there are proceedings in the California Court of Appeal to determine if the action will proceed in court or by way of arbitration. No trial or hearing date has been set.

The Company cannot predict the outcome of these matters. The Company

believes the outcome of one or more of the above cases could have a material adverse effect on the Company's financial condition and results of operations.

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

No matters were submitted to a vote during the fourth quarter of fiscal year 1999.

PART II

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

Since August 8, 1996, the Company's Common Stock has been listed on the New York Stock Exchange under the symbol 'GES.' The following table sets forth, for the periods indicated, the high and low sales prices of the Company's Common Stock, as reported on the New York Stock Exchange Composite Tape.

	HIGH -----	LOW -----
Year ending December 31, 1998		
First Quarter 1998.....	\$ 8	\$ 5 3/16
Second Quarter 1998.....	7 3/16	4
Third Quarter 1998.....	5	3 3/4
Fourth Quarter 1998.....	7 1/8	3 5/8
Year ending December 31, 1999		
First Quarter 1999.....	8 1/2	5 1/16
Second Quarter 1999.....	14	6 1/8
Third Quarter 1999.....	16 1/16	10 9/16
Fourth Quarter 1999.....	21 7/8	11 1/2

On March 22, 2000, the closing sales price per share of the Company's Common Stock, as reported on the New York Stock Exchange Composite Tape, was 27 5/16. On March 22, 2000, there were 180 holders of record of the Company's Common Stock.

DIVIDEND POLICY

We intend to use our cash flow from operations in 2000 principally to finance the expansion and remodel of our retail stores, shop-in-shop programs and operations. Any future determination as to the payment of dividends will be at the discretion of the Company's Board of Directors and will depend upon our results of operations, financial condition, contractual restrictions and other factors deemed relevant by the Board of Directors. The agreement governing our revolving credit facility and the indenture pursuant to which the Company's Senior Subordinated Notes, due 2003, were issued restrict the payment of dividends by the Company.

Since our IPO on August 8, 1996, we have not declared any dividends on our Common Stock.

ITEM 6. SELECTED FINANCIAL DATA

The selected financial data set forth below have been derived from the audited consolidated financial statements of the Company and the related notes thereto. The following selected financial data should be read in conjunction with the Company's Consolidated Financial Statements and the related Notes contained herein and with "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations."

	1995	1996	1997	1998	1999
	(IN THOUSANDS, EXCEPT PER SHARE DATA)				
Statement of earnings data:					
Net revenue.....	\$486,733	\$551,162	\$515,372	\$471,931	\$599,650
Earnings from operations.....	82,928	98,095	70,646	57,046	93,776
Earnings before interest and income taxes.....	82,771	97,106	68,605	56,183	96,485
Net earnings.....	63,919	66,741	37,511	25,111	51,900
Supplemental statements of earnings data: (1)					
Earnings before income taxes and change in accounting principle (2).....	66,814	82,567	54,887	43,291	87,100
Income taxes.....	26,726	33,241	21,337	18,180	35,200
Net earnings.....	40,088	49,326	37,511	25,111	51,900
Earnings per share(3):					
Basic.....	0.96	1.18	0.87	0.59	1.21
Diluted.....	0.96	1.18	0.87	0.59	1.20
Weighted number of shares outstanding--basic (3)...	41,675	41,906	42,898	42,904	43,005
Weighted number of shares outstanding--diluted (3).....	41,675	41,908	42,902	42,919	43,366

	DECEMBER 31,				
	1995	1996	1997	1998	1999
Balance sheet data:					
Working capital.....	\$ 57,572	\$ 76,821	\$106,670	\$101,310	\$ 97,944
Total assets.....	202,635	239,306	287,814	263,772	369,036
Notes payable and long-term debt.....	123,335	127,316	141,517	99,000	83,363
Net stockholder's equity.....	10,997	34,928	75,330	100,409	167,355

(1) Reflects pro forma adjustments for Federal and state income taxes as if the Company had been taxed as a C corporation rather than an S corporation. Prior to the Company's IPO in August 1996, the Company had elected to be taxed as an S corporation for Federal income tax purposes. In certain states, the Company was taxed as an S corporation; in other states, the Company was taxed as a C corporation. Effective January 1, 1991, the Company elected to be treated as an S corporation for California tax purposes. As a result of the Company's IPO, all S corporation elections were terminated.

(2) Effective January 1, 1997, the Company changed its method of accounting for product display fixtures located in its wholesale customers' retail stores, whereby the costs for such fixtures are capitalized and amortized over five years using the straight-line method. In prior years, these costs had been expensed as incurred. The Company believes that this new method will more closely match the long-term benefit that the product display fixtures provide with the expected future revenue from such fixtures. The cumulative effect of the change in accounting principle, recorded in the first quarter of 1997, is calculated based upon the retroactive effect of applying the new accounting method to prior year fixture acquisitions. The cumulative effect of the change in accounting principle of \$4.0 million (\$0.09 per share) (after reduction for income tax expense of \$2.7 million) is included in earnings for the year ended December 31, 1997. Excluding the cumulative effect of the change in accounting principle, the

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effect of the change during 1997 was to increase net earnings by approximately \$6.2 million or \$0.14 per share.

(3) The weighted number of shares outstanding at December 31, 1996 reflects (i) 32,681,819 shares of Common Stock outstanding prior to the IPO price and the assumed issuance of 8,730,000 shares of Common Stock at the IPO price (\$18.00 per share) to generate sufficient cash to pay a distribution of retained earnings to its then existing stockholders as part of the termination of its S corporation status in an amount equal to retained earnings as of the IPO date and (ii) an average of 42,682,000 shares outstanding subsequent to the IPO, representing the actual shares

outstanding.

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

GENERAL

We derive our net revenue from the sale of GUESS? men's, women's, boys and girls' apparel and our licensees' products through our network of retail and factory outlet stores primarily in the United States, from the sale of GUESS men's, women's, boys' and girls' apparel worldwide to wholesale customers and distributors, from net royalties from worldwide licensing activities, from the sale of GUESS? apparel through the retail and wholesale channels of our 60% owned Canadian subsidiary, GUESS? Canada Corporation ("GUESS Canada"), and from the sale of GUESS? men's, women's, boys' and girls' apparel and our licensee products through our on-line store at www.guess.com.

RESULTS OF OPERATIONS

The following table sets forth actual operating results for the 1997 and 1998 and 1999 periods as a percentage of net revenue.

	YEAR ENDED DECEMBER 31,		
	1997	1998	1999
Product sales.....	90.4%	92.2%	93.4%
Net royalties.....	9.6	7.8	6.6
Total net revenue.....	100.0	100.0	100.0
Cost of sales.....	56.0	57.7	55.3
Gross profit.....	44.0	42.3	44.7
Selling, general and administrative expenses.....	30.3	30.2	28.5
Severance costs related to distribution facility.....	--	--	0.5
Earnings from operations.....	13.7	12.1	15.7
Other income/(expense):			
Gain on disposition of property and equipment.....	--	--	0.6
Interest, net.....	2.7	2.7	1.6
Other (expense), net.....	0.4	0.2	0.2
	3.1	2.9	1.2
Earnings before income taxes and cumulative effect of change in accounting principle.....	10.6	9.2	14.5
Income taxes.....	4.1	3.9	5.9
Earnings before cumulative effect of change in accounting principle.....	6.5	5.3	8.6
Cumulative effect of change in accounting for product display fixtures, net of income taxes of \$2,707.....	0.8	--	--
Net earnings.....	7.3%	5.3%	8.6%

YEAR ENDED DECEMBER 31, 1998 COMPARED TO YEAR ENDED DECEMBER 31, 1997.

NET REVENUE. Net revenue decreased \$43.5 million or 8.4% to \$471.9 million for the year ended December 31, 1998 from \$515.4 million for the year ended December 31, 1997. Net revenue from retail operations increased \$6.7 million or 3.1% to \$222.6 million for the year ended December 31, 1998 from \$215.9 million for the year ended December 31, 1997, as a result of the volume generated by our new store openings, partially offset by a \$10.7 million decrease or 5.6% decrease in comparable store net revenue. The decrease in comparable store net revenue was primarily due to product assortment changes in the our outlet stores and softening Pacific Rim tourism, which significantly impacted West Coast

business during the first half of 1998. During the second half of 1998, our full-priced stores experienced positive comparable store net revenue, primarily due to our improved merchandising and store operational initiatives implemented by a new retail management team. Net revenue from wholesale operations decreased \$37.5 million or 15.0% to \$212.5 million for the year ended December 31, 1998 from \$250.0 million for the year ended December 31, 1997. Domestic and international wholesale operations net revenue for the year ended December 31, 1998 decreased by \$18.2 million and \$19.3 million, respectively. Our domestic wholesale operations net revenue declined primarily as a result of increased competition in branded basic denim apparel. International wholesale operations net revenue decreased due primarily to the sale of the GUESS? Italia wholesale operations in June 1997, which had contributed \$13.5 million during the first five months of 1997, as well as soft performance in the Asian and South American markets. Net royalties decreased \$12.7 million or 25.6% to \$36.8 million for the year ended December 31, 1998, from \$49.5 million for the year ended December 31, 1997. The decline in net royalties was primarily the result of us terminating our various under-performing licenses, discontinuing certain licenses which we brought back in-house, continuing economic turmoil and currency devaluation in the Asian markets and the financial difficulty of one of our domestic licensees. Net revenue from our international operations comprised 8.0% and 11.5% of our net product revenue during 1998 and 1997, respectively.

GROSS PROFIT. Gross profit decreased 11.9% to \$199.9 million for the year ended December 31, 1998 from \$227.0 million for the year ended December 31, 1997. The decline in gross profit resulted from lower net royalties, as well as decreased net revenue from product sales. Gross profit from product sales decreased 8.1% to \$163.0 million for the year ended December 31, 1998 from \$177.5 million for the year ended December 31, 1997. Gross margin (gross profit as a percentage of total net revenue) decreased to 42.3% for the year ended December 31, 1998 as compared to 44.0% for the year ended December 31, 1997. Gross margin from product sales decreased to 37.5% for the year ended December 31, 1998 compared to 38.1% for the year ended December 31, 1997. The decrease for gross margin from product sales was primarily the result of our fixed store occupancy costs being spread over a lower comparable store revenue base, partially offset by a favorable mix in retail net revenue, which generally carries a higher gross margin rate, and lower wholesale markdowns and allowances.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES. Selling, general and administrative ("SG&A") expenses decreased 8.6% to \$142.8 million, or 30.3% of net revenue for the year ended December 31, 1998, from \$156.3 million, or 30.3% of net revenue, for the year ended December 31, 1997. The decrease in SG&A expenses was primarily due to our cost reduction initiatives implemented in the fourth quarter of 1997.

EARNINGS FROM OPERATIONS. Earnings from operations decreased 19.3% to \$57.0 million for the year ended December 31, 1998, from \$70.6 million for the year ended December 31, 1997. The decrease was primarily due to lower revenue.

INTEREST EXPENSE, NET. Net interest expense decreased 6.0% to \$12.9 million for the year ended December 31, 1998 from \$13.7 million for the year ended December 31, 1997. This decrease resulted primarily from a lower outstanding average debt, partially offset by a slightly higher average effective interest rate. For the year ended December 31, 1998, the average debt balance was \$135.5 million, with an average effective interest rate of 9.0%. For the year ended December 31, 1997, the average debt balance was \$148.4 million, with an average effective interest rate of 8.8%.

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OTHER EXPENSES. Other non-operating expenses were \$0.9 for the year ended December 1998 as compared to \$2.0 million for the year ended December 31, 1997. The decrease was primarily due to a \$1.4 million write-down to the lower cost or market of an equity investment during 1997.

INCOME TAXES. The income tax provision for the year ended December 31, 1998 was \$18.2 million, or a 42.0% effective tax rate. The income tax provision for the year ended December 31, 1997 was \$21.3 million, or a 38.9% effective tax

rate. The effective tax rate for 1998 was adversely impacted primarily by Federal and state income taxes related to a dividend declared to us by one of our foreign subsidiaries.

NET EARNINGS BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE. Net earnings before cumulative effect of a change in accounting principle decreased by 25.2% to \$25.1 million, or 5.3% of net revenue, for the year ended December 31, 1998 from \$33.5 million, or 6.5% of net revenue, for the year ended December 31, 1997.

NET EARNINGS. Net earnings decreased to \$25.1 million for the year ended December 31, 1998, from \$37.5 million for the year ended December 31, 1997.

YEAR ENDED DECEMBER 31, 1999 COMPARED TO YEAR ENDED DECEMBER 31, 1998

NET REVENUE. Net revenue increased \$127.7 million or 27.1% to \$599.7 million for the year ended December 31, 1999 from \$471.9 million for the year ended December 31, 1998. Net revenue from retail operations increased \$76.7 million or 34.5% to \$299.4 million for the year ended December 31, 1999 from \$222.6 million for the year ended December 31, 1998, from a 26.8% increase in comparable store net revenue and from the volume generated by our new store openings. The strong increase in comparable store net revenue was primarily attributable to our improved merchandising and our fashioned-focused product mix. The retail segment is benefiting from our improved customer service levels resulting from our enhanced personnel training and incentive programs that have been offered to our associates.

Net revenue from wholesale operations increased \$48.1 million or 22.6% to \$260.6 million for the year ended December 31, 1999 from \$212.5 million for the year ended December 31, 1998. Domestic and international wholesale operations net revenue increased, for the year ended December 31, 1999, by \$40.6 million to \$228.7 million and by \$7.4 million to \$31.9 million, respectively. Our domestic wholesale net revenue increased primarily as a result of the increased demand for fashion products in both of our women's and men's lines. International wholesale operations net revenue increased due primarily to increased sales from the European market, partially offset by soft performance in the Asian and South American markets. GUESS Canada contributed \$12.1 million in international net revenues during the second half for the year ended December 31, 1999. Net royalties increased \$2.8 million or 7.7%, to \$39.6 million for the year ended December 31, 1999 from \$36.8 million for the year ended December 31, 1998. The increase in net royalties was primarily due to settlements and adjustments related to us terminating licensees, partially offset by us discontinuing certain licenses that were brought back in-house, continuing economic turmoil and currency devaluation in Asian markets. Net revenue from international operations comprised 6.7% and 5.6% of net product revenue during 1999 and 1998, respectively.

GROSS PROFIT. Gross profit increased 34.1% to \$268.0 million for the year ended December 31, 1999 from \$199.9 million for the year ended December 31, 1998. The increase in gross profit resulted from higher net revenue from product sales. Gross profit from product sales increased 40.1% to \$228.4 million for the year ended December 31, 1999 from \$163.0 million for the year ended December 31, 1998. Gross margin (gross profit as a percentage of total net revenue) increased to 44.7% for the year ended December 31, 1999 as compared to 42.3% for the year ended December 31, 1998. Gross margin from product sales increased to 40.8% for the year ended December 31, 1999 compared to 37.5% for the year ended December 31, 1998.

The increase in our gross margin from product sales was primarily the result of fixed store occupancy costs being spread over a larger comparable store revenue base, a favorable mix in retail net revenue,

which generally carries a higher gross margin rate, lower off-price sales and a decrease in wholesale markdowns and allowances as a percentage of wholesale net revenues.

Furthermore, during the fourth quarter of 1999, we enhanced our ability to estimate reserves through improved processes and more current and accurate data. As a result, we revised our estimate of certain reserves. This resulted in a reduction of cost of sales of \$2.3 million and increase of gross margin of \$2.3 million or 2.4%.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES. Selling, general and administrative ("SG&A") expenses of \$171.0 million for the year ended December 31, 1999 decreased to 28.5% of net revenue, from 30.3% of net revenue or \$142.8 million, in the year ended December 31, 1998. The decrease in SG&A expenses as a percentage of net revenue was due to our ability to leverage certain expenses against a higher revenue base, as well as the success of our ongoing cost containment programs.

GAIN ON DISPOSITION OF PROPERTY AND EQUIPMENT. We realized a non-recurring pre-tax gain of \$3.8 million on the disposition of property and equipment.

SEVERANCE COSTS RELATED TO DISTRIBUTION FACILITY. In accordance with the requirements of EITF 94-3, "Liability for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)", we recorded a \$3.2 million charge for future severance costs related to the relocation of our distribution operations from Los Angeles, California to Louisville, Kentucky. We anticipate the payment of these severance costs to occur in the second quarter of fiscal year 2000.

EARNINGS FROM OPERATIONS. Earnings from operations increased 64.4% to \$93.8 million for the year ended December 31, 1999 from \$57.0 million for the year ended December 31, 1998. The increase was primarily due to higher revenue.

INTEREST EXPENSE, NET. Net interest expense decreased 27.1% to \$9.4 million for the year ended December 31, 1999 from \$12.9 million for the year ended December 31, 1998. This decrease resulted primarily from a lower outstanding average debt. For the year ended December 31, 1999, the average debt balance was \$93.1 million, with an average effective interest rate of 9.5%. For the year ended December 31, 1998, the average debt balance was \$135.5 million, with an average effective interest rate of 9.0%.

INCOME TAXES. The income tax provision for the year ended December 31, 1999 was \$35.2 million, or a 40.4% effective tax rate. The income tax provision for the year ended December 31, 1998 was \$18.2 million, or a 42.0% effective tax rate. The effective tax for 1998 was adversely impacted by Federal and state income taxes related to a dividend declared to us by one of our foreign subsidiaries.

NET EARNINGS. Net earnings increased to \$51.9 million for the year ended December 31, 1999, from \$25.1 million for the year ended December 31, 1998.

LIQUIDITY AND CAPITAL RESOURCES

During 1999, we relied primarily on internally generated funds and trade credit to finance our operations and expansion. At December 31, 1999, we had working capital of \$97.9 million compared to \$101.3 million at December 31, 1998. The \$3.4 million decrease in working capital is due primarily to a \$15.2 million increase in short-term investments, a \$17.1 million increase in inventories, a \$3.2 million increase in prepaid expenses offset by a \$40.8 million increase in accounts payable and accrued expenses. With the acquisition of the additional interest in GUESS Canada, our current portion of notes payable and long-term debt increase \$7.5 million

On December 3, 1999, we entered into a \$125,000,000 Credit Agreement ("Credit Facility") with Chase Manhattan Bank that replaced our \$100.0 million revolving credit facility entered into in March 1997. The Credit Facility provides us with a \$125.0 million revolving credit facility including a

\$50.0 million sub-limit for letters of credit. The Credit Facility expires on October 31, 2000. At December 31, 1999, we had no outstanding borrowings under

the Credit Facility, \$15.2 million in outstanding commercial letters of credit and \$32.0 million in standby letters of credit. At December 31, 1999, we had \$77.8 million available for future borrowings under the Credit Facility. The Credit Facility contains restrictive covenants requiring among other things, the maintenance of certain financial ratios. We were in compliance with all such covenants as of December 31, 1999.

Capital expenditures, net of lease incentives granted, totaled \$63.5 million for 1999 and \$13.7 million for 1998. The increase in capital expenditures was due primarily to our increase in store openings, costs associated with our new distribution facility in Louisville, Kentucky, the launching of our on-line store in April 1999, and the retail expansion of GUESS Canada. We estimate that our capital expenditures for 2000 will be approximately \$80.0 million, primarily for retail store expansion and remodeling and shop-in-shop expansion and enhancements.

We anticipate we will be able to satisfy our ongoing cash requirements through 2000, including retail expansion plans and interest payments on our senior subordinated notes due 2003 (such interest payments paid by us during 1999 amounted to \$9.2 million), primarily with cash flow from operations, supplemented by borrowings under our Credit Facility.

IMPORTANT FACTORS REGARDING FORWARD-LOOKING STATEMENTS

Various forward-looking statements have been made in this Form 10-K. Forward-looking statements may also be in our other reports filed under the Securities Exchange Act of 1934, in our press releases and in other documents. In addition, from time to time, we, through our management, may make oral forward-looking statements.

Forward-looking statements are only expectations, and involve known and unknown risks and uncertainties, which may cause actual results in future periods and other future events to differ materially from what is currently anticipated. Certain statements in this Form 10-K, including those relating to our expected results, the accuracy of data relating to, and anticipated levels of, our future inventory and gross margins, our anticipated cash requirements and sources, the relocation of our distribution center, our cost containment efforts, our plans regarding store openings and closings and our business seasonality, are forward-looking statements. Such statements involve risks and uncertainties, which may cause results to differ materially from those set forth in these statements. In addition to the factors discussed below, the economic and other factors identified elsewhere in this Form 10-K, as well as the risk factors discussed in our previously filed public documents, could affect the forward-looking statements contained herein and therein.

Forward-looking statements generally refer to future plans and performance, and are identified by the words "believe," "expect," "anticipate," "optimistic," "intend," "aim," "will" or the negative thereof and similar expressions. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of which they are made. We undertake no obligation to update publicly or revise any forward-looking statements.

Important factors that could cause actual results in future periods to differ materially from our forward-looking statements, as well as affect our ability to achieve our financial and other goals, include, but are not limited to, the following:

- The continued availability of sufficient working capital, which could have a material adverse effect on our financial condition and results of operations.
- Our successful integration of new stores into existing operations, which could have a material adverse effect on our financial condition and results of operations.

- The continued desirability and customer acceptance of our existing and

future products, which could have a material adverse effect on our financial condition and results of operations.

- Possible cancellation of wholesale orders, which could have a material adverse effect on our financial condition and results of operations.
- The success of our competitive products, which could have a material adverse effect on our financial condition and results of operations.
- The success of our programs to strengthen our inventory cost accounting controls and procedures, which could have a material adverse effect on our financial condition and results of operations.
- The success of technology to be used in our new distribution center, which could have a material adverse effect on our financial condition and results of operation.
- The availability of adequate sources of capital, which could have a material adverse effect on our financial condition and results of operations.
- Our inability to identify and respond appropriately to changing consumer demands and fashion trends, which could have a material adverse effect on consumer acceptance of GUESS? products.
- A decision by the controlling owner of a group of department stores or any other significant customer to decrease the amount purchased from us or to cease carrying GUESS? products, which could have a material adverse effect on our financial condition and results of operations.
- Our inability to control the quality, focus, image, financial stability or distribution of our licensed products, which could impact consumer receptivity to our products generally and, therefore, could have a material adverse effect on our financial condition and results of operations.
- Our failure to continue to enhance operating control systems, which could have a material adverse effect on our financial condition and results of operations.
- Factors beyond our control, such as which could have a material adverse effect on our ability to expand our network of retail stores. Our general failure to maintain and control our existing distribution and licensing arrangements or to procure additional distribution and licensing relationships could have a material adverse effect on our growth strategy, which could have a material adverse effect on our financial condition and results of operations.
- The extended loss of the services of one or more of our principal executive officers, which could have a material adverse effect on our financial condition and results of operations.
- Political instability resulting in the disruption of trade with the countries in which our contractors, suppliers or customers are located, the imposition of additional regulations relating to imports, the imposition of additional duties, taxes and other charges on imports, significant fluctuations in the value of the dollar against foreign currencies or restrictions on the transfer of funds, which could have a material adverse effect on our financial condition and results of operations. Also, a substantial increase in customs duties, which could have an adverse effect on our financial condition or results of operations. These factors may be exacerbated by our increasing use of packaged purchase sourcing from non-United States vendors.
- The inability of a manufacturer to ship our products in a timely manner or to meet our quality standards, which could have a material adverse effect on our ability to deliver products to our customers in a timely manner.

- No assurance can be given that others will not assert rights in, or ownership of, trademarks and other proprietary rights of GUESS?. In addition, the laws of certain foreign countries do not protect proprietary rights to the same extent as do the laws of the United States.

SEASONALITY

Our business is impacted by general seasonal trends characteristic of the apparel and retail industries. Our retail operations are generally stronger in the third and fourth quarters, while our wholesale operations generally experience stronger performance in the first and third quarters. As the timing of the shipment of products may vary from year to year, the result for any particular quarter may not be indicative of results for the full year. We have not had significant overhead and other costs generally associated with large seasonal variations.

INFLATION

We do not believe the relatively moderate rates of inflation experienced in the United States over the last three years have had a significant effect on our net revenue or profitability. Although higher rates of inflation have been experienced in a number of foreign countries in which our products are manufactured, we do not believe they have had a material adverse effect on our net revenue or profitability.

IMPACT OF RECENT ACCOUNTING PRONOUNCEMENTS

In June 1998, Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133") was issued. SFAS 133 establishes accounting and reporting standards for derivative instruments and for hedging activities. It is effective for fiscal years beginning after June 15, 2000. We believe the adoption of SFAS 133 will not have a material impact on our financial reporting.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

We receive United States dollars for substantially all of our product sales and our licensing revenues. Inventory purchases from offshore contract manufacturers are primarily denominated in United States dollars; however, purchase prices for the products may be impacted by fluctuations in the exchange rate between the United States dollar and the local currencies of the contract manufacturers, which may have the effect of increasing our cost of goods in the future. In addition, royalties received from our international licensees are subject to foreign currency translation fluctuations as a result of the net sales of the licensee being denominated in local currency and royalties being paid to us in United States dollars. During the last three fiscal years, exchange rate fluctuations have not had a material impact on our inventory costs.

We may enter into derivative financial instruments, including forward exchange contracts, to manage foreign exchange risk on foreign currency transactions. These financial instruments can be used to protect us from the risk that the eventual net cash inflows from the foreign currency transactions will be adversely affected by changes in exchange rates. Unrealized gains and losses on outstanding foreign currency exchange contracts, used to hedge future revenues and purchases, are not recorded in the financial statements but are included in the measurement of the related hedged transaction when realized.

FORWARD EXCHANGE CONTRACTS	U.S. DOLLAR EQUIVALENT	MATURITY DATE	FAIR VALUE IN U.S. \$ AT DECEMBER 31, 1999
Canadian dollars	\$500,000	January 10 to 31, 2000	346,740

Canadian dollars	500,000	January 10 to 31, 2000	346,740
Canadian dollars	500,000	January 14, 2000 to February 15, 2000	346,740

Based upon the rates at December 31, 1999, the cost to buy the equivalent U.S. dollars discussed above was approximately \$2.2 million Canadian currency.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The information required by this Item is incorporated herein by reference to the Consolidated Financial Statements and Supplementary Data listed in Item 14 of Part IV of this report.

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

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS

The information required by this item can be found under the caption "Directors and Executive Officers" of the Company's Proxy Statement (the "Proxy Statement") dated March 31, 2000, for the 2000 Annual Meeting of Stockholders to be held on May 15, 2000. Such information is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION AND OTHER INFORMATION

The information in the Proxy Statement set forth under the caption "Executive Compensation" is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information set forth under the caption "Security Ownership and Certain Beneficial Owners and Management" in the Proxy Statement is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information set forth under the caption "Certain Relationships and Related Transactions" in the Proxy Statement is incorporated herein by reference.

PART IV

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

(a) Documents Filed with Report

(1) Consolidated Financial Statements

The financial statements listed on the accompanying Index to Consolidated Financial Statements and Financial Statement Schedule is filed as part of this report.

(2) Consolidated Financial Statement Schedule

The financial statement schedule listed on the accompanying Index to Consolidated Financial Statements and Financial Statement Schedule are filed as part of this report.

(3) Exhibits

The exhibits listed on the accompanying Index to Exhibits is filed as part of this report.

(b) Reports on Form 8-K

No reports on Form 8-K were filed by us during the last fiscal year ended December 31, 1999.

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GUESS ?, INC.
FORM 10-K
ITEMS 8, AND 14(A) AND 14(D)
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULE

1	Consolidated Financial Statements	
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	Consolidated Statements of Earnings for the Years Ended December 31, 1997, 1998 and 1999.....	F-4
	Consolidated Statements of Stockholders' Equity and Comprehensive Income (Loss) for the Years Ended December 31, 1997, 1998 and 1999.....	F-5
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INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders
Guess ?, Inc.:

We have audited the accompanying consolidated financial statements of Guess ?, Inc. and Subsidiaries as listed in the accompanying index. In connection with our audits of the consolidated financial statements, we also have audited the consolidated financial statement schedule, as listed in the accompanying index. These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated 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 financial position of Guess ?, Inc. and Subsidiaries at December 31, 1998 and 1999 and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 1999 in conformity with generally accepted accounting principles. Also in our opinion, the related consolidated financial statement

schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed in Note 13, the Company changed its method of accounting for its product display fixtures in 1997.

KPMG LLP

Los Angeles, California
 February 10, 2000, except
 for note 15, which is as of
 March 3, 2000

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GUESS ?, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 1998 AND 1999

(IN THOUSANDS, EXCEPT SHARE DATA)

ASSETS

	1998	1999
	-----	-----
Current assets:		
Cash.....	\$ 5,853	\$ 6,139
Investments (note 2).....	11,900	27,059
Receivables:		
Trade receivables, less reserves aggregating \$7,837 and \$8,863 at December 31, 1998 and 1999, respectively....	19,685	26,829
Royalties, less allowance for doubtful accounts of \$3,667 and \$1,258 at December 31, 1998 and 1999, respectively.....	10,780	8,528
Other.....	3,673	4,316
	-----	-----
Inventories (note 3).....	34,138	39,673
Prepaid expenses.....	89,499	106,624
Prepaid income taxes.....	5,640	8,861
Deferred tax assets (note 6).....	2,566	3,004
	6,496	9,619
	-----	-----
Total current assets.....	156,092	200,979
Property and equipment, at cost, net of accumulated depreciation and amortization (note 4).....	86,453	125,688
Investments (note 2).....	1,118	21,771
Deferred tax assets (note 6).....	4,110	--
Other assets, at cost, net of accumulated amortization of \$2,293 and \$3,589 at December 31, 1998 and 1999, respectively (note 14).....	15,999	20,598
	-----	-----
	\$ 263,772	\$ 369,036
	=====	=====

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:		
Current installments of notes payable and long-term debt (note 5).....	\$ --	\$ 7,475
Accounts payable.....	32,802	61,736
Accrued expenses.....	21,980	33,824
	-----	-----
Total current liabilities.....	54,782	103,035

Notes payable and long-term debt, excluding current

installments (note 5).....	99,000	83,363
Deferred tax liabilities (note 6).....	--	4,562
Other liabilities.....	9,581	9,674
	-----	-----
	163,363	200,634
Minority interest (note 7).....	--	1,047
Commitments and contingencies (notes 5 and 8)		
Stockholders' equity (note 12):		
Preferred stock, \$0.01 par value. Authorized 10,000,000 shares; no shares issued and outstanding.....	--	--
Common stock, \$0.01 par value. Authorized 150,000,000 shares; issued 62,937,327 and 63,335,743 shares at 1998 and 1999, outstanding 42,906,535 and 43,304,951 shares, respectively.....	137	141
Paid-in capital.....	158,589	163,300
Retained earnings.....	92,543	144,443
Accumulated other comprehensive income (loss).....	(84)	10,247
Treasury stock, 20,030,792 shares repurchased.....	(150,776)	(150,776)
	-----	-----
Net stockholders' equity.....	100,409	167,355
	-----	-----
	\$ 263,772	\$ 369,036
	=====	=====

See accompanying notes to consolidated financial statements

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GUESS ?, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF EARNINGS

YEARS ENDED DECEMBER 31, 1997, 1998 AND 1999

(IN THOUSANDS, EXCEPT PER SHARE DATA)

	1997	1998	1999
	-----	-----	-----
Net revenue (note 11)			
Product sales.....	\$465,913	\$435,128	\$560,012
Net royalties.....	49,459	36,803	39,638
	-----	-----	-----
	515,372	471,931	599,650
Cost of sales.....	288,408	272,079	331,660
	-----	-----	-----
Gross profit.....	226,964	199,852	267,990
Selling, general and administrative expenses.....	156,318	142,806	171,014
Severance costs related to distribution facility (notes 10 and 14).....	--	--	3,200
	-----	-----	-----
Earnings from operations.....	70,646	57,046	93,776
Other income/(expense):			
Gain on disposition of property and equipment (note 10).....	--	--	3,849
Interest, net.....	(13,718)	(12,892)	(9,385)
Other, net.....	(2,041)	(863)	(1,140)
	-----	-----	-----
	(15,759)	(13,755)	(6,676)
Earnings before income taxes and cumulative effect of change in accounting principle.....	54,887	43,291	87,100
Income taxes (note 6).....	21,337	18,180	35,200
	-----	-----	-----
Earnings before cumulative effect of change in accounting principle.....	33,550	25,111	51,900

Cumulative effect of change in accounting for product display fixtures, net of income taxes of \$2,707 (note 13).....	3,961	--	--
Net earnings.....	\$ 37,511	\$ 25,111	\$ 51,900
BASIC EARNINGS PER SHARE:			
Earnings before cumulative effect of change in accounting principle.....	\$ 0.78	\$ 0.59	\$ 1.21
Cumulative effect of change in accounting for product display fixtures, net of income taxes of \$2,707 (note 13).....	0.09	--	--
Net earnings.....	\$ 0.87	\$ 0.59	\$ 1.21
DILUTED EARNINGS PER SHARE:			
Earnings before cumulative effect of change in accounting principle.....	\$ 0.78	\$ 0.59	\$ 1.20
Cumulative effect of change in accounting for product display fixtures, net of income taxes of \$2,707 (note 13).....	0.09	--	--
Net earnings.....	\$ 0.87	\$ 0.59	\$ 1.20
Weighted number of shares outstanding--basic.....	42,898	42,904	43,005
Weighted number of shares outstanding--diluted.....	42,902	42,919	43,366

See accompanying notes to consolidated financial statements

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GUESS ?, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

AND COMPREHENSIVE INCOME (LOSS)

YEARS ENDED DECEMBER 31, 1997, 1998 AND 1999

(IN THOUSANDS)

	COMPREHENSIVE INCOME	COMMON STOCK	PAID-IN CAPITAL	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	TREASURY STOCK	TOTAL
	-----	-----	-----	-----	-----	-----	-----
Balance at December 31, 1996.....		\$ 135	\$155,591	\$ 29,921	\$ 57	\$ (150,776)	\$ 34,928
Comprehensive income:							
Net earnings.....	\$37,511	--	--	37,511	--	--	37,511
Foreign currency translation adjustment.....	(109)	--	--	--	(109)	--	(109)
Total comprehensive income.....	\$37,402						
Issuance of common stock.....		2	2,998	--	--	--	3,000
Balance at December 31, 1997.....		137	158,589	67,432	(52)	(150,776)	75,330
Comprehensive income:							
Net earnings.....	\$25,111	--	--	25,111	--	--	25,111
Foreign currency translation adjustment.....	(32)	--	--	--	(32)	--	(32)
Total comprehensive income.....	\$25,079						
Balance at December 31, 1998.....		137	158,589	92,543	(84)	(150,776)	100,409
Comprehensive income:							
Net earnings.....	\$51,900	--	--	51,900	--	--	51,900
Foreign currency translation adjustment.....	(114)	--	--	--	(114)	--	(114)
Unrealized gain on investment, net of tax							

effect of \$7,632.....	10,445	--	--	--	10,445	--	10,445

Total comprehensive income.....	\$62,231						
	=====						
Issuance of common stock under stock option plan.....		4	4,711	--	--	--	4,715
		-----	-----	-----	-----	-----	-----
Balance at December 31, 1999.....	\$ 141	\$163,300	\$144,443	\$ 10,247	\$ (150,776)	\$167,355	
	=====	=====	=====	=====	=====	=====	

See accompanying notes to consolidated financial statements

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GUESS ?, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 1997, 1998 AND 1999

(IN THOUSANDS)

	1997	1998	1999
	-----	-----	-----
Cash flows from operating activities:			
Net earnings.....	\$ 37,511	\$ 25,111	\$ 51,900
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization of property and equipment.....	20,071	22,571	25,589
Amortization of other assets.....	369	931	1,296
Deferred income taxes.....	1,783	(834)	(2,150)
Amortization of deferred royalty income.....	(2,623)	--	--
Cumulative effect of change in accounting principle....	(3,961)	--	--
Loss (gain) on disposition of property and equipment....	120	1,483	(5,037)
Minority interest.....	--	--	1,047
Foreign currency translation adjustment.....	91	(89)	(80)
Equity method losses.....	603	87	(98)
(Increase) decrease in:			
Receivables.....	8,988	3,637	558
Inventories.....	(12,591)	2,582	(9,155)
Prepaid expenses and other current assets.....	(4,972)	3,553	(9,340)
Prepaid income taxes.....	(14,511)	12,141	(2,849)
Other assets.....	8,105	(324)	5,820
Increase (decrease) in:			
Accounts payable.....	(964)	(5,520)	19,393
Accrued expenses.....	(993)	(241)	10,662
Income taxes payable.....	(6,784)	112	(252)
	-----	-----	-----
Net cash provided by operating activities.....	30,242	65,200	87,304
Cash flows from investing activities:			
Net (purchases of) proceeds from the sale of short-term investments.....	4,401	(11,900)	(10,600)
Purchase of property and equipment.....	(48,836)	(13,738)	(63,501)
Proceeds from the disposition of property and equipment...	1,445	14	7,106
Lease incentives granted.....	2,561	432	1,544
Acquisition of interest in Strandel Inc.....	--	--	(2,027)
Acquisition of license.....	(2,975)	(741)	(1,443)
Purchase of investment securities available for sale.....	--	--	(8,979)
Proceeds of investment securities available for sales....	--	--	4,868
Increase of long-term investments.....	(1,435)	842	(2,357)
	-----	-----	-----
Net cash used by investing activities.....	(44,839)	(25,091)	(75,389)
Cash flows from financing activities:			
Repayment of senior subordinated notes.....	--	(6,000)	(19,400)
Proceeds from notes payable and long-term debt.....	63,935	102,300	5,529
Repayment of notes payable and long-term debt.....	(149,734)	(138,817)	(1,258)
Proceeds from issuance of common stock.....	--	--	3,534
	-----	-----	-----
Net cash provided (used) by financing activities....	14,201	(42,517)	(11,595)
Effect of exchange rates on cash.....	(200)	57	(34)
Net increase (decrease) in cash.....	(596)	(2,351)	286
Cash at beginning of year.....	8,800	8,204	5,853
	-----	-----	-----
Cash at end of year.....	\$ 8,204	\$ 5,853	\$ 6,139
	=====	=====	=====

Supplemental disclosures

Cash paid during the year for:

Interest.....	\$ 15,185	\$ 15,095	\$ 10,358
Income taxes.....	\$ 39,558	\$ 3,704	\$ 37,236
	=====	=====	=====

On January 2, 1997, in connection with acquisition of a license, the Company issued 216,216 shares of Common Stock aggregating \$3.0 million.

See accompanying notes to consolidated financial statements

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GUESS ?, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 1997, 1998 AND 1999

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PRACTICES

Guess ?, Inc. (the "Company" or "GUESS?") designs, markets, distributes and licenses leading lifestyle collections of casual apparel and accessories for men, women and children that reflect the American lifestyle and European fashions sensibilities. The Company designs are sold in GUESS? owned stores to a network of wholesale accounts that include primarily better department stores, selected specialty retailers and upscale boutiques and through the Internet. GUESS? branded products, some of which are produced under license, are also sold internationally through a series of licensees and distributors.

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of Guess ?, Inc. and its wholly-owned foreign subsidiary, Guess Europe, B.V., a Netherlands corporation ("GEBV"), and its majority-owned subsidiary GUESS? Canada Corporation (formerly named Strandel Inc.), a Canadian corporation. GEBV holds two wholly-owned subsidiaries: Ranche, Limited, a Hong Kong corporation ("Ranche"), and Guess Italia, S.r.l., an Italian corporation ("GUESS Italia"). The Company holds a 60% interest in GUESS Canada and the results of GUESS Canada are included in the consolidated Financial Statements. Accordingly, all references herein to "Guess ?, Inc." include the consolidated results of the Company and its subsidiaries. All intercompany accounts and transactions are eliminated during the consolidation process.

INVESTMENT SECURITIES

The Company accounts for its investment securities in accordance with Financial Accounting Standards Board ("FASB") Statement of Financial Accounting Standards ("SFAS") No. 115, "Accounting for Certain Investments in Debt and Equity Securities" ("SFAS 115"). SFAS 115 requires investments to be classified into one of three categories based on management's intent: held-to-maturity securities, available-for-sale securities and trading securities. Held-to-maturity securities are recorded at amortized cost. Available-for-sale securities are recorded at fair value with unrealized gains and losses reported as a separate component of stockholders' equity. Trading securities are recorded at market value with unrealized gains and losses reported in operations. The Company accounts for its short-term investment securities as available-for-sale.

EARNINGS PER SHARE

Basic earnings per share represents net earnings divided by the weighted-average number of shares of common stock, par value \$0.01 per share (the "Common Stock"), outstanding for the period. Diluted earnings per share represents net earnings divided by the weighted-average number of shares outstanding, inclusive of the dilutive impact of Common Stock equivalents.

The reconciliation of basic to diluted weighted average shares is as follows (in thousands):

	1997	1998	1999
	-----	-----	-----
Net earnings.....	\$37,511	\$25,111	\$51,900
	=====	=====	=====
Weighted average shares used in basic computations.....	42,898	42,904	43,005
Dilutive stock options.....	4	15	361
	-----	-----	-----
Weighted average shares used in diluted computation.....	42,902	42,919	43,366
	=====	=====	=====

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GUESS ?, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 1997, 1998 AND 1999

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PRACTICES (CONTINUED)

Options to purchase 1,421,000, 1,036,000 and 467,000 shares of Common Stock at prices ranging from \$10.50 to \$18.00, \$5.50 to \$11.00 and \$10.88 to \$16.38 were outstanding during 1997, 1998 and 1999, respectively, but were not included in the computation of diluted earnings per share because the options exercise prices were greater than the average market price of the shares of Common Stock.

CONCENTRATION OF CREDIT RISK

The Company's financial instruments that are exposed to concentrations of credit risk consist primarily of accounts receivable. The Company maintains cash with various major financial institutions and performs evaluations of the relative credit standing of these financial institutions in order to limit the amount of credit exposure with any institution. The Company extends credit to corporate customers based upon an evaluation of the customer's financial condition and credit history and generally requires no collateral. The Company's customers are principally located throughout North America, and their ability to pay amounts due to the Company may be dependent on the prevailing economic conditions of their geographic region. However, such credit risk is considered limited due to the Company's large customer base. Management performs regular evaluations concerning the ability of its customers to satisfy their obligations and records a provision for doubtful accounts based on these evaluations. The Company's credit losses for the periods presented are insignificant and have not exceeded management's estimates. A few of the Company's domestic wholesale customers, including some under common ownership, have accounted for significant portions of its net revenue. During 1999, Bloomingdale's, Macy's and other affiliated stores owned by Federated Department Stores, Inc. together accounted for approximately 12.4% of the Company's net revenue.

INVENTORIES

Inventories are stated at the lower of cost (first-in, first-out and weighted average) or market.

REVENUE RECOGNITION

The Company recognizes retail operations revenue at the point of sale, and wholesale operations revenue from the sale of merchandise upon shipment. Royalty income is based upon a percentage, as defined in the underlying agreement, of the licensees' net revenue. The Company accrues for estimated sales returns and allowances in the period in which the related revenue is recognized.

DEPRECIATION AND AMORTIZATION

Depreciation and amortization of property and equipment are provided using the straight-line and declining balance methods over the following useful lives:

Building and building improvements.....	10 to 31 years
Land improvements.....	5 years
Machinery and equipment.....	3 to 5 years
Corporate aircraft.....	10 years
Corporate vehicles.....	3 years
Shop fixtures.....	5 years

Leasehold improvements are amortized over the lesser of the estimated useful life of the asset or the term of the lease. Construction in progress is not depreciated until the related asset is completed.

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GUESS ?, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 1997, 1998 AND 1999

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PRACTICES (CONTINUED)

Goodwill, which represents the excess of purchase price over fair value of net assets acquired, is amortized on a straight-line basis over the expected periods to be benefited, generally 10 to 15 years.

FOREIGN CURRENCY TRANSLATION

In accordance with SFAS No. 52, "Foreign Currency Translation", balance sheet accounts of the Company's foreign operations are translated from foreign currencies into U.S. dollars at year-end or historical rates, while income and expenses are translated at the weighted-average exchange rates for the year. The related translation adjustments are reflected as a foreign currency translation adjustment in the consolidated balance sheet.

HEDGING ACTIVITIES

At December 31, 1999, the Company had forward exchange contracts to purchase \$1.5 million U.S. currency for approximately \$2.2 million Canadian currency. Based on rates at December 31, 1999, the cost to buy the equivalent U.S. dollars was approximately \$2.2 million Canadian currency.

Unrealized gains and losses on outstanding foreign currency exchange contracts, used to hedge future revenues and purchases, are not recorded in the financial statements but are included in the measurement of the related hedged transaction when realized.

INCOME TAXES

The Company uses the asset and liability method of accounting for income taxes. Under this method, deferred income taxes are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to be applied to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred taxes of a change in tax rates is recognized in income in the period that includes the enactment date.

COMPREHENSIVE INCOME

The Company reports comprehensive income under SFAS No. 130, "Reporting Comprehensive Income". Comprehensive income consists of net earnings, unrealized gains on investments and foreign currency translation adjustments and is presented in the consolidated statements of stockholders' equity and comprehensive income (loss).

BUSINESS SEGMENT REPORTING

The Company adopted SFAS No. 131, "Disclosures About Segments of an Enterprise and Related Information" ("SFAS 131"), effective in 1998. SFAS 131 establishes new standards for reporting information about business segments and related disclosures about products and services, geographic areas and major customers. The business segments of the Company are wholesale, retail and licensing operations. Information regarding these segments is summarized in Note 11.

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GUESS ?, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 1997, 1998 AND 1999

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PRACTICES (CONTINUED) FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amount of the Company's financial instruments, which principally include cash, short and long-term investments, trade receivables, accounts payable and accrued expenses, approximates fair value due to the relatively short maturity of such instruments.

The fair value of the Company's debt instruments are based on the amount of future cash flows associated with each instrument discounted using the Company's borrowing rate. At December 31, 1998 and 1999, the carrying value of all financial instruments was not materially different from fair value.

USE OF ESTIMATES

Management of the Company has made a number of estimates and assumptions relating to the reporting of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities to prepare these consolidated financial statements in conformity with generally accepted accounting principles. Actual results could differ from these estimates.

LONG-LIVED ASSETS

The Company reports long-lived assets, including intangibles, at amortized cost. Long-lived assets and certain identifiable intangibles are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If this assessment indicates that the intangibles will not be recoverable, as determined by a non-discounted cash flow generated by the asset, the carrying value of the Company's long-lived assets would be reduced to its estimated fair market value based on the discounted cash flows.

ADVERTISING COSTS

The Company expenses the cost of advertising as incurred. Advertising expenses charged to operations for the years ended December 31, 1997, 1998 and 1999 were \$22.5 million, \$18.0 million, and \$24.5 million, respectively.

RECLASSIFICATIONS

Certain reclassifications have been made to the 1997 and 1998 consolidated financial statements to conform with the 1999 presentation.

(2) INVESTMENTS

Short-term investments consist mostly of overnight interest bearing deposit accounts aggregating \$11.9 million at December 31, 1998 and \$27.1 million at December 31, 1999.

Long-term investments consist of certain marketable equity securities aggregating \$1.1 million and \$21.8 million at December 31, 1998 and 1999, respectively. Unrealized gains related to marketable equity securities at December 31, 1999 amounted to \$11.2 million, net of deferred taxes of \$7.6 million and are included as a component of stockholders' equity. '

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GUESS ?, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 1997, 1998 AND 1999

(3) INVENTORIES

Inventories are summarized as follows (in thousands):

	1998	1999
	-----	-----
Raw materials.....	\$ 9,400	\$ 8,514
Work in process.....	7,922	6,740
Finished goods--retail.....	36,712	45,750
Finished goods--wholesale.....	35,465	45,620
	-----	-----
	\$89,499	\$106,624
	=====	=====

(4) PROPERTY AND EQUIPMENT

Property and equipment is summarized as follows (in thousands):

	1998	1999
	-----	-----
Land and land improvements.....	\$ 5,729	\$ 5,734
Building and building improvements.....	8,462	8,462
Leasehold improvements.....	59,218	67,821
Machinery and equipment.....	71,975	86,790
Corporate aircraft.....	5,973	6,601
Shop fixtures.....	28,895	31,347
Construction in progress.....	1,321	23,842
	-----	-----
	181,573	230,597
Less accumulated depreciation and amortization.....	95,120	104,909
	-----	-----
	\$ 86,453	\$125,688
	=====	=====

Construction in progress at December 31, 1998 and 1999 represents the costs associated with the construction of buildings and improvements used in the Company's operations and other capitalizable expenses in progress.

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GUESS ?, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 1998 AND 1999

(5) NOTES PAYABLE AND LONG-TERM DEBT

Notes payable and long-term debt are summarized as follows (in thousands):

	1998	1999
	-----	-----
	(IN THOUSANDS)	
9 1/2% Senior Subordinated Notes due 2003.....	\$99,000	\$79,562
Revolving bank loan bearing interest at 1.75% above the Canadian prime rate plus an amount equal to 0.5% per month of the average outstanding balance, payable on demand, but commencing January 1, 2001 by way of 24 equal consecutive minimum payments.....	--	2,770
Advances under a demand line of credit of \$15,926 with advances thereon bearing interest at the Canadian prime rate plus 1%.....	--	6,818
Other obligations, maturing in varying amounts through 2004.....	--	1,688
	-----	-----
	99,000	90,838
Less current installments.....	--	7,475
	-----	-----
Long-term debt, excluding current installments.....	\$99,000	\$83,363
	=====	=====

In December 1999, the Company entered into a credit agreement with a bank permitting borrowings up to \$125 million (the "Credit Facility"). The Credit Facility replaced the Company's \$100 million revolving credit facility entered into in March 1997. The Credit Facility provides for a \$125 million revolving credit facility including a \$50 million sub-limit for letters of credit. The Credit Facility expires on October 31, 2000. At December 31, 1999, the Company had no outstanding borrowings under the Credit Facility, \$15.2 million in outstanding commercial letters of credit and \$32.0 million in standby letters of credit. The Credit Facility contains various restrictive covenants requiring, among other things, the maintenance of certain financial ratios. The Company was in compliance with all such covenants as of December 31, 1999. In addition, the arrangements governing the Company's Credit Facility and the indenture pursuant to which the Company's Senior Subordinated Notes due 2003 were issued restrict the payments of dividends by the Company.

The Senior Subordinated Notes are redeemable at the option of the Company, in whole or in part, at any time at various redemption prices. The Company repurchased \$6.0 million and \$19.4 million in 1998 and 1999, respectively, of its Senior Subordinated Notes.

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GUESS ?, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 1998 AND 1999

(6) INCOME TAXES

Income taxes are summarized as follows (in thousands):

	YEAR ENDED DECEMBER 31,		
	1997	1998	1999
Federal:			
Current.....	\$17,487	\$14,477	\$32,508
Deferred.....	2,995	793	(2,464)
State:			
Current.....	3,973	2,459	5,202
Deferred.....	(1,212)	41	314
Foreign:			
Current.....	801	410	(360)
	-----	-----	-----
	\$24,044	\$18,180	\$35,200
	=====	=====	=====

Actual income taxes differ from expected income taxes obtained by applying the statutory Federal income tax rate to earnings before income taxes as follows (in thousands):

	YEAR ENDED DECEMBER 31,		
	1997	1998	1999
Computed "expected" tax expense.....	\$21,544	\$15,152	\$30,485
State taxes, net of Federal benefit.....	2,928	1,625	3,586
Foreign (benefit).....	(157)	(14)	(273)
U.S. tax and foreign withholding tax on Foreign distributions.....	--	739	--
Other.....	(271)	678	1,402
	-----	-----	-----
	\$24,044	\$18,180	\$35,200
	=====	=====	=====

Total income taxes were allocated as follows (in thousands):

	YEAR ENDED DECEMBER 31,		
	1997	1998	1999
Operations.....	\$24,044	\$18,180	\$35,200
Stockholders' equity.....	--	--	6,451
	-----	-----	-----
Total income taxes.....	\$24,044	\$18,180	\$41,651
	=====	=====	=====

The income tax expense for the year ended December 31, 1997 includes taxes of \$2.7 million related to a one-time change in accounting (see Note 13). The Company's consolidated statement of earnings has presented the change in accounting net of this income tax expense.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 1998 AND 1999

(6) INCOME TAXES (CONTINUED)

The tax effects of temporary differences that give rise to significant portions of current and non-current deferred tax assets and deferred tax liabilities at December 31, 1998 and 1999 are presented below (in thousands):

	1998	1999
	-----	-----
Deferred Tax Assets:		
Retail store closure reserves.....	\$ 467	\$ 269
Deferred lease incentives.....	1,648	1,718
Rent expense.....	2,158	2,161
Uniform capitalization adjustment.....	1,987	2,194
State income taxes.....	870	1,471
Bad debt and other reserves.....	1,810	2,904
Severance reserve.....	--	1,378
Other.....	2,066	2,602
	-----	-----
Total deferred assets.....	11,005	14,697
Deferred tax liabilities.....	400	9,640
	-----	-----
Net deferred tax assets.....	\$10,606	\$ 5,057
	=====	=====

Included above at December 31, 1998 and 1999 are \$6.5 million and \$9.6 million for current deferred tax assets, respectively, and \$4.1 million non-current deferred tax assets and \$4.5 million non-current deferred tax liabilities.

Prepaid income taxes of \$2.6 million and \$3.4 million at December 31, 1998 and 1999, respectively, arise from the overpayment of estimated income taxes.

Based on the historical earnings of the Company, management believes it is more likely than not that the results of operations will generate sufficient taxable earnings to realize net deferred tax assets.

(7) RELATED PARTY TRANSACTIONS

The Company is engaged in various transactions with entities affiliated with trusts for the respective benefit of Maurice, Paul and Armand Marciano (the "Marciano Trusts"). The Company believes that the arrangements involving each of the companies in which the Marciano Trusts have an investment, and related party transactions discussed below were entered into on terms no less favorable to the Company than could have been obtained from an unaffiliated third party.

LICENSE AGREEMENTS AND LICENSEE TRANSACTIONS

On September 28, 1990, the Company entered into a license agreement with Charles David of California ("Charles David"). Charles David is controlled by the father-in-law of Maurice Marciano. The Marciano Trusts and Nathalie Marciano (the spouse of Maurice Marciano) together own 50% of Charles David, and the remaining 50% is owned by the father-in-law of Maurice Marciano. The license agreement grants Charles David the rights to manufacture worldwide and distribute worldwide (except Japan and certain European countries) for men, women and some children, leather and rubber footwear which bear the GUESS? trademark. The license also includes related shoe care products and accessories.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 1998 AND 1999

(7) RELATED PARTY TRANSACTIONS (CONTINUED)

Gross royalties earned by the Company under such license agreement for the fiscal years ended December 31, 1997, 1998 and 1999 were \$1.2 million, \$1.4 million and \$1.9 million, respectively. Additionally, the Company purchased \$6.1 million, \$6.1 million and \$8.4 million of products from Charles David for resale in the Company's retail stores during the same periods.

In May 1997, the Company sold substantially all of the assets and liabilities of GUESS Italia to Maco Apparel, S.p.a. ("Maco"). The effect of the net asset disposal was immaterial to the Company's results of operations. In connection with this sale, the Company also purchased a 10% ownership interest in Maco and entered into an approximate 10-year license agreement with Maco granting it the right to manufacture and distribute certain men's and women's jeanswear apparel, which bear the GUESS? trademark, in certain parts of Europe. In addition to royalty fees, the Company will also receive \$14.1 million over a four-year period in consideration of the grant of the license rights for men's and women's jeanswear apparel. During 1998 and 1999, the Company recorded \$2.8 million and \$2.8 million, respectively, in revenue in connection with the grant of such license rights. Additionally, the Company also recorded \$2.3 million and \$3.2 million in royalty fees related to product sales in 1998 and 1999, respectively. Effective as of March 1, 1998, the Company also entered into an approximate nine-year license agreement with Maco granting it the right to manufacture and distribute kid's jeanswear, which bear the GUESS? trademark, in certain parts of Europe.

On August 4, 1999, the Company completed its purchase of an additional 40% of GUESS Canada, whereby the Company's ownership has been increased to 60%. As part of the transaction, the Company paid \$2.2 million and will provide long-term financing of up to \$13.4 million to GUESS Canada to expand its Canadian retail operations. The Company has an option to acquire the remaining 40% of GUESS Canada that becomes exercisable commencing December 31, 2001. The acquisition was accounted for as a purchase and the results of GUESS Canada are included in the Company's consolidated financial statements from the date of acquisition. The excess of the purchase price over the fair value of net assets acquired amounting to \$1.1 million is allocated to goodwill and is being amortized over 15 years. The operating results of GUESS Canada are immaterial to the Company's consolidated financial statements.

AGENCY AGREEMENT

In February 1996, the Company entered into a buying agency agreement with Newtimes Guess?, Ltd. ("Newtimes"). The Company owns 50% of Newtimes. Pursuant to such agreement, the Company pays Newtimes a commission based on the cost of finished garments purchased for the Company. Commissions earned by Newtimes from the Company during the fiscal years ended December 31, 1997 and 1998 were \$1.7, and \$1.0 million, respectively. Additionally, with respect to Newtimes, the Company recorded \$0.1 million in equity losses during the fiscal year ended December 31, 1997. During 1998, Newtimes was dissolved after the Company terminated its buying agency agreement with them, as well as severed its equity interest. Accordingly, the Company has discontinued recording equity income during 1998.

LEASES

The Company leases manufacturing, warehouse and administrative facilities from partnerships affiliated with the Marciano Trusts and certain of its affiliates. There are two leases in effect at December 31, 1999, both of which expire in July 2008. The total lease payments to these limited partnerships are currently \$225,000 per month. Additionally, the Company is also on a month to month lease for another

GUESS ?, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 1998 AND 1999

(7) RELATED PARTY TRANSACTIONS (CONTINUED)

storage facility. Aggregate lease payments under leases in effect for the fiscal years ended December 31, 1997, 1998 and 1999 were \$2.6 million, \$2.7 million, and \$2.7 million, respectively.

(8) COMMITMENTS AND CONTINGENCIES

LEASES

The Company leases its showrooms and retail store locations under operating lease agreements expiring on various dates through 2016. Some of these leases require the Company to make periodic payments for property taxes and common area operating expenses. Certain leases include rent abatements and scheduled rent escalations, for which the effects are being amortized and recorded over the lease term. The Company also leases some of its equipment under operating lease agreements expiring at various dates through 2003.

Future minimum rental payments under non-cancelable operating leases at December 31, 1999 are as follows:

Year ending December 31, (in thousands):

	NON RELATED PARTIES	RELATED PARTIES	TOTAL
	-----	-----	-----
2000.....	\$ 30,251	\$ 2,727	\$ 32,978
2001.....	30,380	2,727	33,107
2002.....	28,975	2,727	31,702
2003.....	27,552	2,727	30,279
2004.....	23,727	2,727	26,454
Thereafter.....	71,245	9,771	81,016
	-----	-----	-----
	\$212,130	\$23,405	\$235,536
	=====	=====	=====

Rental expense for all operating leases during the years ended December 31, 1997, 1998, and 1999 aggregated \$30.8 million, \$32.6 million, and \$41.2 million, respectively.

INCENTIVE BONUSES

Certain officers and key employees of the Company are entitled to incentive bonuses, primarily based on the Company's profits.

LITIGATION

On August 7, 1996, a class action complaint naming the Company and certain of its independent contractors was filed in the Superior Court of the State of California for the County of Los Angeles, titled as Brenda Figueroa et al. v. Guess ?, Inc. et al. The plaintiffs asserted claims for violation of state wage and hour laws, wrongful discharge, and breach of contract arising out of the Company's relationship with its independent contractors and actions taken by them with respect to their employees. The plaintiffs also

GUESS ?, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 1998 AND 1999

(8) COMMITMENTS AND CONTINGENCIES (CONTINUED)

alleged that the Company breached its agreement with the United States Department of Labor regarding the monitoring of its independent contractors. The Court has held two hearings on certifying the alleged class. The parties have agreed to settle the case. On March 1, 2000, the Court gave final approval to the parties' settlement. If no class member appeals within 60 days thereafter, the case will be finally resolved.

On July 7, 1998, the Union of Needletrades Industrial and Textile Employees ("UNITE") filed with the National Labor Relations Board ("NLRB") charges against the Company alleging that the Company violated the National Labor Relations Act by failing to uphold certain obligations under a prior settlement agreement with the NLRB, by denying pro-union employees access to the Company's facilities, by conferring new benefits to employees, by making false accusations against UNITE, by conducting video surveillance of UNITE's offices, and by assisting and organizing an anti-union demonstration. These allegations were dismissed by the NLRB. UNITE appealed, and, on October 15, 1999, the NLRB dismissed the appeal.

On February 24, 1998, the Company and Maurice Marciano, Paul Marciano and Armand Marciano, as individuals, were named as defendants in a class action entitled John N. Robinson v. Guess ?, Inc., Maurice as amended, purported to state claims under Sections 11, 12(a)(2) and 15 of the Securities Act of 1933 for alleged misrepresentations in connection with the Company's initial public offering (the "IPO") in August 1996. Mr. Robinson purported to represent a class of all purchasers of the Company's stock in the IPO and sought unspecified damages. On January 10, 2000, the complaint was dismissed in its entirety. However, Robinson has the right to appeal the dismissal.

On October 26, 1998, Maurice Marciano, Paul Marciano and Armand Marciano, as individuals (the "Marcianos"), as well as the Company, were named as defendants in a shareholders' derivative complaint entitled John N. Robinson v. Maurice Marciano, Paul Marciano and Armand Marciano and Guess ?, Inc., filed in the Los Angeles Superior Court. The complaint (the "Derivative Complaint") purports to state a claim for intentional breach of fiduciary duty, negligent breach of fiduciary duty, constructive fraud and abuse of control in connection with the Marcianos' management of the Company since its IPO. On July 26, 1999, the Court entered an Order that allows the case to proceed past the pleadings stage. While it is too soon to predict the outcome of the case with any certainty, the defendants believe they have meritorious defenses to each of the claims asserted and intend to vigorously defend themselves.

On May 21, 1999, the Company filed a demand for arbitration against Pour le Bebe, Inc. and Pour la Maison, Inc. (collectively, "PLB") seeking damages and injunctive relief in connection with four written license agreements between the parties. The Company alleged that PLB defaulted under the license agreements, that the license agreements properly were terminated and that PLB breached the license agreements. On July 19, 1999, PLB filed a counterdemand for arbitration against the Company. PLB sought damages and injunctive relief against the Company alleging breach of contract, violation of the California Franchise Relations Act, interference with prospective economic advantage, unlawful business practices, statutory unfair competition and fraud. The arbitration was conducted before the American Arbitration Association pursuant to arbitration clauses in the license agreements. (See Note 15.)

On June 9, 1999, the Company commenced a lawsuit in the Los Angeles County Superior Court against Mr. Kyle Kirkland, Kirkland Messina LLC, and CKM Securities (collectively "Kirkland") for tortious interference, unfair competition, fraud and related claims. This action arises out of alleged misrepresentations and omissions of material fact made by Kirkland in connection with the operations and

GUESS ?, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 1998 AND 1999

(8) COMMITMENTS AND CONTINGENCIES (CONTINUED)

financial performance of PLB. Currently, there are proceedings in the California Court of Appeal to determine if the action will proceed in court or by way of arbitration. No trial or hearing date has been set.

The Company cannot predict the outcome of these matters. The Company believes the outcome of one or more of the above cases could have a material adverse effect on the Company's financial condition and results of operations.

(9) SAVINGS PLAN

The Company established the Guess ?, Inc. Savings Plan (the "Savings Plan") under Section 401(k) of the Internal Revenue Code. Under the Savings Plan, employees ("associates") may contribute up to 15% of their compensation per year subject to the elective limits as defined by IRS guidelines and the Company may make matching contributions in amounts not to exceed 1.5% of the associates' annual compensation. The Company's contributions to the Savings Plan for each of the three years ended December 31, 1997, 1998 and 1999 aggregated \$0.3 million.

(10) QUARTERLY INFORMATION (UNAUDITED)

The following is a summary of the unaudited quarterly financial information for the years ended December 31, 1998 and 1999 (in thousands, except per share data):

YEAR ENDED DECEMBER 31, 1998 -----	FIRST QUARTER -----	SECOND QUARTER -----	THIRD QUARTER -----	FOURTH QUARTER -----
Net revenue.....	\$110,768	\$98,068	\$130,138	\$132,957
Gross profit.....	46,452	44,235	54,782	54,383
Net earnings.....	7,951	3,440	9,639	4,081
Basic and diluted earnings per share.....	\$ 0.19	\$ 0.08	\$ 0.22	\$ 0.10

YEAR ENDED DECEMBER 31, 1999 -----	FIRST QUARTER -----	SECOND QUARTER -----	THIRD QUARTER -----	FOURTH QUARTER -----
Net revenue.....	\$129,052	\$119,557	\$155,547	\$195,494
Gross profit.....	54,028	55,035	65,261	93,666
Net earnings.....	11,486	7,017	14,235	19,162
Earnings per share:				
Basic.....	\$ 0.27	\$ 0.16	\$ 0.33	\$ 0.45
Diluted.....	\$ 0.27	\$ 0.16	\$ 0.33	\$ 0.44

During the second quarter of 1999, in accordance with the requirements of EITF 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)", the Company recorded a \$3.2 million charge for future severance costs related to the relocation of distribution operations to Louisville. In the third quarter of 1999, the Company realized a non-recurring pretax gain of \$3.8 million on the disposition of property and equipment. During the fourth quarter of 1999, the Company enhanced its ability to estimate reserves through improved processes and more current and accurate data. As a result, the Company revised its estimate of certain reserves. This resulted in a reduction of cost of sales of \$2.3 million.

GUESS ?, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 1998 AND 1999

(11) SEGMENT INFORMATION

In accordance with the requirements of SFAS 131, "Disclosures about Segments of and Enterprise and Related Information", the Company's reportable business segments and respective accounting policies, policies of the segments are the same as those described in Note 1. Management evaluates segment performance based primarily on revenue and earnings from operations. Interest income and expense is evaluated on a consolidated basis and not allocated to the Company's business segments.

Segment information is summarized as follows for the years ended December 31, 1997, 1998 and 1999 (in thousands):

	YEAR ENDED DECEMBER 31,		
	1997	1998	1999
Net revenue:			
Retail operations.....	\$215,873	\$222,624	\$299,384
Wholesale operations.....	250,040	212,504	260,628
Licensing operations.....	49,459	36,803	39,638
	=====	=====	=====
	\$515,372	\$471,931	\$599,650
Earnings from operations:			
Retail operations.....	\$ 5,008	\$ 12,034	\$ 37,072
Wholesale operations.....	16,179	8,209	25,101
Licensing operations.....	49,459	36,803	31,603
	=====	=====	=====
	\$ 70,646	\$ 57,046	\$ 93,776
Capital expenditures:			
Retail operations.....		\$ 5,602	\$ 28,030
Wholesale operations.....		8,136	35,471
Licensing operations.....		--	--
		=====	=====
		\$ 13,738	\$ 63,501
Total assets:			
Retail operations.....		\$ 93,140	\$114,152
Wholesale operations.....		159,069	245,162
Licensing operations.....		11,563	9,722
		=====	=====
		\$263,772	\$369,036

GUESS ?, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 1998 AND 1999

(11) SEGMENT INFORMATION (CONTINUED)

The table below presents information related to geographic areas in which the Company operated in during 1997, 1998 and 1999 (in thousands):

	YEAR ENDED DECEMBER 31,		
	1997	1998	1999
Net sales:			
United States.....	\$455,969	\$434,207	\$548,179
Asia.....	22,277	13,859	13,279
Europe.....	19,812	10,600	13,464
Canada.....	1,649	1,644	12,073
South America.....	7,965	5,066	3,973
Mexico.....	2,774	2,406	3,337
Other.....	4,926	4,149	5,345
	-----	-----	-----
	\$515,372	\$471,931	\$599,650
	=====	=====	=====

(12) STOCK OPTION PLAN

On July 30, 1996, the Board of Directors adopted the Guess ?, Inc. 1996 Non-Employee Directors' Stock Option Plan pursuant to which the Board of Directors may grant stock options to non-employee directors. This plan authorizes grants of options to purchase up to 500,000 authorized but unissued shares of Common Stock. At December 31, 1997, 1998 and 1999, there were 28,886, 70,451 and 109,082 options issued under this plan, respectively. Stock options are granted with an exercise price equal to the stock's fair market value at the date of grant. Stock options have ten-year terms and vest and become fully exercisable in increments of one-fourth of the shares granted on each anniversary from the date of grant.

On July 30, 1996, the Board of Directors adopted the Guess ?, Inc. 1996 Equity Incentive Plan (the "Plan") pursuant to which the Board of Directors may grant stock options to officers, key associates and consultants. The Plan authorizes grants of options to purchase up to 4,500,000 authorized but unissued shares of Common Stock. Stock options are granted with an exercise price equal to the stock's fair market value at the date of grant. Stock options have ten-year terms (five years in the case of an incentive stock option granted to a ten-percent stockholder) and vest and become fully exercisable after varying time periods from the date of grant based on length of service or specified performance goals.

At December 31, 1997, 1998 and 1999, there were 3,208,645, 2,841,825 and 2,763,397 additional shares available for grant under the Plan, respectively. The per share weighted-average fair value of stock options granted during 1997, 1998 and 1999 was \$9.75, \$4.24, and \$12.46, respectively, on the dates of grant using the Black Scholes option-pricing model with the following weighted-average assumptions: 1997, 1998 and 1999 expected dividend yields of 0.0%, 0.0% and 0.0%, respectively; 1997, 1998 and 1999 risk-free interest rates of 6.50%, 4.87% and 6.51%, respectively; 1997, 1998 and 1999 volatility factors of 30%, 63% and 65%, respectively; and 1997, 1998 and 1999 expected lives of four years.

GUESS ?, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 1998 AND 1999

(12) STOCK OPTION PLAN (CONTINUED)

The Company applies APB Opinion No. 25 in accounting for its Plan and, accordingly, no compensation cost has been recognized for its stock options in the accompanying consolidated financial statements. Had the Company determined compensation based on the fair value at the grant date for its stock options under SFAS No. 123 ("SFAS 123"), the Company's pro forma net earnings and net earnings per share for the years ended December 31, 1997, 1998 and 1999 would

have been reduced to the pro forma amounts indicated below (in thousands, except per share data):

	1997	1998	1999
	-----	-----	-----
Pro forma net earnings.....	\$35,222	\$24,574	\$51,300
Pro forma earnings per share--basic.....	\$ 0.82	\$ 0.57	\$ 1.19
Pro forma earnings per share--diluted.....	\$ 0.82	\$ 0.57	\$ 1.18

Pro forma net earnings reflect only options granted since the inception of the Plan on July 30, 1996. The full impact of calculating compensation cost for stock options under SFAS 123 is not reflected in the pro forma net earnings amounts presented above because compensation cost is reflected over the options' vesting period of four years.

Stock option activity during the period indicated is as follows:

	NUMBER OF SHARE	WEIGHTED-AVERAGE EXERCISE PRICE
	-----	-----
Balance at December 31, 1996.....	1,287,105	\$17.74
Granted.....	1,406,105	10.78
Forfeited.....	(1,365,855)	(16.88)
	-----	-----
Balance at December 31, 1997.....	1,291,355	\$11.05
Granted.....	1,035,600	4.24
Forfeited.....	(668,780)	(10.92)
	-----	-----
Balance at December 31, 1998.....	1,658,175	\$ 6.86
Granted.....	343,650	12.46
Exercised.....	(373,090)	(8.56)
Forfeited.....	(265,222)	(7.68)
	-----	-----
Balance at December 31, 1999.....	1,363,513	\$ 7.64
	=====	=====

At December 31, 1997, 1998 and 1999, the weighted-average exercise price was \$11.05, \$6.86 and \$7.64, respectively, and the weighted-average remaining contractual lives of outstanding options were 8.85, 9.0 and 8.53 years, respectively.

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GUESS ?, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 1998 AND 1999

(12) STOCK OPTION PLAN (CONTINUED)

The following table summarizes information about stock options outstanding and exercisable at December 31, 1999:

OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
NUMBER	WEIGHTED AVERAGE	WEIGHTED AVERAGE	NUMBER	WEIGHTED AVERAGE
-----	-----	-----	-----	-----

RANGE OF EXERCISE PRICE	OUTSTANDING DECEMBER 31, 1999	REMAINING CONTRACTUAL LIFE	EXERCISE PRICE	EXERCISABLE AT DECEMBER 31, 1999	EXERCISE PRICE
\$ 3.94 to \$ 5.50	750,463	8.81 years	\$ 4.17	126,644	\$ 4.26
\$ 7.03 to \$ 9.38	105,100	8.56 years	8.33	34,350	8.09
\$10.50 to \$13.13	391,350	7.60 years	11.16	177,290	10.93
\$16.38 to \$21.06	116,600	9.90 years	17.51	--	--
	1,363,513....	8.54 years	\$ 7.64	338,284	\$ 8.14

At December 31, 1998 and 1999, the number of options exercisable for each year was 315,875 and 338,284, respectively. The weighted-average exercise price of those options was \$10.84 and \$8.14, respectively.

(13) CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING FOR PRODUCT DISPLAY FIXTURES

Effective January 1, 1997, the Company changed its method of accounting for product display fixtures located in its wholesale customers' retail stores, whereby the costs for such fixtures are capitalized and amortized over five years using the straight-line method. In prior years, these costs had been expensed as incurred. The Company believes that this new method will more closely match the long-term benefit that the product display fixtures provide with the expected future revenue from such fixtures. The cumulative effect of the change in accounting principle, recorded in the first quarter of 1997, is calculated based upon the retroactive effect of applying the new accounting method to prior year fixture acquisitions. The cumulative effect of the change in accounting principle of \$4.0 million (after reduction for income tax expense of \$2.7 million) is included in earnings for the year ended December 31, 1997. Excluding the cumulative effect of the change in accounting principle, the effect of the change during 1997 was to increase net earnings by approximately \$6.2 million, or \$0.14 per share.

(14) SEVERANCE COSTS RELATED TO DISTRIBUTION FACILITY

In accordance with the requirements of EITF 94-3, "Liability for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)", the Company recorded a \$3.2 million charge for future severance costs related to the relocation of its distribution operations from Los Angeles, California to Louisville, Kentucky. The Company anticipates the payment of these severance costs to occur in the second quarter of fiscal 2000.

(15) SUBSEQUENT EVENT

On March 3, 2000, the Arbitrators issued an interim award in favor of the Company and rejected each of PLB's counterclaims (see Note 8). The amount of the interim award was in excess of \$6 million. As the prevailing party, the Company is entitled to, and has applied for, an award of its attorneys' fees, costs and expenses. Because of the uncertainty of the ultimate realization of the award, no recognition has been given to it in the accompanying consolidated financial statements.

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SCHEDULE II

GUESS ?, INC. & SUBSIDIARIES

VALUATION AND QUALIFYING ACCOUNTS

YEARS ENDED DECEMBER 31, 1997, 1998, AND 1999

(IN THOUSANDS)

BALANCE AT BEGINNING	CHARGED TO COSTS AND	DEDUCTIONS AND	BALANCE AT END
----------------------	----------------------	----------------	----------------

DESCRIPTION	OF PERIOD	EXPENSES	WRITE-OFFS	OF PERIOD
As of December 31, 1997				
Allowance for obsolescence.....	\$ 3,257	\$ 3,764	\$ (3,456)	\$ 3,565
Accounts receivable.....	9,720	12,746	(11,270)	11,196
Royalties.....	--	--	--	--
As of December 31, 1998				
Allowance for obsolescence.....	3,565	3,512	(3,217)	3,860
Accounts receivable.....	11,196	8,542	(11,901)	7,837
Royalties.....	--	3,667	--	3,667
As of December 31, 1999				
Allowance for obsolescence.....	3,860	583	(2,079)	2,364
Accounts receivable.....	7,837	1,398	(372)	8,863
Royalties.....	3,667	1,657	(4,066)	1,258

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Los Angeles, State of California, on March 29, 2000.

GUESS ?, INC.

By: /s/ MAURICE MARCIANO

Maurice Marciano
CO-CHAIRMAN OF THE BOARD,
CO-CHIEF EXECUTIVE OFFICER AND DIRECTOR

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

NAME	TITLE	DATE
/s/ MAURICE MARCIANO ----- Maurice Marciano	Co-Chairman of the Board, Co-Chief Executive Officer and Director (Principal Executive Officer)	March 29, 2000
/s/ PAUL MARCIANO ----- Paul Marciano	President, Co-Chairman of the Board, Co-Chief Executive Officer and Director	March 29, 2000
/s/ ARMAND MARCIANO ----- Armand Marciano	Senior Executive Vice President, Assistant Secretary and Director	March 29, 2000
/s/ BRIAN FLEMING ----- Brian Fleming	Executive Vice President and Chief Financial Officer (Principal Financial Officer and Chief Accounting Officer)	March 29, 2000
/s/ ROBERT DAVIS ----- Robert Davis	Director	March 29, 2000
/s/ ALICE KANE ----- Alice Kane	Director	March 29, 2000
/s/ HOWARD SOCOL ----- Howard Socol	Director	March 29, 2000

Bryan Isaacs

EXHIBIT INDEX

EXHIBIT NUMBER	DESCRIPTION
3.1	Restated Certificate of Incorporation of the Registrant. (1)
3.2	Bylaws of the Registrant. (1)
4.3	Specimen stock certificate. (1)
10.1	Amended and Restated Stockholders' Agreement. (2)
10.20	Amended and Restated Revolving Credit Agreement, dated as of March 28, 1997. (2)
10.22	1996 Equity Incentive Plan. (1)
10.23	1996 Non-Employee Directors' Stock Option Plan. (1)
10.24	Annual Incentive Plan. (1)
10.25	Employment Agreement between the Registrant and Maurice Marciano. (2)
10.26	Employment Agreement between the Registrant and Paul Marciano. (2)
10.27	Employment Agreement between the Registrant and Armand Marciano. (2)
10.28	Registration Rights Agreement among the Registrant and certain stockholders of the Registrant. (2)
10.29	Indemnification Agreement among the Registrant and certain stockholders of the Registrant. (2)
10.30	Indemnification Agreements between the Registrant and certain executives and directors. (2)
10.31	First Amendment to Amended and Restated Shareholders' Agreement. (3)
10.32	First Amendment and Waiver to Amended and Restated Revolving Credit Agreement by and between the Registrant and BankBoston, NA, F/K/A The First National Bank of Boston, Sanwa Bank California and the Financial Institutions Party hereto. (4)
10.33	Amended and Restated 1996 Non-Employee Directors' Stock Option Plan, as amended through March 3, 1997. (5)
10.34	Second Amendment and Consent to the Amended and Restated Revolving Credit Agreement by and between Guess ?, Inc. And BankBoston, N.A., F/K/A The First National Bank of Boston, Sanwa Bank California and the Financial Institutions Party Hereto. (6)
10.35	Third Amendment and Consent to the Amended and Restated Revolving Credit Agreement by and between Guess ?, Inc. And BankBoston, N.A., F/K/A The First National Bank of Boston, Sanwa Bank California and the Financial Institutions Party Hereto. (6)
10.36	Amendment No. 1 to The Guess ?, Inc. Amended and Restated 1996 Non- Employee Directors' Stock Option Plan. (7)
10.37	Employment Agreement dated July 6, 1998 between Guess ?, Inc. and Brian L. Fleming. (7)
10.38	Fourth Amendment and Consent to the Amended and Restated Revolving Credit Agreement by and between Guess ?, Inc. And BankBoston, N.A., F/K/A The First National Bank of Boston, Sanwa Bank California and the Financial Institutions Party Hereto. (8)
*10.39	Credit Agreement by and between Guess?, Inc. and Sanwa Bank of California, and the Chase Manhattan Bank.
*10.40	Lease Agreement between Guess?, Inc. and Robert Pattillo Properties, Inc.
*10.41	Subscription Agreement between Freemark Entertainment Corporation and Guess?, Inc.

18.0	Letter regarding change in accounting principles. (5)
*21.1	List of Subsidiaries.
*23.0	Independent Accountants' Consent.
*27.1	Financial Data Schedule.

* Filed herewith

(b) Financial Statement Schedule:

Schedule II--Description Valuation and Qualifying Accounts

- (1) Incorporated by reference from the Registration Statement on Form S-1 (Registration No. 333-4419) filed by the Company on June 24, 1996, as amended.
- (2) Incorporated by reference from the Company's Annual Report on Form 10-K for the year ended December 31, 1996.
- (3) Incorporated by reference from the Company's Quarterly Report on Form 10-Q for the quarter ended March 30, 1997.
- (4) Incorporated by reference from the Company's Quarterly Report on Form 10-Q for the quarter ended June 29, 1997.
- (5) Incorporated by reference from the Company's Annual Report on Form 10-K for the year ended December 31, 1997.
- (6) Incorporated by reference from the Company's Quarterly Report on Form 10-Q for the quarter ended March 29, 1998.
- (7) Incorporated by reference from the Company's Quarterly Report on Form 10-Q for the quarter ended June 28, 1998.
- (8) Incorporated by reference from the Company's Quarterly Report on Form 10-Q for the quarter ended September 27, 1998.

\$125,000,000

CREDIT AGREEMENT

among

GUESS?, INC.,
as Borrower,

The Several Lenders
from Time to Time Parties Hereto,

SANWA BANK CALIFORNIA, as Co-Agent,

and

THE CHASE MANHATTAN BANK,

as Administrative Agent

Dated as of December 3, 1999

CHASE SECURITIES INC., as Lead Arranger and Book Manager

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ANNEX:

A Pricing Grid

SCHEDULES:

1.1	Revolving Credit Commitments
4.1	Material Guarantee Obligations; Material Dispositions
4.15	Subsidiaries
4.19	UCC Filing Jurisdictions
7.2(e)	Existing Indebtedness
7.3(f)	Existing Liens

EXHIBITS:

A	Form of Guarantee and Collateral Agreement
B	Form of Compliance Certificate
C	Form of Closing Certificate
D	Form of Assignment and Acceptance

E-1	Form of Legal Opinion of Skadden, Arps, Slate, Meagher & Flom LLP
E-2	Form of Legal Opinion of Glenn A. Weinman
F	Form of Exemption Certificate

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CREDIT AGREEMENT, dated as of December 3, 1999 among GUESS ?, INC., a Delaware corporation (the "Borrower"), the several banks and other financial institutions or entities from time to time parties to this Agreement (the "Lenders"), SANWA BANK CALIFORNIA, as co-agent (in such capacity, the "Co-Agent"), and THE CHASE MANHATTAN BANK, as administrative agent.

The parties hereto hereby agree as follows:

SECTION 1. DEFINITIONS

1.1 Defined Terms. As used in the Agreement, the terms listed in this Section 1.1 shall have the respective meanings set forth in this Section 1.1.

"ABR": for any day, a rate per annum (rounded upwards, if necessary, to the next 1/16 of 1%) equal to the greatest of (a) the Prime Rate in effect on such day, (b) the Base CD Rate in effect on such day plus 1% and (c) the Federal Funds Effective Rate in effect on such day plus 1/2 of 1%. For purposes hereof: "Prime Rate" shall mean the rate of interest per annum publicly announced from time to time by The Chase Manhattan Bank as its prime rate in effect at its principal office in New York City (the Prime Rate not being intended to be the lowest rate of interest charged by The Chase Manhattan Bank in connection with extensions of credit to debtors): "Base CD Rate" shall mean the sum of (a) the product of (i) the Three-Month Secondary CD Rate and (ii) a fraction, the numerator of which is one and the denominator of which is one minus the C/D Reserve Percentage and (b) the C/D Assessment Rate; and "Three-Month Secondary CD Rate" shall mean, for any day, the secondary market rate for three-month certificates of deposit reported as being in effect on such day (or, if such day shall not be a Business Day, the next preceding Business Day) by the Board through the public information telephone line of the Federal Reserve Bank of New York (which rate will, under the current practices of the Board, be published in Federal Reserve Statistical Release H.15(519) during the week following such day), or, if such rate shall not be so reported on such day or such next preceding Business Day, the average of the secondary market quotations for three-month certificates of deposit of major money center banks in New York City received at approximately 10:00 A.M., New York City time, on such day (or, if such day shall not be a Business Day, on the next preceding Business Day) by The Chase Manhattan Bank from three New York City negotiable certificate of deposit dealers of recognized standing selected by it. Any change in the ABR due to a change in the Prime Rate, the Three-Month Secondary CD Rate or the Federal Funds Effective Rate shall be effective as of the opening of business on the effective day of such change in the Prime Rate, the Three-Month Secondary CD Rate or the Federal Funds Effective Rate, respectively.

"ABR Loans": Loans the rate of interest applicable to which is based upon the ABR.

"Adjustment Date": as defined in the Pricing Grid.

"Administrative Agent": The Chase Manhattan Bank, together with its affiliates, as the arranger of the Revolving Credit Commitments and as the administrative agent for the Lenders under this Agreement and the other Loan Documents, together with any of its successors.

"Affiliate": as to any Person, any other Person that, directly or indirectly, is in control of, is controlled by, or is under common control with, such Person. For purposes of this definition, "control" of a Person means the power, directly or indirectly, either to (a) vote 10% or more of the securities having ordinary voting power for the election of directors (or persons performing similar functions) of such Person or (b) direct or cause the direction

of the management and policies of such Person, whether by contract or otherwise.

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"Agents": the collective reference to the Co-Agent and the Administrative Agent.

"Aggregate Exposure": with respect to any Lender at any time, amount equal to the amount of such Lender's Revolving Credit Commitment then in effect or, if the Revolving Credit Commitments have been terminated, the amount of such Lender's Revolving Extensions of Credit then outstanding.

"Aggregate Exposure Percentage": with respect to any Lender at any time, the ratio (expressed as a percentage) of such Lender's Aggregate Exposure at such time to the Aggregate Exposure of all Lenders at such time.

"Agreement": this Credit Agreement, as amended, restated, supplemented or otherwise modified from time to time.

"Apparel Business": collectively, (a) the businesses of the manufacture, wholesale sale and/or retail sale of clothing garments and other wearing apparel or allied or complementary products for men, women or children, including accessories, fragrances, eyewear, watches, home products, cosmetics and footwear, or of any component materials thereof, (b) the business of granting licenses of the trademarks, tradenames and other similar property to other Persons for the manufacture and/or sale of such products of any nature by such Persons and (c) activities related or ancillary to, or extensions of, the businesses and activities described clauses (a) and (b) above.

"Applicable Documentary L/C Fee Rate": 0.200%; provided, that on and after the date that is 90 days after the Closing Date, the Applicable Documentary L/C Fee Rate will be determined pursuant to the Pricing Grid.

"Applicable Margin": a per annum rate equal to (a) 1.25%, in the case of Eurodollar Loans, and (b) 0.25%, in the case of ABR Loans; provided, that on and after the date that is 90 days after the Closing Date, the Applicable Margin will be determined pursuant to the Pricing Grid.

"Application": an application, in such form as the Issuing Lender may specify from time to time in accordance with its customary practice and the terms of this Agreement, and which may be submitted electronically, requesting the Issuing Lender to open a Letter of Credit.

"Asset Sale": any Disposition of property or series of related Dispositions of property (excluding any issuance or sale of Capital Stock of the Borrower or any such Disposition permitted by clause (a), (b), (c), (d), (e), (f), (g), (h), (i), (j), (k) or (l) of Section 7.5) that yields Net Cash Proceeds to the Borrower or any of its Subsidiaries in excess of \$2,500,000.

"Assignee": as defined in Section 10.6(c).

"Assignment and Acceptance": an Assignment and Acceptance, substantially in the form of Exhibit D.

"Assignor": as defined in Section 10.6(c).

"Attributable Debt": in respect of a sale and leaseback transaction entered into by the Borrower or any of its Subsidiaries, at the time of determination, the present value of the obligation of the lessee for net rental payments during the remaining term of the lease included in such sale and leaseback transaction including any period for which such lease has been extended or may, at the sole option of the lessor, be extended. Such present value shall be calculated using a discount rate equal to the rate of interest implicit in such transaction, determined in accordance with GAAP.

"Available Revolving Credit Commitment": as to any Lender at any time, an amount equal to the excess, if any, of (a) such Lender's Revolving Credit Commitment then in effect over (b) such Lender's Revolving Extensions of Credit then outstanding; provided, that in calculating any Lender's Revolving Extensions of Credit for the purpose of determining such Lender's Available Revolving Credit Commitment pursuant to Section 2.5(a), the aggregate principal amount of Swinging Loans then outstanding shall be deemed to be zero.

"Basket Amount": an amount equal to \$75,000,000 on the Closing Date, permanently reduced thereafter by the amount of (a) any expenditures made to repurchase common stock of the Borrower pursuant to Section 7.6(b), (b) the Consideration expended in connection with any Permitted Acquisition pursuant to Section 7.8(f), and (c) any expenditures made to redeem the Senior Subordinated Notes pursuant to Section 7.9(a)(i).

"Benefitted Lender": as defined in Section 10.7(a).

"Board": the Board of Governors of the Federal Reserve System of the United States (or any successor).

"Borrower": as defined in the preamble hereto.

"Borrowing Date": any Business Day specified by the Borrower as a date on which the Borrower requests the Lender to make Loans hereunder.

"Business": as defined in Section 4.17(b).

"Business Day": a day other than a Saturday, Sunday or other day on which commercial banks in New York City are authorized or required by law to close, provided, that with respect to notices and determinations in connection with, and payments of principal and interest on, Eurodollar Loans, such day is also a day for trading by and between banks in Dollar deposits in the interbank eurodollar market.

"Capital Expenditures": for any period, with respect to any Person, the aggregate of all expenditures by such Person and its Subsidiaries for the acquisition or leasing (pursuant to a capital lease) of fixed or capital assets or additions to equipment (including replacements, capitalized repairs and improvements during such period) that should be capitalized under GAAP on a consolidated balance sheet of such Person and its Subsidiaries; provided, however, that Capital Expenditures shall not include (a) property purchased simultaneously with the trade-in of existing property owned by such Person or its Subsidiaries to the extent of the trade-in credit with respect to the property being traded in at such time, (b) expenditures of proceeds of any Recovery Event, (c) expenditures to replace property Disposed of in accordance with this Agreement to the extent of the sales price of such property and to the extent replaced within 365 days of receipt of such sales price, (d) property subject to Capital Lease Obligations or (e) capitalized fees and expenses.

"Capital Lease Obligations": as to any Person, the obligations of such Person to pay rent or other amounts under any lease of (or other arrangement conveying the right to use) real or personal property, or a combination thereof, which obligations are required to be classified and accounted for as capital leases on a balance sheet of such Person under GAAP and, for the purposes of this Agreement, the amount of such obligations at any time shall be the capitalized amount thereof at such time determined in accordance with GAAP.

"Capital Stock": any and all shares, interests, participations or other equivalents (however designated) of capital stock of a corporation, any and all equivalent ownership interests in a Person (other than a corporation) and any and all warrants, rights or options to purchase any of the foregoing.

"Cash Equivalents": (a) marketable direct obligations issued by, or unconditionally guaranteed by, the United States Government or issued by any agency thereof and backed by the full faith and credit of the United States, in each case maturing within one year from the date of acquisition; (b) certificates of deposit, time deposits, eurodollar time deposits or overnight bank deposits having maturities of one year or less from the date of acquisition issued by any Lender or by any commercial bank organized under the laws of the United States or any state thereof having combined capital and surplus of not less than \$250,000,000; (c) commercial paper of an issuer rated at least A-1 by Standard & Poor's Ratings Services ("S&P") or P-1 by Moody's Investors Service, Inc. ("Moody's"), or carrying an equivalent rating by a nationally recognized rating agency, if both of the two named rating agencies cease publishing ratings of commercial paper issuers generally, and maturing within one year from the date of acquisition; (d) repurchase obligations of any Lender or of any commercial bank satisfying the requirements of clause (b) of this definition, having a term of not more than 90 days, with respect to securities issued or fully guaranteed or insured by the United States government; (e) securities with maturities of one year or less from the date of acquisition issued or fully guaranteed by any state, commonwealth or territory of the United States, by any political subdivision or taxing authority of any such state, commonwealth or territory or by any foreign government, the securities of which state, commonwealth, territory, political subdivision, taxing authority or foreign government (as the case may be) are rated at least A by S&P or A by Moody's or an equivalent rating by a nationally recognized rating agency, if such securities are not rated by either S&P or Moody's; (f) securities with maturities of six months or less from the date of acquisition backed by standby letters of credit issued by any Lender or any commercial bank satisfying the requirements of clause (b) of this definition; (g) shares of money market mutual or similar funds which invest exclusively in assets satisfying the requirements of clauses (a) through (f) of this definition; (h) demand deposit accounts maintained in the ordinary course of business; and (i) in the case of any Foreign Subsidiary, (i) direct obligations of the sovereign nation (or any agency thereof) in which such Foreign Subsidiary is organized or is conducting business or obligations guaranteed by such sovereign nation (or any agency thereof), (ii) investments of the type and maturity described in clauses (a) through (g) above of foreign obligors, which investments or obligors (or the direct or indirect parents of such obligors) have ratings described in such clauses or equivalent ratings from comparable foreign rating agencies or (iii) investments of the type and maturity described in clauses (a) through (g) above of foreign obligors (or the direct or indirect parents of such obligors) that are not rated as provided in such clauses or in clause (ii) above but which are, in the reasonable judgment of the Borrower or the relevant Subsidiary, comparable in investment quality to such investment and obligors (or the direct or indirect parents of such obligors).

"C/D Assessment Rate": applied to any ABR Loan, the annual assessment rate in effect on such day that is payable by a member of the Bank Insurance Fund maintained by the Federal Deposit Insurance Corporation (the "FDIC") classified as well-capitalized and within supervisory subgroup "B" (or a comparable successor assessment risk classification) within the meaning of 12 C.F.R. ss: 327.4 (or any successor provision) to the FDIC (or any successor) for the FDIC's (or such successor's) insuring time deposits at offices of such institution in the United States.

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"C/D Reserve Percentage": for any day as applied to any ABR Loan, that percentage (expressed as a decimal) which is in effect on such day, as prescribed by the Board, for determining the maximum reserve requirement for a Depository Institution (as defined in Regulation D of the Board as in effect from time to time) in respect of new non-personal time deposits in Dollars having a maturity of 30 days or more.

"Closing Date": the date on which the conditions precedent set forth in Section 5.1 shall have been satisfied, which date is December 3, 1999.

"Co-Agent": as defined in the preamble hereto.

"Code": the Internal Revenue Code of 1986, as amended from time to time.

"Collateral", all property of the Loan Parties, now owned or hereafter acquired, upon which a Lien is purported to be created by any Security Document.

"Commitment Fee Rate": 0.375% per annum; provided that on and after the date that is 90 days after the Closing Date, the Commitment Fee Rate will be determined pursuant to the Pricing Grid.

"Commonly Controlled Entity": an entity, whether or not incorporated, that is under common control with the Borrower within the meaning of Section 4001 of ERISA or is part of a group that includes the Borrower and that is treated as a single employer under Section 414 of the Code,

"Compliance Certificate": a certificate duly executed by a Responsible Officer substantially in the form of Exhibit B.

"Confidential Information Memorandum": the Confidential Information Memorandum dated September 1999 and furnished to the Lenders.

"Consideration": in connection with any "acquisition, the consideration paid by the Borrower or any of its Subsidiaries in connection therewith (including the principal amount of any Indebtedness assumed in connection therewith).

"Consolidated EBITDAR": for any period, Consolidated Net Income for such period plus, without duplication and to the extent reflected as a charge in this statement of such Consolidated Net Income for such period, the sum of (a) income tax expense, (b) interest expense, amortization or writeoff of debt discount and debt issuance costs and commissions, discounts and other fees and charges associated with indebtedness (including the Loans), (c) depreciation and amortization expense, (d) amortization of intangibles (including, but not limited to, goodwill) and organization costs, (e) Consolidated Operating Lease Expense, (f) any extraordinary, unusual or non-recurring non-cash expenses or losses (including, whether or not otherwise includable as a separate item in the statement of such Consolidated Net Income for such period, non-cash losses on sales of assets outside of the ordinary course of business), and (g) any other non-cash charges, and minus, to the extent included in the statement of such Consolidated Net Income for such period, the sum of (a) any extraordinary, unusual or non-recurring income or gains (including, whether or not otherwise includable as a separate item in the statement of such Consolidated Net Income for such period, gains on the sales of assets outside of the ordinary course of business) and (b) any other non-cash income (other than income accrued in the ordinary course of business), all as determined on a consolidated basis. For the purposes of calculating Consolidated EBITDAR for any period of four consecutive fiscal quarters (each, a "Reference Period") pursuant to any determination of the Consolidated Leverage Ratio, (i) if at any time during such Reference Period the Borrower or any Subsidiary shall have made any Material Disposition, the Consolidated EBITDAR for such Reference Period shall be reduced by an amount equal to the Consolidated EBITDAR (if positive) attributable to the property that is the subject of such Material Disposition for such Reference Period or increased by an amount equal to the Consolidated EBITDAR (if negative) attributable thereto for such Reference Period and (ii) if during such Reference Period the Borrower or any Subsidiary shall have made a Material Acquisition, Consolidated EBITDAR for such Reference Period shall be calculated after giving pro forma effect thereto as if such Material Acquisition occurred on the first day of such Reference Period. As used in this definition, "Material Acquisition" means any acquisition of property or series of related acquisitions of property that (a) constitutes assets comprising all, or substantially all of an operating unit of a business or constitutes all or substantially all of the common stock of a Person and (b) involves the payment of consideration by the Borrower and its Subsidiaries in excess of \$2,500,000; and "Material

Disposition" means any Disposition of property or series of related Dispositions of property that yields gross proceeds to the Borrower or any of its Subsidiaries in excess of \$2,500,000.

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"Consolidated Fixed Charge Coverage Ratio": for any period, the ratio of (a) Consolidated EBITDAR for such period minus Capital Expenditures for such period to (b) Consolidated Fixed Charges for such period.

"Consolidated Fixed Charges": for any period, the sum (without duplication) of (a) Consolidated Interest Expense for such period, (b) Consolidated Operating Lease Expense for such period and (c) scheduled payments made during such period on account of principal of Indebtedness of the Borrower or any of its Subsidiaries.

"Consolidated Interest Expense": for any period, total cash interest expense (including that attributable to Capital Lease Obligations) of the Borrower and its Subsidiaries for such period with respect to all outstanding indebtedness of the Borrower and its Subsidiaries (including all commissions, discounts and other fees and charges owed with respect to letters of credit and bankers' acceptance financing and net costs under Hedge Agreements in respect of interest rates to the extent such net costs are allocable to such period in accordance with GAAP less all interest income and payments received under Hedge Agreements in respect of interest rates allocable to such period in accordance with GAAP).

"Consolidated Leverage Ratio": as at the last day of any period, the ratio of (a) the sum of (i) Consolidated Total Debt on such day and (ii) 800% of Consolidated Operating Lease Expense for such period to (b) Consolidated EBITDAR for such period.

"Consolidated Net Income": for any period, the consolidated net income (or loss) of the Borrower and its Subsidiaries, determined on a consolidated basis in accordance with GAAP; provided that there shall be excluded (a) except as otherwise expressly provided herein, the income (or deficit) of any Person accrued prior to the date it becomes a Subsidiary of the Borrower or is merged into or consolidated with the Borrower or any of its Subsidiaries, (b) the income (or deficit) of any Person (other than a Subsidiary of the Borrower) in which the Borrower or any of its Subsidiaries has an ownership interest, except to the extent that any such income is actually received by the Borrower or such Subsidiary in the form of dividends or similar distributions and (c) the undistributed earnings of any Subsidiary of the Borrower (other than Strandel, Inc. and its Subsidiaries) to the extent that the declaration or payment of dividends or similar distributions by such Subsidiary is not at the time permitted by the terms of any Contractual Obligation (other than under any Loan Document) or Requirement of Law applicable to such Subsidiary.

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"Consolidated Net Worth": at any date, all amounts that would, in conformity with GAAP, be included on a consolidated balance sheet of the Borrower and its Subsidiaries under net stockholders' equity at such date.

"Consolidated Operating Lease Expense": for any period, the aggregate amount of fixed and contingent rentals payable by the Borrower and its Subsidiaries for such period with respect to leases of real and personal property (other than Capital Lease Obligations), determined on a consolidated basis in accordance with GAAP.

"Consolidated Total Debt": at any date, the aggregate principal amount of all Indebtedness (other than contingent obligations in respect of Indebtedness of the type described in clause (f) of the definition thereof) of

the Borrower and its Subsidiaries at such date, determined on a consolidated basis in accordance with GAAP.

"Continuing Directors": the directors of the Borrower on the Closing Date and each other director, if, in each case, such other director's nomination for election to the board of directors of the Borrower is recommended by at least a majority of the then Continuing Directors or such other director receives the vote of the Permitted Investors in his or her election by the shareholders of the Borrower.

"Contractual Obligation": as to any Person, any provision of any security issued by such Person or of any agreement, instrument or other undertaking to which such Person is a party or by which it or any of its property is bound.

"Default": any of the events specified in Section 8, whether or not any requirement for the giving of notice, the lapse of time, or both, has been satisfied.

"Disposition": with respect to any property, any sale, lease, sale and leaseback, assignment (other than for security), conveyance, transfer or other disposition thereof. The terms "Dispose" and "Disposed of " shall have correlative meanings.

"Documentary Letter of Credit": any Letter of Credit that is issued in support of trade obligations of the Borrower or any of its Subsidiaries incurred in the ordinary course of business and that includes, as a condition to drawing thereunder, the presentation to the Issuing Lender of negotiable bills of lading, invoices and related documents sufficient to create a valid and perfected security interest in the goods covered thereby.

"Dollars" and "\$": dollars in lawful currency of the United States.

"Domestic Subsidiary": any Subsidiary of the Borrower organized under the laws of any jurisdiction within the United States.

"Environmental Laws": any and all foreign, Federal, state, local or municipal laws, rules, orders, regulations, statutes, ordinances, codes, decrees, requirements of any Governmental Authority or other Requirements of Law (including common law) regulating, relating to or imposing liability or standards of conduct concerning protection of human health or the environment, as now at may at any time hereafter be in effect.

"ERISA": the Employee Retirement Income Security Act of 1974, as amended from time to time.

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"Eurocurrency Reserve Requirements": for any day as applied to a Eurodollar Loan, the aggregate (without duplication) of the maximum rates (expressed as a decimal fraction) of reserve requirements in effect on such day (including basic, supplemental, marginal and emergency reserves under any regulations of the Board or other Governmental Authority having jurisdiction with respect thereto) dealing with reserve requirements prescribed for eurocurrency funding (currently referred to as "Eurocurrency Liabilities" in Regulation D of the Board) maintained by a member bank of the Federal Reserve System.

"Eurodollar Base Rate": with respect to each day during each Interest Period pertaining to a Eurodollar Loan, the rate per annum determined on the basis of the rate for deposits in Dollars for a period equal to such Interest Period commencing on the first day of such Interest Period appearing on Page 3750 of the Dow Jones Markets screen as of 11:00 A.M., London time, two Business

Days prior to the beginning of such Interest Period. In the event that such rate does not appear on Page 3750 of the Dow Jones Markets screen (or otherwise on such screen), the "Eurodollar Base Rate" shall be determined by reference to such other comparable publicly available service for displaying eurodollar rates as may be selected by the Administrative Agent with the consent of the Borrower (which consent shall not be unreasonably withheld or delayed) or, in the absence of such availability (or Borrower consent), by reference to the rate at which the Administrative Agent is offered Dollar deposits at or about 11:00 A.M., New York City time, two Business Days prior to the beginning of such Interest Period in the interbank eurodollar market where its eurodollar and foreign currency and exchange operations are then being conducted for delivery on the first day of such Interest Period for the number of days comprised therein.

"Eurodollar Loans": Loans the rate of interest applicable to which is based upon the Eurodollar Rate.

"Eurodollar Rate": with respect to each day during each Interest Period pertaining to a Eurodollar Loan, a rate per annum determined for such day in accordance with the following formula (rounded upward to the nearest 1/100th of 1%):

Eurodollar Base Rate

1.00 - Eurocurrency Reserve Requirements

"Eurodollar Tranche": the collective reference to Eurodollar Loans the then current Interest Periods with respect to all of which begin on the same date and end on the same later date (whether or not such Loans shall originally have been made on the same day).

"Event of Default": any of the events specified in Section 8, provided that any requirement for the giving of notice, the lapse of time, or both, has been satisfied.

"Federal Funds Effective Rate": for any day, the weighted average of the rates on overnight federal funds transactions with members of the Federal Reserve System arranged by federal funds brokers, as published on the next succeeding Business Day by the Federal Reserve Bank of New York, or, if such rate is not so published for any day that is a Business Day, the average of the quotations for the day of such transactions received by The Chase Manhattan Bank from three federal funds brokers of recognized standing selected by it.

"Foreign Subsidiary": any Subsidiary of the Borrower that is not a Domestic Subsidiary.

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"Funding Office": the office of the Administrative Agent specified in Section 10.2 or such other office as may be specified from time to time by the Administrative Agent as its funding office by written notice to the Borrower and the Lenders.

"GAAP": generally accepted accounting principles in the United States as in effect from time to time, except that for purposes of Section 7.1, GAAP shall be determined on the basis of such principles in effect on the date hereof and consistent with those used in the preparation of the Borrower's audited financial statements referred to in Section 4.1 with respect to the period ending December 31, 1998. In the event that any "Accounting Change" (as defined below) shall occur and such change results in a change in the method of calculation of financial covenants, standards or terms in this Agreement, then the Borrower and the Administrative Agent agree to enter into negotiations in order to amend such provisions of this Agreement so as to equitably reflect such Accounting Changes with the desired result that the criteria for evaluating the

Borrower's financial condition shall be the same after such Accounting Changes as if such Accounting Changes had not been made. Until such time as such an amendment shall have been executed and delivered by the Borrower, the Administrative Agent and the Required Lenders, all financial covenants, standards and terms in this Agreement shall continue to be calculated or construed as if such Accounting Changes had not occurred. "Accounting Changes" refers to changes in accounting principles required by the promulgation of any rule, regulation, pronouncement or opinion by the Financial Accounting Standards Board of the American Institute of Certified Public Accountants or, if applicable, the SEC.

"Governmental Authority": any nation or government, any state or other political subdivision thereof, any agency, authority, instrumentality, regulatory body, court, central bank or other entity exercising executive, legislative, judicial, taxing, regulatory or administrative functions of or pertaining to government, any securities exchange and any self-regulatory organization (including the National Association of Insurance Commissioners).

"Guarantee and Collateral Agreement": the Guarantee and Collateral Agreement to be executed and delivered by the Borrower and each Subsidiary Guarantor, substantially in the form of Exhibit A, as the same may be amended, supplemented or otherwise modified from time to time.

"Guarantee Obligation": as to any person (the "guaranteeing person"), any obligation of (a) the guaranteeing person or (b) another Person (including any bank under any letter of credit) to induce the creation of which the guaranteeing person has issued a reimbursement, counterindemnity or similar obligation, in either case guaranteeing or in effect guaranteeing any Indebtedness (the "primary obligations") of any other third Person (the "primary obligor") in any manner, whether directly or indirectly, including any obligation of the guaranteeing person, whether or not contingent, (i) to purchase any such primary obligation or any property constituting direct or indirect security therefor, (ii) to advance or supply funds (1) for the purchase or payment of any such primary obligation or (2) to maintain working capital or equity capital of the primary obligor or otherwise to maintain the net worth or solvency of the primary obligor, (iii) to purchase property, securities or services primarily for the purpose of assuring the owner of any such primary obligation of the ability of the primary obligor to make payment of such primary obligation or (iv) otherwise to assure or hold harmless the owner of any such primary obligation against loss in respect thereof provided, however, that the term Guarantee Obligation shall not include endorsements of instruments for deposit or collection in the ordinary course of business. The amount of any Guarantee Obligation of any guaranteeing person shall be deemed to be the lower of (a) an amount equal to the stated or determinable amount of the primary obligation in respect of which such Guarantee Obligation is made and (b) the maximum amount for which such guaranteeing person may be liable pursuant to the terms of the instrument embodying such Guarantee Obligation, unless such primary obligation and the maximum amount which such guaranteeing person may be liable are not stated or determinable, in which case the amount of such Guarantee Obligation shall be such guaranteeing person's maximum reasonably anticipated liability in respect thereof as determined by the Borrower in good faith.

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"Hedge Agreements": all interest rate swaps, caps or collar agreements or similar arrangements dealing with interest rates or currency exchange rates or the exchange of nominal interest obligations, either generally or under specific contingencies.

"Indebtedness": of any Person at any date, without duplication, (a) all indebtedness of such Person for borrowed money, (b) all obligations of such Person for the deferred purchase price of property or services (other than current trade payables incurred in the ordinary course of such Person's business and contingent payments, earn-outs, incentive arrangements and similar obligations arising in connection with Permitted Acquisitions), (c) all

obligations of such Person evidenced by notes, bonds, debentures or other similar instruments, (d) all indebtedness created or arising under any conditional sale or other title retention agreement with respect to property acquired by such Person (even though the rights and remedies of the seller or lender under such agreement in the event of default are limited to repossession or sale of such property), (e) all Capital Lease Obligations of such Person, (f) all obligations of such Person, contingent or otherwise, as an account party under acceptances, letters of credit, sure bonds or similar arrangements, (g) the liquidation value of all preferred Capital Stock of such Person that is redeemable at the option of the holder thereof on or prior to the Revolving Termination Date (other than in connection with asset sales or changes of control), (h) all Guarantee Obligations of such Person in respect of obligations of the kind referred to in clauses (a) through (g) above, (i) all obligations of the kind referred to in clauses (a) through (h) above secured by any Lien on property (including amounts and contract rights) owned by such Person, whether or not such Person has assumed or become liable for the payment of such obligation, provided that the amount of such obligations deemed Indebtedness under this clause (i) shall equal the lesser of the outstanding principal amount of such obligations and the value of the property of such Person securing such obligations, and (j) for the purposes of Sections 7.2 and 8(e) only, all obligations of such Person in respect of Hedge Agreements. The Indebtedness of any Person shall include the Indebtedness of any other entity (including any partnership in which such Person is a general partner) to the extent such Person is liable therefor as a result of such Person's ownership interest in or other relationship with such entity, except to the extent the terms of such Indebtedness expressly provide that such Person is not liable therefor.

"Insolvency": with respect to any Multiemployer Plan, the condition that such Plan is insolvent within the meaning of Section 4245 of ERISA.

"Insolvent": pertaining to a condition of Insolvency.

"Intellectual Property": the collective reference to all rights, priorities and privileges relating to intellectual property, whether arising under United States, multinational or foreign laws or otherwise, including copyrights, copyright licenses, patents, patent licenses, trademarks, trademark licenses, technology, know-how and processes, and all rights to sue at law or in equity for any infringement or other impairment thereof, including the right to receive all proceeds and damages therefrom.

"Interest Payment Date": (a) as to any ABR Loan, the last day of each March, June, September and December to occur while such Loan is outstanding and the final maturity date of such Loan, (b) as to any Eurodollar Loan having an Interest Period of three months or less, the last day of such Interest Period, (c) as to any Eurodollar Loan having an Interest Period longer than three months, each day that is three months, or a whole multiple thereof, after the first day of such Interest Period and the last day of such Interest Period and (d) as to any Loan (other than any Revolving Loan that is an ABR Loan and any Swingline Loan), the date of any repayment or prepayment made in respect thereof.

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"Interest Period": as to any Eurodollar Loan, (a) initially, the period commencing on the borrowing or conversion date, as the case may be, with respect to such Eurodollar Loan and ending one, two, three or six months thereafter, as selected by the Borrower in its notice of borrowing or notice of conversion, as the case may be, given with respect thereto; and (b) thereafter, each period commencing on the last day of the next preceding Interest Period applicable to such Eurodollar Loan and ending one, two, three or six months thereafter, as selected by the Borrower by irrevocable notice to the Administrative Agent not less than three Business Days prior to the last day of the then current Interest Period with respect thereto; provided that, all of the foregoing provisions relating to Interest Periods are subject to the following:

(i) if any Interest Period would otherwise end on a day that

is not a Business Day, such Interest Period shall be extended to the next succeeding Business Day unless the result of such extension would be to carry such Interest Period into another calendar month in which event such Interest Period shall end on the immediately preceding Business Day;

(ii) the Borrower may not select an Interest Period that would extend beyond the Revolving Termination Date;

(iii) any Interest Period that begins on the last Business Day of a calendar month (or on a day for which there is no numerically corresponding day in the calendar month at the end of such Interest Period) shall end on the last Business Day of a calendar month; and

(iv) the Borrower shall select Interest Periods so as not to require a payment or prepayment of any Eurodollar Loan during an Interest Period for such Loan.

"Investments": as defined in Section 7.8.

"Issuing Lender": The Chase Manhattan Bank, in its capacity as Issuer of any Letter of Credit, together with any other Lender designated by the Administrative Agent (with such Lender's consent) to serve as an Issuing Lender hereunder. Each reference herein to "the Issuing Lender" shall, as the context requires, refer to each Issuing Lender or relevant Issuing Lender.

"L/C Commitment": \$50,000,000.

"L/C Obligations": at any time, an amount equal to the sum of (a) the aggregate then undrawn and unexpired amount of the then outstanding Letters of Credit and (b) the aggregate amount of drawings under Letters of Credit that have not then been reimbursed pursuant to Section 3.5.

"L/C Participants": the collective reference to all the Lenders other than the Issuing Lender.

"Lenders": as defined in the preamble hereto.

"Letters of Credit": as defined in Section 3.1(a).

"Lien": any mortgage, pledge, hypothecation, assignment, deposit arrangement, encumbrance, lien (statutory or other), charge or other security interest or any preference, priority or other security agreement or preferential arrangement of any kind or nature whatsoever (including any conditional sale or other title retention agreement and any capital lease having substantially the same economic effect as any of the foregoing).

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"Loan": any loan made by any Lender pursuant to this Agreement.

"Loan Documents": this Agreement and the Security Documents.

"Loan Parties": the Borrower and each Subsidiary of the Borrower that is a party to a Loan Document.

"Material Adverse Effect": a material adverse effect on (a) the business, operations or condition (financial or otherwise) of the Borrower and its Subsidiaries taken as a whole or (b) the validity or enforceability of this Agreement or any of the other Loan Documents or the rights or remedies of the Administrative Agent or the Lenders hereunder or thereunder.

"Materials of Environmental Concern": any gasoline or petroleum (including crude oil or any fraction thereof) or petroleum products or any hazardous or toxic substances, materials or wastes, defined or regulated as such in or under any Environmental Law, including asbestos, polychlorinated biphenyls

and urea-formaldehyde insulation.

"Material Subsidiary": any Subsidiary of the Borrower whose (a) assets, (b) revenues or (c) earnings before interest, taxes, depreciation and amortization (excluding intercompany receivables and revenues that would be eliminated upon consolidation in accordance with GAAP), at the time of determination (determined, in the case of clauses (b) and (c), in respect of the most recent period of four consecutive fiscal quarters of the Borrower for which the relevant financial information is available), in any such case exceed \$2,500,000.

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

"Net Cash Proceeds": (a) in connection with any Asset Sale or any Recovery Event, the proceeds thereof in the form of cash and Cash Equivalents (including any such proceeds received by way of deferred payment of principal pursuant to a note or installment receivable or purchase price adjustment receivable or otherwise, but only if, as and when received) of such Asset Sale or Recovery Event, net of attorneys' fees, accountants' fees, investment banking fees, amounts required to be applied to the repayment of Indebtedness secured by a Lien expressly permitted hereunder on any asset that is the subject of such Asset Sale or Recovery Event (other than any Lien pursuant to a Security Document) and other customary fees and expenses actually incurred in connection therewith and net of taxes paid or reasonably estimated to be payable as a result thereof (after taking into account any available tax credits or deductions resulting directly from such Asset Sale or Recovery Event) and (b) in connection with any incurrence of Indebtedness, the cash proceeds received from such incurrence, net of attorneys' fees, investment banking fees, accountants' fees, underwriting discounts and commissions and other customary fees and expenses actually incurred in connection therewith.

"Non-Excluded Taxes", as defined in Section 2.16(a).

"Non-U.S. Lender": as defined in Section 2.16(d).

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"Obligations": the unpaid principal of and interest on (including interest accruing after the maturity of the Loans and Reimbursement Obligations and interest accruing after the filing of any petition in bankruptcy, or the commencement of any insolvency, reorganization or like proceeding, relating to the Borrower, whether or not a claim for post-filing or post-petition interest is allowed in such proceeding) the Loans and all other obligations and liabilities of the Borrower to the Administrative Agent or to any Lender (or, in the case of Hedge Agreements, any affiliate of any Lender), whether direct or indirect, absolute or contingent, due or to become due, or now existing or hereafter incurred, which may arise under, out of, or in connection with, this Agreement, any other Loan Document, the Letters of Credit, any Hedge Agreement entered into with any Lender or any affiliate of any Lender or any other document made, delivered or given in connection herewith or therewith, whether an account of principal, interest, reimbursement obligations, fees, indemnities, costs, expenses (including all fees, charges and disbursements of counsel to the Administrative Agent or to any Lender that are required to be paid by the Borrower pursuant hereto) or otherwise.

"Other Taxes": any and all present or future stamp or documentary taxes or any other excise or property taxes, charges or similar levies arising from any payment made hereunder or from the execution, delivery or enforcement of, or otherwise with respect to, this Agreement or any other Loan Document.

"Participant": as defined in Section 10.6(b).

"PBGC": the Pension Benefit Guaranty Corporation established pursuant to Subtitle A of Title IV of ERISA (or any successor).

"Permitted Acquisition": any acquisition by the Borrower or any Wholly Owned Subsidiary Guarantor of all of the Capital Stock of, or all or substantially all of the assets of, or of a business, unit or division of, any Person; provided that (a) the Borrower shall be in compliance, on a pro forma basis after giving effect to such acquisition, with the covenants contained in Section 7.1, in each case recomputed as at the last day of the most recently ended fiscal quarter of the Borrower for which the relevant information is available as if such acquisition, had occurred on the first day of each relevant period for testing such compliance (as demonstrated in a certificate of a Responsible Officer delivered to the Administrative Agent not less than three Business Days prior to such acquisition), (b) no Default or Event of Default shall have occurred and be continuing, or would occur after giving effect to such acquisition, (c) substantially all of the assets being acquired (or, in the case of acquisitions of Capital Stock, substantially all of the assets of the Person being acquired and its Subsidiaries) shall be located within the United States, (d) in the case of acquisitions of Capital Stock, the Person being acquired and each of its Subsidiaries shall be organized in a jurisdiction within the United States, (e) the businesses acquired as a result thereof shall be Apparel Businesses, and (f) any such acquisition should have been approved by the Board of Directors or comparable governing body of the relevant Person.

"Permitted Investors": the collective reference to Maurice Marciano, Paul Marciano and Armand Marciano, the members of their families, their respective estates, spouses, heirs, ancestors, lineal descendants, spouses of lineal descendants, legatees and legal representatives of any of the foregoing and any trust of which one or more of the foregoing are the beneficiaries.

"Person": an individual, partnership, corporation, limited liability company, business trust, joint stock company, trust, unincorporated association, joint venture, Governmental Authority or other entity of whatever nature.

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"Plan": at a particular time, any employee benefit plan that is covered by ERISA and in respect of which the Borrower or a Commonly Controlled Entity is (or, if such plan were terminated at such time, would under Section 4069 of ERISA be deemed to be) an "employee" as defined in Section 3(5) of ERISA.

"Pricing Grid: the pricing grid attached hereto as Annex A.

"Projections": as defined in Section 6.2(c).

"Properties": as defined in Section 4.17(a).

"Recovery Event": any settlement of or payment in respect of any property or casualty insurance claim or any condemnation proceeding relating to any asset of the Borrower or any of its Subsidiaries.

"Refunded Swingline Loans": as defined in Section 2.4.

"Refunding Date": as defined in Section 2.4.

"Register": as defined in Section 10.6(d).

"Regulation U": Regulation U of the Board as in effect from time to time.

"Reimbursement Obligation": the obligation of the Borrower to reimburse the Issuing Lender pursuant to Section 3.5 for amounts drawn under Letters of Credit.

"Reinvestment Deferred Amount: with respect to any Reinvestment Event, the aggregate Net Cash Proceeds received by the Borrower or any of its

Subsidiaries in connection therewith that are not applied to reduce the Revolving Credit Commitments pursuant to Section 2.8(b) as a result of the delivery of a Reinvestment Notice.

"Reinvestment Event": any Asset Sale or Recovery Event in respect of which the Borrower has delivered a Reinvestment Notice.

"Reinvestment Notice": a written notice executed by a Responsible Officer stating that no Event of Default has occurred and is continuing and that the Borrower (directly or indirectly through a Subsidiary) intends and expects to use all or a specified portion of the Net Cash Proceeds of an Asset Sale or Recovery Event to acquire assets useful in its business.

"Reinvestment Prepayment Amount": with respect to any Reinvestment Event, the Reinvestment Deferred Amount relating thereto less any amount expended prior to the relevant Reinvestment Prepayment Date to acquire assets useful in the business of the Borrower or any of its Subsidiaries,

"Reinvestment Prepayment Date": with respect to any Reinvestment Event, the earlier of (a) the date occurring 365 days after such Reinvestment Event and (b) the date on which the Borrower shall have determined not to acquire assets useful in the business of the Borrower or any of its Subsidiaries with all or any portion of the relevant Reinvestment Deferred Amount.

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"Reorganization": with respect to any Multiemployer Plan, the condition that such plan is in reorganization within the meaning of Section 4241 of ERISA.

"Reportable Event": any of the events set forth in Section 4043(b) of ERISA, other than those events as to which the thirty day notice period is waived under subsections .27, .28, .29, .30, .31, .32, .34 or .35 of PBGC Reg. ss. 4043.

"Required Lenders": at any time, the holders of more than 50% of the Total Revolving Credit Commitments then in effect or, if the Revolving Credit Commitments have been terminated, the Total Revolving Extensions of Credit then outstanding.

"Requirement of Law": as to any Person, the Certificate of Incorporation and the By-Laws or other organizational or governing documents of such Person, and any law, treaty, rule or regulation or determination of an arbitrator or a court or other Governmental Authority, in each case applicable to or binding upon such Person or any of its property or to which such Person or any of its property is subject.

"Responsible Officer": the chief executive officer, president, chief financial officer, treasurer, assistant treasurer or secretary of the Borrower, but in any event, with respect to financial matters, the chief financial officer, treasurer or assistant treasurer of the Borrower.

"Restricted Payments": as defined in Section 7.6.

"Revolving Credit Commitment": as to any Lender, the obligation of such Lender, if any, to make Revolving Loans and participate in Swingline Loans and Letters of credit in an aggregate principal and/or face amount not to exceed the amount set forth under the heading "Revolving Credit Commitment" opposite such Lender's name on Schedule 1.1 or in the Assignment and Acceptance pursuant to which such Lender became a party hereto, as the same may be changed from time to time pursuant to the terms hereof. The original amount of the Total Revolving Credit Commitments is \$125,000,000.

"Revolving Credit Commitment Period": the period from and including

the Closing Date to the Revolving Termination Date.

"Revolving Extensions of Credit": as to any Lender at any time, an amount equal to the sum of (a) the aggregate principal amount of all Revolving Loans held by such Lender then outstanding, (b) such Lender's Revolving Percentage of the L/C Obligations then outstanding and (c) such Lender's Revolving Percentage of the aggregate principal amount of Swingline Loans then outstanding.

"Revolving Loans": as defined in Section 2.1(a).

"Revolving Percentage": as to any Lender at any time, the percentage which such Lender's Revolving Credit Commitment then constitutes of the Total Revolving Credit Commitments (or, at any time after the Revolving Credit Commitments shall have expired or terminated, the percentage which the aggregate principal amount of such Lenders Revolving Loans then outstanding constitutes of the aggregate principal amount of the Revolving Loans then outstanding).

"Revolving Termination Date": October 31, 2002.

"SEC": the Securities and Exchange Commission, any successor thereto and any analogous Governmental Authority.

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"Security Documents": the collective reference to the Guarantee and Collateral Agreement and any other security documents hereafter delivered to the Administrative Agent granting a Lien on any property of any Person to secure the obligations and liabilities of any Loan Party under any Loan Document.

"Senior Subordinated Note Indenture": the Indenture dated as of August 23, 1993, between the Borrower and First Trust National Association, as trustee, together with all instruments and supplemented or otherwise modified from time to time in accordance with Section 7.9, and any successor Indenture entered into in connection with a replacement, refinancing or extension of the Senior Subordinated Notes (so long as the aggregate outstanding principal amount of Senior Subordinated Notes then outstanding is not increased as a result thereof, as the same may be amended, supplemented or otherwise modified from time to time in accordance with Section 7.9, provided (i) that the terms of any such successor Indenture shall not be materially less favorable to the interests of the Lenders than those contained in the Indenture as in effect on the Closing Date and (ii) the maturity of the Indebtedness issued under any such successor Indenture shall be no earlier than August 15, 2003.

"Senior Subordinated Notes": the senior subordinated notes of the Borrower issued pursuant to the Senior Subordinated Note Indenture.

"Single Employer Plan": any Plan that is covered by Title IV of ERISA, but that is not a Multiemployer Plan.

"Solvent": when used with respect to any Person, means that, as of any date of determination, (a) the amount of the "present fair saleable value" of the assets of such Person will, as of such date, exceed the amount of all "liabilities of such Person, contingent or otherwise", as of such date, as such quoted terms are determined in accordance with applicable federal and state laws governing determinations of the insolvency of debtors, (b) the present fair saleable value of the assets of such Person will, as of such date, be greater than the amount that will be required to pay the probable liability of such Person on its debts as such debts become absolute and matured, (c) such Person will not have, as of such date, an unreasonably small amount of capital with which to conduct its business, and (d) such Person will be able to pay its debts as they mature. For purposes of this definition, (i) "debt" means liability on a "claim", and (ii) "claim" means any (x) right to payment, whether or not such a right is reduced to judgment, liquidated, unliquidated, fixed, contingent, matured, unmatured, disputed, undisputed, legal, equitable, secured or unsecured or (y) right to an equitable remedy for breach of performance if such breach

gives rise to a right to payment, whether or not such right to an equitable remedy is reduced to judgment, fixed, contingent, matured or unmatured, disputed, undisputed, secured or unsecured. The amount of any claim shall be computed as the amount which, in the light of the facts and circumstances at the applicable time, represents the amount that can reasonably be expected to become an actual or matured liability.

"Specified Change Control": a "Change in Control" (or any comparable concept) as defined in the Senior Subordinated Note Indenture during any period when the Senior Subordinated Note Indenture is in effect.

"Standby L/C Fee Payment Date": the last day of each March, June, September and December and the last day of the Revolving Credit Commitment Period.

"Standby Letter of Credit": any Letter of Credit other than a Documentary Letter of Credit.

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"Subsidiary": as to any Person, a corporation, partnership, limited liability company or other entity of which shares of stock or other ownership interests having ordinary voting power (other than stock or such other ownership interests having such power only by reason of the happening of a contingency) to elect a majority of the board of directors or other managers of such corporation, partnership or other entity are at the time owned by such Person. Unless otherwise qualified, all references to a "Subsidiary" or to "Subsidiaries" in this Agreement shall refer to a Subsidiary or Subsidiaries of the Borrower.

"Subsidiary Guarantor": each Subsidiary of the Borrower other than any Foreign Subsidiary.

"Surviving Letters of Credit": as defined in Section 5.1(b)

"Swingline Commitment": the obligation of the Swingline Lender to make Swingline Loans pursuant to Section 2.3 in an aggregate principal amount at any one time outstanding not to exceed \$10,000,000.

"Swingline Lender": The Chase Manhattan Bank, in its capacity as the lender of Swingline Loans.

"Swingline Loans": as defined in Section 2.3.

"Swingline Participation Amount": as defined in Section 2.4.

"Total Revolving Credit Commitments": at any time, the aggregate amount of the Revolving Credit Commitments then in effect.

"Total Revolving Extensions of Credit": at any time, the aggregate amount of the Revolving Extensions of Credit of the Lenders outstanding at such time.

"Transferee": any Assignee or Participant.

"Type": as to any Loan, its nature as an ABR Loan or a Eurodollar Loan.

"United States": the United States of America.

"Wholly Owned Subsidiary": as to any Person, any other Person all of the Capital Stock of which (other than directors' qualifying shares required by law) is owned by such Person directly and/or through other Wholly Owned Subsidiaries.

"Wholly Owned Subsidiary Guarantor": any Subsidiary Guarantor that is

a Wholly Owned Subsidiary of the Borrower.

1.2 Other Definitional Provisions. (a) Unless otherwise specified therein, all terms defined in this Agreement shall have the defined meanings when used in the other Loan Documents or any certificate or other document made or delivered pursuant hereto or thereto.

(b) As used herein and in the other Loan Documents, and any certificate or other document made or delivered pursuant hereto or thereto, (i) accounting terms relating to the Borrower and its Subsidiaries not defined in Section 1.1 and accounting terms partly defined in Section 1.1, to the extent

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not defined, shall have the respective meanings given to them under GAAP, (ii) the words "include", "includes" and "including" shall be deemed to be followed by the phrase "without limitation", (iii) the word "incur" shall be construed to mean incur, create, issue, assume, become liable in respect of or suffer to exist (and the words "incurred" and "incurrence" shall have correlative meanings), and (iv) the words "asset" and "property" shall be construed to have the same meaning and effect and to refer to any and all tangible and intangible assets and properties, including cash, Capital Stock, securities, revenues, accounts, leasehold interests and contract rights.

(c) The words "hereof", "herein" and "hereunder" and words of similar import when used in this Agreement shall refer to this Agreement as a whole and not to any particular provision of this Agreement, and Section, Schedule and Exhibit references are to this Agreement unless otherwise specified.

(d) The meanings given to terms defined herein shall be equally applicable to both the singular and plural forms of such terms. The captions and headings of the various Sections and Subsections of this Agreement are provided for convenience only and shall not affect or modify the meaning thereof.

SECTION 2. AMOUNT AND TERMS OF REVOLVING CREDIT COMMITMENTS

2.1 Revolving Credit Commitments. (a) Subject to the terms and conditions hereof, each Lender severally agrees to make revolving credit loans ("Revolving Loans") to the Borrower from time to time during the Revolving Credit Commitment Period in an aggregate principal amount at any one time outstanding which, when added to such Lender's Revolving Percentage of sum of (i) the L/C Obligations then outstanding and (ii) the aggregate principal amount of the Swingline Loans then outstanding, does not exceed the amount of such Lender's Revolving Credit Commitment. During the Revolving Credit Commitment Period the Borrower may use the Revolving Credit Commitments by borrowing, prepaying The Revolving Loans in whole or in part, and reborrowing, all in accordance with the terms and conditions hereof. The Revolving Loans may from time to time be Eurodollar Loans or ABR Loans, as determined by the Borrower and notified to the Administrative Agent in accordance with Sections 2.2 and 2.9.

(b) The Borrower shall repay all outstanding Revolving Loans on the Revolving Termination Date.

2.2 Procedure for Revolving Loan Borrowing. The Borrower may borrow under the Revolving Credit Commitments during the Revolving Credit Commitment Period on any Business Day, provided that the Borrower shall give the Administrative Agent irrevocable notice (which notice must be received by the Administrative Agent (a) prior to 2:00 p.m., New York City time, three Business Days prior to the requested Borrowing Date, in the case of Eurodollar Loans, or (b) prior to 12:00 Noon, New York City time, on the requested Borrowing Date, in the case of ABR Loans), specifying (i) the amount and Type of Revolving Loans to be borrowed, (ii) the requested Borrowing Date and (iii) in the case of Eurodollar Loans, the respective amounts of each such Type of Loan and the respective lengths of the initial Interest Period therefor. Any Revolving Loans made on the Closing Date shall initially be ABR Loans. Each such borrowing shall be in an amount equal to (x) in the case of ABR Loans, \$2,500,000 or a whole

multiple of \$1,000,000 in excess thereof (or, if the then aggregate Available Revolving Credit Commitments are less than \$2,500,000, such lesser amount) and (y) in the case of Eurodollar Loans, \$5,000,000 or a whole multiple of \$1,000,000 in excess thereof: provided, that the Swingline Lender may request, on behalf of the Borrower, borrowings under the Revolving Credit Commitments that are ABR Loans in other amounts pursuant to Section 2.4. Upon receipt of any such notice from the Borrower, the

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Administrative Agent shall promptly notify each Lender thereof. Each Lender will make the amount of its pro rata share of each borrowing available to the Administrative Agent for the account of the Borrower at the Funding Office prior to 12:00 Noon, New York City time, on the Borrowing Date requested by the Borrower in funds immediately available to the Administrative Agent. Such borrowing will then be made available to the Borrower by the Administrative Agent crediting the account of the Borrower on the books of such office with the aggregate of the amounts made available to the Administrative Agent by the Lenders and in like funds as received by the Administrative Agent.

2.3 Swingline Commitment. (a) Subject to the terms and conditions hereof, the Swingline Lender agrees to make a portion of the credit otherwise available to the Borrower under the Revolving Credit Commitments from time to time during the Revolving Credit Commitment Period by making swing line loans ("Swingline Loans") to the Borrower; provided that (i) the aggregate principal amount of Swingline Loans outstanding at any time shall not exceed the Swingline Commitment then in effect (notwithstanding that the Swingline Loans outstanding at any time, when aggregated with the Swingline Lender's other outstanding Revolving Loans hereunder, may exceed the Swingline Commitment then in effect) and (ii) the Borrower shall not request, and the Swingline Lender shall not make, any Swingline Loan if, after giving effect to the making of such Swingline Loan, the aggregate amount of the Available Revolving Credit Commitments would be less than zero. During the Revolving Credit Commitment Period, the Borrower may use the Swingline Commitment by borrowing, repaying and reborrowing, all in accordance with the terms and conditions hereof. Swingline Loans shall be ABR Loans only.

(b) The Borrower shall repay all outstanding Swingline Loans on the Revolving Termination Date.

2.4 Procedure for Swingline Borrowing: Refunding of Swingline Loans. (a) Whenever the Borrower desires that the Swingline Lender make Swingline Loans it shall give the Swingline Lender irrevocable telephonic notice confirmed promptly in writing (which telephonic notice must be received by the Swingline Lender not later than 3:00 P.M., New York City time, on the proposed Borrowing Date), specifying (i) the amount to be borrowed and (ii) the requested Borrowing Date (which shall be a Business Day during the Revolving Credit Commitment Period). Each borrowing under the Swingline Commitment shall be in amount equal to \$500,000 or a whole multiple of \$100,000 in excess thereof. Not later than 4:00 P.M., New York City time, on the Borrowing Date specified in a notice in respect of Swingline Loans, the Swingline Lender shall make available to the Administrative Agent at the Funding Office an amount in immediately available funds equal to the amount of the Swingline Loan to be made by the Swingline Lender. The Administrative Agent shall make the proceeds of such Swingline Loan available to the Borrower on such Borrowing Date by depositing such proceeds in the account of the Borrower with the Administrative Agent on such Borrowing Date in immediately available funds.

(b) The Swingline Lender, at any time and from time to time in its sole and absolute discretion may, on behalf of the Borrower (which hereby irrevocably directs the Swingline Lender to act on its behalf), on one Business Day's notice given by the Swingline Lender no later than 12:00 Noon, New York City time, request each Lender to make, and each Lender hereby agrees to make, a Revolving Loan, in an amount equal to such Lender's Revolving Percentage of the aggregate amount of the Swingline Loans (the "Refunded Swingline Loans") outstanding on the date of such notice, to repay the Swingline Lender. Each Lender shall make

the amount of such Revolving Loan available to the Administrative Agent at the Funding Office in immediately available funds, not later than 10:00 A.M., New York City time, one Business Day after the date of such notice. The proceeds of such Revolving Loans shall be immediately made available by the Administrative Agent to the Swingline Lender for application by the Swingline Lender to the repayment of the Refunded Swingline Loans. The Borrower

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unconditionally agrees to pay to the Swingline Lender on demand any amount that is not so received from the Lenders.

(c) If prior to the time a Revolving Loan would have otherwise been made pursuant to Section 2.4(b), one of the events described in Section 8(f) shall have occurred and be continuing with respect to the Borrower or if for any other reason, as determined by the Swingline Lender in its sole discretion, Revolving Loans may not be made as contemplated by Section 2.4(b), each Lender shall on the date such Revolving Loan was to have been made pursuant to the notice referred to in Section 2.4(b) (the "Refunding Date"), purchase for cash an undivided participating interest in the then outstanding Swingline Loans by paying to the Swingline Lender an amount (the "Swingline Participation Amount") equal to (i) such Lender's Revolving Percentage times (ii) the sum of the aggregate principal amount of Swingline Loans then outstanding that were to have been repaid with such Revolving Loans.

(d) Whenever, at any time after the Swingline Lender has received from any Lender such Lender's Swingline Participation Amount, the Swingline Lender receives any payment on account of the Swingline Loans, the Swingline Lender will distribute to such Lender its Swingline Participation Amount (appropriately adjusted, in the case of interest payments, to reflect the period of time during which such Lender's participating interest was outstanding and funded and, in the case of principal and interest payments, to reflect such Lender's pro rata portion of such payment if such payment is not sufficient to pay the principal of and interest on all Swingline Loans then due); provided however, that in the event that such payment received by the Swingline Lender is required to be returned, such Lender will return to the Swingline Lender any portion thereof previously distributed to it by the Swingline Lender.

(e) Each Lender's obligation to make the Loans referred to in Section 2.4(b) and to purchase participating interests pursuant to Section 2.4(c) shall be absolute and unconditional and shall not be affected by any circumstance, including (i) any setoff, counterclaim, recoupment, defense or other right that such Lender or the Borrower may have against the Swingline Lender, the Borrower or any other Person for any reason whatsoever; (ii) the occurrence or continuance of a default or an Event of Default or the failure to satisfy any of the other conditions specified in Section 5; (iii) any adverse change in the condition (financial or otherwise) of the Borrower; (iv) any breach of this Agreement or any other Loan Document by the Borrower, any other Loan Party or any other Lender; or (v) any other circumstance, happening or event whatsoever, whether or not similar to any of the foregoing.

2.5 Commitment Fees etc. (a) The Borrower agrees to pay to Administrative Agent for the account of each Lender a commitment fee for the period from and including the Closing Date to the last day of the Revolving Credit Commitment Period, computed at the Commitment Fee Rate on the average daily amount of the Available Revolving Credit Commitment of such Lender during the period for which payment is made, payable quarterly in arrears on the last day of each March, June, September and December and on the Revolving Termination Date, commencing on the first of such dates to occur after the date hereof.

(b) The Borrower agrees to pay to the Administrative Agent and the Issuing Lender the fees in the amounts and on the dates previously agreed to in writing by the Borrower, the Administrative Agent and the Issuing Lender.

2.6 Termination or Reduction of Revolving Credit Commitments. The Borrower shall have the right, upon not less than three Business Days' notice to the Administrative Agent, to terminate the Revolving Credit Commitments or, from time to time, to reduce the amount of the Revolving Credit Commitments; provided that no such termination or reduction of Revolving Credit Commitments shall be permitted if, after giving effect thereto and to any prepayments of the Revolving Loans and Swingline

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Loans made on the effective date thereof, the Total Revolving Extensions of Credit would exceed the Total Revolving Credit Commitments. Any such reduction shall be in an amount equal to \$5,000,000, or a whole multiple of \$1,000,000 in excess thereof, and shall reduce permanently the Revolving Credit Commitments then in effect.

2.7 Optional Prepayments. The Borrower may at any time and from time to time prepay the Loans, in whole or in part, without premium or penalty, upon irrevocable notice delivered to the Administrative Agent at least Three Business Days prior thereto in the case of Eurodollar Loans and at least one Business Day prior thereto in the case of ABR Loans which notice shall specify the date and amount of prepayment and whether the prepayment is of Eurodollar Loans or ABR Loans; provided, that if a Eurodollar Loan is prepaid on any day other than the last day of the Interest Period applicable thereto, the Borrower shall also pay any amounts owing pursuant to Section 2.17. Upon receipt of any such notice the Administrative Agent shall promptly notify each relevant Lender thereof. If any such notice is given, the amount specified in such notice shall be due and payable on the date specified therein, together with (except in the case of Revolving Loans that are ABR Loans and Swingline Loans) accrued interest to such date on the amount prepaid. Partial prepayments of Revolving Loans shall be in an aggregate principal amount of \$2,500,000 or a whole multiple of \$1,000,000 in excess thereof. Partial prepayments of Swingline Loans shall be in an aggregate principal amount of \$100,000 or a whole multiple thereof.

2.8 Mandatory Revolving Credit Commitment Reductions. (a) If any Indebtedness shall be incurred by the Borrower or any of its Subsidiaries (excluding any Indebtedness incurred in accordance with Section 7.2), an amount equal to 100% of the Net Cash Proceeds thereof shall be applied on the date of such incurrence toward the reduction of the Revolving Credit Commitments.

(b) If on any date the Borrower or any of its Subsidiaries shall receive Net Cash Proceeds from any Asset Sale or Recovery Event then, unless a Reinvestment Notice shall be delivered in respect thereof, such Net Cash Proceeds shall be applied within five Business Days after such date toward the reduction of the Revolving Credit Commitments; provided, that, notwithstanding the foregoing, (i) the aggregate Net Cash Proceeds of Asset Sales that may be excluded from the foregoing requirement pursuant to a Reinvestment Notice shall not exceed \$5,000,000 in any fiscal year of the Borrower and (ii) on each Reinvestment Prepayment Date, an amount equal to the Reinvestment Prepayment Amount with respect to the relevant Reinvestment Event shall be applied toward the reduction of the Revolving Credit Commitments.

(c) Any reduction of the Revolving Credit Commitments pursuant to this Section 2.8 shall be accompanied by prepayment of the Revolving Loans and/or Swingline Loans to the extent, if any, that the Total Revolving Extensions of Credit exceed the amount of the Total Revolving Credit Commitments as so reduced, provided that if the aggregate principal amount of Revolving Loans and Swingline Loans then outstanding is less than the amount of such excess (because L/C Obligations constitute a portion thereof), the Borrower shall, to the extent of the balance of such excess, replace outstanding Letters of Credit and/or deposit an amount in cash in a cash collateral account established with the Administrative Agent for the benefit of the Lenders on terms and conditions reasonably satisfactory to the Administrative Agent. Amounts in such cash

collateral account shall be refunded to the Borrower at any time that such amounts exceed such excess. The application of any prepayment pursuant to Section 2.8 shall be made, first, to ABR Loans and, second, to Eurodollar Loans. Each prepayment of the Loans under Section 2.8 (except in the case of ABR Loans) shall be accompanied by accrued interest to the date of such prepayment on the amount prepaid.

2.9 Conversion and Continuation Options. (a) The Borrower may elect from time to time to convert Eurodollar Loans to ABR Loans by giving the Administrative Agent at least two Business

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Days' prior irrevocable notice of such election, provided that any such conversion of Eurodollar Loans may only be made on the last day of an Interest Period with respect thereto. The Borrower may elect from time to time to convert ABR Loans to Eurodollar Loans by giving the Administrative Agent at least three Business Days' prior irrevocable notice of such election (which notice shall specify the length of the initial Interest Period therefor), provided that no ABR Loan may be converted into a Eurodollar Loan when any event of Default has occurred and is continuing and the Administrative Agent or the Required Lenders have determined in its or their sole discretion not to permit such conversions.

(b) Any Eurodollar Loan may be continued as such upon the expiration of the then current Interest Period with respect thereto by the Borrower giving irrevocable notice to the Administrative Agent, in accordance with the applicable provisions of the term "Interest Period" set forth in Section 1.1 of the length of the next Interest Period to be applicable to such Loans, provided that no Eurodollar Loan may be continued as such when any Event of Default has occurred and is continuing and the Administrative Agent has or the Required Lenders have determined in its or their sole discretion not to permit such continuations, and provided, further, that if the Borrower shall fail to give any required notice as described above in this paragraph or if such continuation is not permitted pursuant to the preceding proviso such Loans shall be automatically converted to ABR Loans on the last day of such then expiring Interest Period.

2.10 Limitations on Eurodollar Tranches. Notwithstanding anything to the contrary in this Agreement, all borrowings, conversions and continuations of Eurodollar Loans hereunder and all selections of Interest Periods hereunder shall be in such amounts and be made pursuant to such elections so that, (a) after giving effect thereto, the aggregate principal amount of the Eurodollar Loans comprising each Eurodollar Tranche shall be equal to \$5,000,000 or a whole multiple of \$1,000,000 in excess thereof and (b) no more than five Eurodollar Tranches shall be outstanding at any one time.

2.11 Interest Rates and Payment Dates. (a) Each Eurodollar Loan shall bear interest for each day during each Interest Period with respect thereto at a rate per annum equal to the Eurodollar Rate determined for such day plus the Applicable Margin.

(b) Each ABR Loan shall bear interest at a rate per annum equal to the ABR plus the Applicable Margin.

(c) (i) If all or a portion of the principal amount of any Loan or Reimbursement Obligation shall not be paid when due (whether at the stated maturity, by acceleration or otherwise), such overdue amount shall bear interest at a rate per annum equal to (x) in the case of the Loans, the rate that would otherwise be applicable thereto pursuant to the foregoing provisions of this Section plus 2% or (y) in the case of Reimbursement Obligations, the rate applicable to ABR Loans plus 2%, and (ii) if all or a portion of any interest payable on any Loan or Reimbursement Obligation or any commitment fee or other amount payable hereunder shall not be paid when due (whether at the stated maturity, by acceleration or otherwise), such overdue amount shall bear interest at a rate per annum equal to the rate then applicable to ABR Loans plus 2%, in

each case, with respect to clauses (i) and (ii) above, from the date of such non-payment until such amount is paid in full (as well after as before judgment).

(d) Interest shall be payable in arrears on each Interest Payment Date, provided that interest accruing pursuant to paragraph (c) of this Section shall be payable from time to time on demand.

2.12 Computation of Interest and Fees. Interest and fees payable pursuant hereto shall be calculated on the basis of a 360-day year for the actual days elapsed, except that, with respect to ABR Loans the rate of interest on which is calculated on the basis of the Prime Rate, the interest thereon shall

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be calculated on the basis of a 365- (or 366-, as the case may be) day year for the actual days elapsed. The Administrative Agent shall as soon as practicable notify the Borrower and the relevant Lenders of each determination of a Eurodollar Rate. Any change in the interest rate on a Loan resulting from a change in the ABR or the Eurocurrency Reserve Requirements shall become effective as of the opening of business on the day on which such change becomes effective. The Administrative Agent shall as soon as practicable notify the Borrower and the Lenders of the effective date and the amount of each such change in interest rate. Each determination of an interest rate by the Administrative Agent pursuant to any provision of this Agreement shall be conclusive and binding on the Borrower and the lenders in the absence of manifest error.

2.13 Inability to Determine Interest Rate. If prior to the first day of any Interest Period:

(a) the Administrative Agent shall have determined (which determination shall be conclusive and binding upon the Borrower) that, by reason of circumstances affecting the relevant market, adequate and reasonable means do not exist for ascertaining the Eurodollar Rate for such Interest Period, or

(b) the Administrative Agent shall have received notice from the Required Lenders that the Eurodollar Rate determined or to be determined for such Interest Period will not adequately and fairly reflect the cost to such Lenders (as conclusively certified by such Lenders) of making or maintaining their affected Loans during such Interest Period,

the Administrative Agent shall give telecopy or telephonic notice thereof to the Borrower and the Lenders as soon as practicable thereafter. If such notice is given (x) any Eurodollar Loans requested to be made on the first day of such Interest Period shall be made as ABR Loans, (y) any Loans that were to have been converted on the first day of such Interest Period to Eurodollar Loans shall be continued as ABR Loans and (z) any outstanding Eurodollar Loans shall be converted, on the last day of the then-current Interest Period, to ABR Loans. Until such notice has been withdrawn by the Administrative Agent, no further Eurodollar Loans shall be made or continued as such, nor shall the Borrower have the right to convert Loans to Eurodollar Loans. The Administrative Agent shall withdraw such notice when the circumstances giving rise to such notice cease to exist.

2.14 Pro Rata Treatment and Payments. (a) Each borrowing by the Borrower from the Lenders hereunder, each payment by the Borrower on account of any commitment fee and any reduction of the Revolving Credit Commitments of the Lenders shall be made pro rata according to the respective Revolving Percentages of the Lenders.

(b) Each payment (including each prepayment) by the Borrower on account of principal of and interest on the Revolving Loans shall be made pro rata according to the respective outstanding principal amounts of the Revolving Loans then held by the Lenders.

(c) All payments (including prepayments) to be made by the Borrower hereunder, whether on account of principal, interest, fees or otherwise, shall be made without setoff or counterclaim and shall be made prior to 12:00 Noon, New York City time, on the due date thereof to the Administrative Agent, for the account of the Lenders, at the Funding Office, in Dollars and in immediately available funds. The Administrative Agent shall distribute such payments to the Lenders promptly upon receipt in like funds as received. If any payment hereunder (other than payments on the Eurodollar Loans) becomes due and payable on a day other than a Business Day, such payment shall be extended to the next succeeding Business Day. If any payment on a Eurodollar Loan becomes due and payable on a day other than a Business Day, the maturity thereof shall be extended to the next succeeding Business Day unless

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the result of such extension would be to extend such payment into another calendar month, in which event such payment shall be made on the immediately preceding Business Day. In the case of any extension of any payment of principal pursuant to the preceding two sentences, interest thereon shall be payable at the then applicable rate during such extension.

(d) Unless the Administrative Agent shall have been notified in writing by any Lender prior to a borrowing that such Lender will not make the amount that would constitute its share of such borrowing available to the Administrative Agent, the Administrative Agent may assume that such Lender is making such amount available to the Administrative Agent, and the Administrative Agent may, in reliance upon such assumption, make available to the Borrower a corresponding amount. If such amount is not made available to the Administrative Agent by the required time on the Borrowing Date therefor, such Lender shall pay to the Administrative Agent, on demand, such amount with interest thereon at a rate equal to the daily average Federal Funds Effective Rate for the period until such Lender makes such amount immediately available to the Administrative Agent. A certificate of the Administrative Agent submitted to any Lender with respect to any amounts owing under this paragraph shall be conclusive in the absence of manifest error. If such Lender's share of such borrowing is not made available to the Administrative Agent by such Lender within three Business Days of such Borrowing Date, the Administrative Agent shall also be entitled to recover such amount with interest thereon at the rate per annum applicable to ABR Loans, on demand, from the Borrower.

(e) Unless the Administrative Agent shall have been notified in writing by the Borrower prior to the date of any payment being made hereunder that the Borrower will not make such payment to the Administrative Agent, the Administrative Agent may assume that the Borrower is making such payment, and the Administrative Agent may, but shall not be required to, in reliance upon such assumption, make available to the Lenders their respective pro rata shares of a corresponding amount. If such payment is not made to the Administrative Agent by the Borrower within three Business Days of such required date, the Administrative Agent shall be entitled to recover, on demand, from each Lender to which any amount which was made available pursuant to the preceding sentence, such amount with interest thereon at the rate per annum equal to the daily average Federal Funds Effective Rate. Nothing herein shall be deemed to limit the rights of the Administrative Agent or any Lender against the Borrower.

2.15 Requirements of Law. (a) If the adoption of or any change in any Requirement of Law or in the interpretation or application thereof or compliance by any Lender with any request or directive (whether or not having the force of law) from any central bank or other Governmental Authority made subsequent to the date hereof:

(i) shall impose, modify or hold applicable any reserve, special deposit, compulsory loan or similar requirement against assets held by, deposits or other liabilities in or for the account of, advances, loans or other

extensions of credit by, or any other acquisition of funds by, any office of such Lender that is not otherwise included in the determination of the Eurodollar Rate hereunder; or

(ii) shall impose on such Lender any other condition;

and the result of any of the foregoing is to increase the cost to such Lender, by an amount that such Lender deems to be material, of making, converting into, continuing or maintaining Eurodollar Loans or issuing or participating in Letters of Credit, or to reduce any amount receivable hereunder in respect thereof, then, in any such case, the Borrower shall promptly pay such Lender, upon its demand, any additional amounts necessary to compensate such Lender for such increased cost or reduced amount receivable. If any Lender becomes entitled to claim any additional amounts pursuant to this paragraph, it shall promptly notify the

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Borrower (with a copy to the Administrative Agent) of the event by reason of which it has become so entitled.

(b) If any Lender shall have determined that the adoption of or any change in any Requirement of Law regarding capital adequacy or in the interpretation or application thereof or compliance by such Lender or any corporation controlling such Lender with any request or directive regarding capital adequacy (whether or not having the force of law) from any Governmental Authority made subsequent to the date hereof shall have the effect of reducing the rate of return on such Lender's or such corporation's capital as a consequence of its obligations hereunder or under or in respect of any Letter of Credit to a level below that which such Lender or such corporation could have achieved but for such adoption, change or compliance (taking into consideration such Lender's or such corporation's policies with respect to capital adequacy) by an amount deemed by such Lender to be material, then from time to time, after submission by such Lender to the Borrower (with a copy to the Administrative Agent) of a written request therefor, the Borrower shall pay to such Lender such additional amount or amounts as will compensate such Lender for such reduction; provided that the Borrower shall not be required to compensate a Lender pursuant to this paragraph for any amounts incurred more than six months prior to the date that such Lender notifies the Borrower of such Lender's intention to claim compensation therefor; and provided further that, if the circumstances giving rise to such claim have a retroactive effect, then such six-month period shall be extended to include the period of such retroactive effect.

(c) A certificate as to any additional amounts payable pursuant to this Section submitted by any Lender to the Borrower (with a copy to the Administrative Agent) shall be conclusive in the absence of manifest error. The obligations of the Borrower pursuant to this Section shall survive the termination of this Agreement and the payment of the Loans and all other amounts payable hereunder.

(d) Each Lender shall be entitled to be compensated for amounts pursuant to this Section 2.15 only to the extent such Lender makes the same demands for compensation from all of its other customers facing the same or similar circumstances.

2.16 Taxes. (a) All payments made by the Borrower under this Agreement shall be made free and clear of, and without deduction or withholding for or on account of, any present or future income, stamp or other taxes, levies, imposts, duties, charges, fees, deductions or withholdings, nor or hereafter imposed, levied, collected, withheld or assessed by any Governmental Authority, excluding (a) net income taxes and franchise taxes (imposed on a net income basis or in lieu of net income taxes) imposed by the United States or the jurisdiction under the laws of which the Administrative Agent or any Lender is organized or doing business or in which its principal office is located or in which the applicable lending office of such Lender is located, and (b) any branch profits tax imposed by the United States or any similar tax imposed by any other jurisdiction in

which the Lender is located. If any such non-excluded taxes, levies, imposts, duties, charges, fees, deductions or withholdings ("Non-Excluded Taxes") or Other Taxes are required to be withheld from any amounts payable to the Administrative Agent or any Lender hereunder, the sum payable shall be increased as may be necessary so that after making all of the required deductions (including deductions applicable to additional sums payable under this Section 2.16) such Administrative Agent or Lender receives an amount equal to the sum it would have received had no such deductions been made, provided, however, that the Borrower shall not be required to increase any such amounts payable to any Lender with respect to any Non-Excluded Taxes pursuant to paragraph (a) of this Section or make any indemnification payment related thereto pursuant to paragraph (c) of this Section (i) that are attributable to such Lender's failure to comply with the requirements of paragraph (d) of this Section or (ii) that are United States withholding taxes imposed on amounts payable to such Lender at the time the Lender becomes a party to this Agreement, except to the extent that such Lender's assignor (if

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any) was entitled, at the time of assignment, to receive additional amounts from the Borrower with respect to such Non-Excluded Taxes pursuant to this paragraph.

(b) In addition, the Borrower shall pay any Other Taxes to the relevant Governmental Authority in accordance with applicable law.

(c) Whenever any Non-Excluded Taxes or Other Taxes are payable by the Borrower, as promptly as possible thereafter the Borrower shall send to the Administrative Agent for its own account or for the account of the relevant Lender, as the case may be, a certified copy of an original official receipt received by the Borrower showing payment thereof or, if not reasonably available, other evidence reasonably satisfactory to the Administrative Agent. If the Borrower fails to pay any Non-Excluded Taxes or Other Taxes when due to the appropriate taxing authority or fails to remit to the Administrative Agent the required receipts or other required documentary evidence, the Borrower shall indemnify the Administrative Agent and the Lenders for any incremental taxes, interest or penalties that may become payable by the Administrative Agent or any lender as a result of any such failure.

(d) Each Lender (or Transferee) that is not a U.S. person as defined in Section 7701(a)(30) of the Code (a "Non-U.S. Lender") shall deliver to the Borrower and the Administrative Agent (or, in the case of a Participant, to the Lender from which the related participation shall have been purchased) two copies of either U.S. Internal Revenue Service ("IRS") Form W-8BEN or Form W-8ECI, or, in the case of a Non-U.S. Lender claiming exemption from U.S. federal withholding tax under Section 871(h) or 881(c) of the Code with respect to payments of "portfolio interest", a statement substantially in the form of Exhibit F and a Form W-8BEN, or any subsequent versions thereof or successors thereto, properly completed and duly executed by such Non-U.S. Lender claiming complete exemption from, or a reduced rate of, U.S. federal withholding tax on all payments by the Borrower under this Agreement and the other Loan Documents. Such forms shall be delivered by each Non-U.S. Lender on or before the date it becomes a party to this Agreement (or, in the case of any Participant, on or before the date such Participant purchases the related participation). In addition, each Non-U.S. Lender shall deliver such forms promptly upon the reasonable request of the Borrower or the obsolescence or invalidity or any form previously delivered by such Non-U.S. Lender. Each Non-U.S. Lender shall promptly notify the Borrower at any time it determines that it is no longer in a position to provide any previously delivered certificate to the Borrower (or any other form of certification adopted by the U.S. taxing authorities for such purpose). Notwithstanding any other provision of this paragraph, a Non-U.S. Lender shall not be required to deliver any form pursuant to this paragraph that such Non-U.S. Lender is not legally able to deliver.

(e) A Lender that is entitled to an exemption from or reduction of non-U.S. withholding tax under the law of the jurisdiction in which the Borrower is located, or any treaty to which such jurisdiction is a party, with respect to

payments under this Agreement shall deliver to the Borrower (with a copy to the Administrative Agent), at the time or times prescribed by applicable law or reasonably requested by the Borrower, such properly completed and executed documentation prescribed by applicable law as will permit such payments to be made without withholding or at a reduced rate, provided that such Lender is legally entitled to complete, execute and deliver such documentation and in such Lender's judgment such completion, execution or submission would not materially prejudice the legal position of such Lender.

(f) The agreements in this Section shall survive the termination of this Agreement and the payment of the Loans and all other amounts payable hereunder.

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2.17 Indemnity. The Borrower agrees to indemnify each Lender and to hold each Lender harmless from any loss or expense that such Lender may sustain or incur as a consequence of (a) default by the Borrower in making a borrowing of, conversion into or continuation of Eurodollar Loans after the Borrower has given a notice requesting the same in accordance with the provisions of this Agreement, (b) default by the Borrower in making any prepayment of or conversion from Eurodollar Loans after the Borrower has given a notice thereof in accordance with the provisions of this Agreement or (c) the making of a prepayment of Eurodollar Loans on a day that is not the last day of an Interest Period with respect thereto. Such indemnification may include an amount equal to the excess, if any, of (i) the amount of interest that would have accrued on the amount so prepaid, or not so borrowed, converted or continued, for the period from the date of such prepayment or of such failure to borrow, convert or continue to the last day of such Interest Period (or, in the case of a failure to borrow, convert or continue, the Interest Period that would have commenced on the date of such failure) in each case at the applicable rate of interest for such Loans provided for herein (excluding, however, the Applicable Margin included therein, if any) over (ii) the amount of interest (as reasonably determined by such Lender) that would have accrued to such Lender on such amount by placing such amount on deposit for a comparable period with leading banks in the interbank eurodollar market. A certificate as to any amounts payable pursuant to this Section submitted to the Borrower by any Lender shall be conclusive in the absence of manifest error. This covenant shall survive the termination of this Agreement and the payment of the Loans and all other amounts payable hereunder. Notwithstanding the foregoing provisions of this Section 2.17 or of Section 2.8(c), so long as no Event of Default then exists, if at any time the mandatory prepayment of Loans pursuant to Section 2.8(c) would result in the Borrower incurring costs under this Section 2.17 as a result of Eurodollar Loans being prepaid other than on the last day of an Interest Period applicable thereto (the "Affected Eurodollar Loans"), then the Borrower may in its sole discretion initially deposit a portion (up to 100%) of the amounts that otherwise would have been paid in respect of the Affected Eurodollar Loans with the Administrative Agent (which deposit, after giving effect to interest to be earned on such deposit prior to the last day of the relevant Interest Periods, must be equal in amount to the amount of Affected Eurodollar Loans not immediately prepaid) to be held as security for the obligations of the Borrower hereunder pursuant to a cash collateral agreement to be entered into in form and substance reasonably satisfactory to the Administrative Agent, with such cash collateral to be directly applied upon the first occurrence (or occurrences) thereafter of the last day of an Interest Period applicable to the relevant Eurodollar Loans (or such earlier date or dates as shall be requested by the Borrower) to repay an aggregate principal amount of such Loans equal to the Affected Eurodollar Loans not initially repaid pursuant to this sentence. Notwithstanding anything to the contrary contained in the immediately preceding sentence, all amounts deposited as cash collateral pursuant to the immediately preceding sentence shall be held for the sole benefit of the Lenders whose Loans would otherwise have been immediately repaid with the amounts deposited and upon the occurrence of an Event of Default, any amounts held as cash collateral pursuant to this Section 2.17, shall, if so directed by the Administrative Agent or the Required Lenders, be immediately applied to the relevant Loans.

2.18 Change of Lending Office. Each Lender agrees that, upon the occurrence of any event giving rise to the operation of Section 2.15 or 2.16(a) with respect to such Lender, it will, if requested by the Borrower, use reasonable efforts (subject to overall policy considerations of such Lender) to designate another lending office or assign its rights and obligations hereunder to another of its offices, branches or affiliates, for any Loans affected by such event with the object of avoiding the consequences of such event; provided, that such designation or assignment is made on terms that, in the sole judgment of such Lender, cause such Lender and its lending office(s) to suffer no economic, legal or regulatory disadvantage, and provided, further, that nothing in this Section shall affect or postpone any of the obligations of any Borrower or the rights of any Lender pursuant to Section 2.15 or 2.16(a).

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2.19 Replacement of Lenders. The Borrower shall be permitted to replace any Lender that (a) requests reimbursement for amounts owing pursuant to Section 2.15 or 2.16(a) or (b) defaults in its obligation to make Loans hereunder, with a replacement financial institution; provided that (i) such replacement does not conflict with any Requirement of Law, (ii) no Event of Default shall have occurred and be continuing at the time of such replacement, (iii) prior to any such replacement, such Lender shall have taken no action under Section 2.18 so as to eliminate the continued need for payment of amounts owing pursuant to Section 2.15 or 2.16(a), (iv) the replacement financial institution shall purchase, at par, all Loans and other amounts owing to such replaced Lender on or prior to the date of replacement, (v) the Borrower shall be liable to such replaced Lender under Section 2.17 if any Eurodollar Loan owing to such replaced Lender shall be purchased other than on the last day of the interest Period relating thereto, (vi) the replacement financial institution, if not already a Lender, shall be reasonably satisfactory to the Administrative Agent, (vii) the replaced Lender shall be obligated to make such replacement in accordance with the provisions of Section 10.6 (provided that the Borrower shall be obligated to pay the registration and processing fee referred to therein), (viii) until such time as such replacement shall be consummated, the Borrower shall pay all additional amounts (if any) required pursuant to Section 2.15 or 2.16(a), as the case may be, and (ix) any such replacement shall not be deemed to be a waiver of any rights that the Borrower, the Administrative Agent or any other Lender shall have against the replaced Lender.

SECTION 3. LETTERS OF CREDIT

3.1 L/C Commitment. (a) Subject to the terms and conditions hereof, the Issuing Lender, in reliance on the agreement of the other Lenders set forth in Section 3.4(a), agrees to issue letters of credit ("Letters of Credit") for the account of the Borrower on any Business Day during the Revolving Credit Commitment Period in such form as may be approved from time to time by the Issuing Lender (which approval shall not be unreasonably withheld); provided that the Issuing Lender shall have no obligation to issue any Letter of Credit if, after giving effect to such issuance, (i) the L/C Obligations would exceed the L/C Commitment or (ii) the aggregate amount of the Available Revolving Credit Commitments would be less than zero. Each Letter of Credit shall (i) be denominated in Dollars and (ii) expire no later than the earlier of (x) the first anniversary of its date of issuance (in the case of Standby Letters of Credit) or 180 days after its date of issuance (in the case of Documentary Letters of Credit) and (y) the date that is five Business Days prior to the Revolving Termination Date, provided that any Standby Letter of Credit with a one-year term may provide for the renewal thereof for additional one-year periods (which shall in no event extend beyond the date referred to in clause (y) above).

(B) The Issuing Lender shall not at any time be obligated to issue any Letter of Credit hereunder if such issuance would conflict with, or cause the Issuing Lender or any L/C Participant to exceed any limits imposed by, any applicable Requirement of Law.

3.2 Procedure for Issuance of Letter of Credit. The Borrower may from

time to time request that the Issuing Lender issue a Letter of Credit by delivering to the Issuing Lender at its address for notices specified herein (or such other location as may be designated by the Issuing Lender) an Application therefor, completed to the satisfaction of the Issuing Lender, and such other certificates, documents and other papers and information as the Issuing Lender may reasonably request. Upon receipt of any Application, the Issuing Lender will process such Application and the certificates, documents and other papers and information delivered to it in connection therewith in accordance with its customary procedures and shall promptly issue the Letter of Credit requested thereby (but in no event shall the Issuing Lender be required to issue any Letter of Credit earlier than three Business Days after its receipt of the Application therefor and all such other certificates, documents and other papers and information relating thereto) by issuing the original of such Letter of Credit to the beneficiary thereof or as otherwise

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may be agreed to by the Issuing Lender and the Borrower. The Issuing Lender shall make available a copy of such Letter of Credit to the Borrower promptly following the issuance thereof. The Issuing Lender shall promptly furnish to the Administrative Agent notice of the issuance of each Letter of Credit (including the amount thereof). The Administrative Agent shall furnish to the Lenders notice of the issuance of Letters of Credit (including the amounts thereof) on a quarterly basis.

3.3 Fees and Other Charges. (a) The Borrower will pay fees in respect of the Letters of Credit as follows: (i) in the case of Standby Letters of Credit, a fee, calculated at a per annum rate equal to the Applicable Margin then in effect with respect to Eurodollar Loans (or, in the case of any Standby Letter of Credit supporting documentary Surviving Letters of Credit, 0.80% per annum), on the undrawn face amount thereof, payable quarterly in arrears on each Standby L/C Fee Payment Date after the issuance date and (ii) in the case of Documentary Letters of Credit, a drawing fee, calculated at an absolute rate equal to the Applicable Documentary L/C Fee Rate, on the amount drawn in respect of such Letter of Credit, payable upon drawing. Each such fee shall be shared ratably among the Lenders. In addition, the Borrower shall pay to the Issuing Lender for its own account a fronting fee in an amount separately agreed to by the Borrower and the Issuing Lender.

(b) In addition to the foregoing fees, the Borrower shall pay or reimburse the Issuing Lender for such normal and customary administrative costs and expenses as are incurred or charged by the Issuing Lender in issuing, negotiating, effecting payment under, amending or otherwise administering any Letter of Credit.

3.4 L/C Participations. (a) The Issuing Lender irrevocably agrees to grant and hereby grants to each L/C Participant, and to induce the Issuing Lender to issue Letters of Credit hereunder, each L/C Participant irrevocably agrees to accept and purchase and hereby accepts and purchases from the Issuing Lender, on the terms and conditions hereinafter stated, for such L/C Participant's own account and risk an undivided interest equal to such L/C Participant's Revolving Percentage in the Issuing Lender's obligations and rights under each Letter of Credit issued hereunder and the amount of each draft paid by the Issuing Lender thereunder. Each L/C Participant unconditionally and irrevocably agrees with the Issuing Lender that, if a draft is paid under any Letter of Credit for which the Issuing Lender is not reimbursed in full by the Borrower in accordance with the terms of this Agreement, such L/C Participant shall pay to the Issuing Lender upon demand at the Issuing Lender's address for notices specified herein an amount equal to such L/C Participant's Revolving Percentage of the amount of such draft, or any part thereof, that is not so reimbursed.

(b) If any amount required to be paid by any L/C Participant to the Issuing Lender pursuant to Section 3.4(a) in respect of any unreimbursed portion of any payment made by the Issuing Lender under any Letter of Credit is paid to

the Issuing Lender within three Business Days after the date such payment is due, such L/C Participant shall pay to the Issuing Lender on demand an amount equal to the product of (i) such amount, times (ii) the daily average Federal Funds Effective Rate during the period from and including the date such payment is required to the date on which such payment is immediately available to the Issuing Lender, time (iii) a fraction the numerator of which is the number of days that elapse during such period and the denominator of which is 360. If any such amount required to be paid by any L/C Participant pursuant to Section 3.4(a) is not made available to the Issuing Lender by such L/C Participant within three Business Days after the date such payment is due, the Issuing Lender shall be entitled to recover from such L/C Participant, on demand, such amount with interest thereon calculated from such due date at the rate per annum applicable to ABR Loans. A certificate of the Issuing Lender submitted to any L/C Participant with respect to any amounts owing under this Section shall be conclusive in the absence of manifest error.

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(c) Whenever, at any time after the Issuing Lender has made payment under any Letter of Credit and has received from any L/C Participant its pro rata share of such payment in accordance with Section 3.4(a), the Issuing Lender receives any payment related to such Letter of Credit (whether directly from the Borrower or otherwise, including proceeds of collateral applied thereto by the Issuing Lender), or any payment of interest on account thereof, the Issuing Lender will distribute to such L/C Participant its pro rata share thereof; provided, however, that in the event that any such payment received by the Issuing Lender shall be required to be returned by the Issuing Lender, such L/C Participant shall return to the Issuing Lender the portion thereof previously distributed by the Issuing Lender to it.

3.5 Reimbursement Obligation of the Borrower. The Borrower agrees to reimburse the Issuing Lender on each date on which the Issuing Lender notifies the Borrower of the date and amount of a draft presented under any Letter of Credit and paid by the Issuing Lender for the amount of (a) such draft so paid and (b) any taxes, fees, charges or other costs or expenses incurred by the Issuing Lender in connection with such payment. Each such payment shall be made to the Issuing Lender at its address for notices specified herein in lawful money of the United States and in immediately available funds. Interest shall be payable on any and all amounts remaining unpaid by the Borrower under this Section from the date such amounts become payable (whether at stated maturity, by acceleration or otherwise) until payment in full at the rate set forth in (i) until the second Business Day following the date of the applicable drawing, Section 2.11(b) and (ii) thereafter, Section 2.11(c).

3.6 Obligations Absolute. The Borrower's obligations under this Section 3 shall be absolute and unconditional under any and all circumstances and irrespective of any setoff, counterclaim or defense to payment that the Borrower may have or have had against the Issuing Lender, any beneficiary of a Letter of Credit or any other Person. The Borrower also agrees with the Issuing Lender that the Issuing Lender shall not be responsible for, and the Borrower's Reimbursement Obligations under Section 3.5 shall not be affected by, among other things, the validity or genuineness of documents or of any endorsements thereon, even though such documents shall in fact prove to be invalid, fraudulent or forged, or any dispute between or among the Borrower and any beneficiary of any Letter of Credit or any other party to which such Letter of Credit may be transferred or any claims whatsoever of the Borrower against any beneficiary of such Letter of Credit or any such transferee. The Issuing Lender shall not be liable for any error, omission, interruption or delay in transmission, dispatch or delivery of any message or advice, however transmitted, in connection with any Letter of Credit, except for errors or omissions found by a final and nonappealable decision of a court of competent jurisdiction to have resulted from the gross negligence or willful misconduct of the Issuing Lender. The Borrower agrees that any action taken or omitted by the Issuing Lender under or in connection with any Letter of Credit or the related drafts or documents, if done in the absence of gross negligence or willful

misconduct and in accordance with the standards of care specified in the Uniform Commercial Code of the State of New York, shall be binding on the Borrower and shall not result in any liability of the Issuing Lender to the Borrower.

3.7 Letter of Credit Payments. If any draft shall be presented for payment under any Letter of Credit, the Issuing Lender shall promptly notify the Borrower of the date and amount thereof. The responsibility of the Issuing Lender to the Borrower in connection with any draft presented for payment under any Letter of Credit shall, in addition to any payment obligation expressly provided for in such Letter of Credit, be limited to determining that the documents (including each draft) delivered under such Letter of Credit in connection with such presentment are substantially in conformity with such Letter of Credit.

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3.8 Applications. To the extent that any provision of any Application related to any Letter of Credit is inconsistent with the provisions of this Section 3, the provisions of this Section 3 shall apply.

SECTION 4. REPRESENTATIONS AND WARRANTIES

To induce the Administrative Agent and the Lenders to enter into this Agreement and to make the Loans and issue or participate in the Letters of Credit, the Borrower hereby represents and warrants to the Administrative Agent and each Lender that:

4.1 Financial Condition. The audited consolidated balance sheets of the Borrower as at December 31, 1996, December 31, 1997 and December 31, 1998 and the related consolidated statements of income and of cash flows for the fiscal years ended on such dates, reported on by and accompanied by an unqualified report from KPMG LLP, present fairly the consolidated financial condition of the Borrower as at such date, and the consolidated results of its operations and its consolidated cash flows for the respective fiscal years then ended. The unaudited consolidated balance sheet of the Borrower as at September 25, 1999, and the related unaudited consolidated statements of income and cash flows for the nine-month period ended on such date, present fairly the consolidated financial condition of the Borrower as at such date, and the consolidated results of its operations and its consolidated cash flows for the nine-month period then ended (subject to normal year-end audit adjustments and the absence of footnotes). All such financial statements, including the related schedules and notes thereto, have been prepared in accordance with GAAP applied consistently throughout the periods involved (except as approved by the aforementioned firm of accountants and disclosed therein). Except as set forth on Schedule 4.1, as of the date hereof, the Borrower and its Subsidiaries do not have any material Guarantee Obligations, contingent liabilities and liabilities for taxes, or any material long-term leases or unusual forward or long-term commitments, including any interest rate or foreign currency swap or exchange transaction or other obligation in respect of derivatives, that are not reflected in the most recent financial statements referred to in this paragraph. Except as set forth on Schedule 4.1, during the period from December 31, 1998 to and including the date hereof there has been no Disposition by the Borrower of any material part of its business or property.

4.2 No Change. Since December 31, 1998, there has been no development or event that has had or could reasonably be expected to have a Material Adverse Effect.

4.3 Corporate Existence; Compliance with Law. Each of the Borrower and its Subsidiaries (a) is duly organized, validly existing and in good standing under the laws of the jurisdiction of its organization, (b) has the corporate (or other appropriate) power and authority, and the legal right, to own and operate its property, to lease the property it operates as lessee and to conduct the business in which it is currently engaged, except to the extent failure to possess such power, authority or legal right could not reasonably be expected to result in a Material Adverse Effect, (c) is duly qualified as a foreign

corporation and in good standing under the laws of each jurisdiction where its ownership, lease or operation of property or the conduct of its business requires such qualification, except to the extent failure to be so qualified and in good standing could not reasonably be expected to result in a Material Adverse Effect, and (d) is in compliance with all Requirements of Law except to the extent that the failure to comply therewith could not, in the aggregate, reasonably be expected to have a Material Adverse Effect.

4.4 Corporate Power; Authorization; Enforceable Obligations. Each Loan Party has the corporate (or other appropriate) power and authority, and the legal right, to make, deliver and perform the Loan Documents to which it is a party and, in the case of the Borrower, to borrow hereunder. Each Loan

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Party has taken all necessary corporate (or other appropriate) action to authorize the execution, delivery and performance of the Loan Documents to which it is a party and, in the case of the Borrower, to authorize the borrowings on the terms and conditions of this Agreement. No consent or authorization of, filing with, notice to or other act by or in respect of, any Governmental Authority or any other Person is required in connection with the borrowings hereunder or with the execution, delivery, performance, validity or enforceability of this Agreement or any of the Loan Documents, except the filings referred to in Section 4.19. Each Loan Document has been duly executed and delivered on behalf of each Loan Party party thereto. This Agreement constitutes, and each other Loan Document upon execution will constitute, a legal valid and binding obligation of each Loan Party party thereto, enforceable against each such Loan Party in accordance with its terms, except as enforceability may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or similar laws affecting the enforcement of creditors' rights generally and by general equitable principles (whether enforcement is sought by proceedings in equity or at law).

4.5 No Legal Bar. The execution, delivery and performance of this Agreement and the other Loan Documents, the issuance of Letters of Credit, the borrowings hereunder and the use of the proceeds thereof will not violate any Requirement of Law or any material Contractual Obligation of the Borrower or any of its Subsidiaries and will not result in, or require, the creation or imposition of any Lien on any of their respective properties or revenues pursuant to any Requirement of Law or any such material Contractual Obligation (other than the Liens created by the Security Documents).

4.6 Litigation. No litigation, investigation or proceeding of or before any arbitrator or Governmental Authority is pending or, to the knowledge of the Borrower, threatened by or against the Borrower or any of its Subsidiaries or against any of their respective properties or revenues (a) with respect to any of the Loan Documents or any of the transactions contemplated hereby or thereby, or (b) that could reasonably be expected to have a Material Adverse Effect.

4.7 No Default. Neither the Borrower nor any of its Subsidiaries is in default under or with respect to any of its Contractual Obligations in any respect that could reasonably be expected to have a Material Adverse Effect. No Default or Event of has occurred and is continuing.

4.8 Ownership of Property; Liens. Each of the Borrower and its Subsidiaries has title in fee simple to, or a valid leasehold interest in, all its real property, and good title to, or a valid leasehold interest or property right or license in, all its other property, except when failure to hold such title, interest, right or license could not reasonably be expected to result in a Material Adverse Effect, and none of such property is subject to any Lien except as permitted by Section 7.3.

4.9 Intellectual Property. The Borrower and each of its Subsidiaries owns, or is licensed to use, all Intellectual Property necessary for the conduct

of its business as currently conducted. No claim which could reasonably be expected to result in a Material Adverse Effect has been asserted and is pending by any Person challenging or questioning the use of any Intellectual Property or the validity or effectiveness of any Intellectual Property, nor does the Borrower know of any valid basis for any such claim. The use of Intellectual Property by the Borrower and its Subsidiaries does not to the Borrower's knowledge infringe on the rights of any Person in any material respect.

4,10 Taxes. Each of the Borrower and each of its Subsidiaries has filed or caused to be filed all material Federal, state and other tax returns that are required to be filed and has paid all taxes shown to be due and payable on said returns or on any written assessments made against it or any of its property and all other material taxes, fees or other charges imposed on it or any of its property by any

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Governmental Authority (other than any taxes the amount or validity of which are currently being contested in good faith by appropriate proceedings and with respect to which reserves in conformity with GAAP have been provided on the books of the Borrower or its Subsidiaries, as the case may be); no material tax Lien (other than any Lien that is permitted pursuant to Section 7.3 hereof) has been filed, and, to the knowledge of the Borrower, no claim is being asserted, with respect to any such tax, fee or other charge.

4.11 Federal Regulations. No part of the proceeds of any Loans will be used for "buying" or "carrying" any "margin stock" within the respective meanings of each of the quoted terms under Regulation U as now and from time to time hereafter in effect or for any purpose that violates the provisions of the Regulations of the Board. If requested by any Lender or the Administrative Agent, the Borrower will furnish to the Administrative Agent and each Lender a statement to the foregoing effect in conformity with the requirements of FR Form G-3 or FR Form U-1, as applicable, referred to in Regulation U.

4.12 Labor Matters. Except as, in the aggregate, could not reasonably be expected to have a Material Adverse Effect: (a) there are no strikes or other labor disputes against the Borrower or any of its Subsidiaries pending or, to the knowledge of the Borrower, threatened; (b) hours worked by and payment made to employees of the Borrower and its Subsidiaries have not been in violation of the Fair Labor Standards Act or any other applicable Requirement of Law dealing with such matters; and (c) all payments due from the Borrower or any of its Subsidiaries on account of employee health and welfare insurance have been paid or accrued as a liability on the books of the Borrower or the relevant Subsidiary.

4.13 ERISA. Neither a Reportable Event nor an "accumulated funding deficiency" (within the meaning of Section 412 of the Code or Section 302 of ERISA) has occurred during the five-year period prior to the date on which this representation is made or deemed made with respect to any Plan, and each Plan has complied in all material respects with the applicable provisions of ERISA and the Code. No termination of a Single Employer Plan has occurred, and no Lien in favor of the PBGC or a Plan has arisen, during such five-year period. The present value of all accrued benefits under each Single Employer Plan (based on those assumptions used to fund such Plans) did not, as of the last annual valuation date prior to the date on which this representation is made or deemed made, exceed the value of the assets of such Plan allocable to such accrued benefits by a material amount. Neither the Borrower nor any Commonly Controlled Entity has had a complete or partial withdrawal from any Multiemployer Plan that has resulted or could reasonably be expected to result in a material liability under ERISA, and neither the Borrower nor any Commonly Controlled Entity would become subject to any material liability under ERISA if the Borrower or any such Commonly Controlled Entity were to withdraw completely from all Multiemployer Plans as of the valuation date most closely preceding the date on which this representation is made or deemed made. No such Multiemployer Plan is in

Reorganization or Insolvent.

4.14 Investment Company Act; Other Regulations. No Loan Party is an "investment company", or a company "controlled" by an "investment company", within the meaning of the Investment Company Act of 1940, as amended. No Loan Party is subject to regulation under any Requirement of Law (other than Regulation X of the Board) that limits its ability to incur Indebtedness.

4.15 Subsidiaries. Except as disclosed to the Administrative Agent by the Borrower in writing from time to time after the Closing Date, Schedule 4.15 sets forth the name and jurisdiction of incorporation of each Subsidiary and, as to each such Subsidiary, the percentage of each class of Capital Stock owned by any Loan Party.

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4.16 Use of Proceeds. The proceeds of the Revolving Loans and the Swingline Loans, and the Letters of Credit, shall be used for general corporate purposes, including redemptions of the Senior Subordinated Notes, repurchases of the Borrower's common stock and Permitted Acquisitions, in each case to the extent permitted hereby.

4.17 Environmental Matters. Except as, in the aggregate, could not reasonably be expected to have a material Adverse Effect:

(a) the facilities and properties owned, leased or operated by the Borrower or any of its Subsidiaries (the "Properties") do not contain, and have not previously contained, any Materials of Environmental Concern in amounts or concentrations or under circumstances that constitute or constituted a violation of, or could give rise to liability under, any Environmental Law;

(b) neither the Borrower nor any of its Subsidiaries has received or is aware of any notice of violation, alleged violation, non-compliance, liability or potential liability regarding environmental matters or compliance with Environmental Laws with regard to any of the Properties or the business operated by the Borrower or any of its Subsidiaries (the "Business"), nor does the Borrower have knowledge or reason to believe that any such notice will be received or is being threatened;

(c) Materials of Environmental Concern have not been transported or disposed of from the Properties in violation of, or in a manner or to a location that could give rise to liability under, any Environmental Law, nor have any materials of Environmental Concern been generated, treated, stored or disposed of at, on or under any of the Properties in violation of, or in a manner that could give rise to liability under, any applicable Environmental Law;

(d) no judicial proceeding or governmental or administrative action is pending or, to the knowledge of the Borrower, threatened, under any Environmental Law to which the Borrower or any Subsidiary is or will be named as a party with respect to the Properties or the Business, nor are there any consent decrees or other decrees, consent orders, administrative orders or other orders, or other administrative or judicial requirements outstanding under any Environmental Law with respect to the Properties or the Business;

(e) there has been no release or threat of release of Materials of Environmental Concern at or from the Properties, or arising from or related to the operations of the Borrower or any Subsidiary in connection with the Properties or otherwise in connection with the Business, in violation of or in amounts or in a manner that could give rise to liability under Environmental Laws;

(f) the Properties and all operations at the Properties are in compliance, and have in the last five years been in compliance, with all applicable Environmental Laws, and there is no contamination at, under or about the Properties or violation of any Environmental Law with respect to the

Properties or the Business; and

(g) neither the Borrower nor any of its Subsidiaries has assumed any liability of any other Person (other than the Borrower or its Subsidiaries) under Environmental Laws.

4.18 Accuracy of Information, etc. No statement or information contained in this Agreement, any other Loan Document, the Confidential Information memorandum or any other

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document, certificate or statement furnished by or on behalf of any Loan Party to the Administrative Agent or the Lenders, or any of them, for use in connection with the transactions contemplated by this Agreement or the other Loan Documents (other than projections and pro forma financial information), contained as of the date such statement, information, document or certificate was so furnished (or, in the case of the Confidential Information Memorandum, as of the date of this Agreement), any untrue statement of a material fact or omitted to state a material fact necessary to make the statements contained herein or therein not misleading. The projections and pro forma financial information contained in the materials referenced above are based upon good faith estimates and assumptions believed by management of the Borrower to be reasonable at the time made, it being recognized by the Lenders that such financial information as it related to future events is not to be viewed as fact and that actual results during the period or periods covered by such financial information may differ from the projected results set forth therein by a material amount. There is no fact known to any Loan Party that could reasonably be expected to have a Material Adverse Effect that has not been expressly disclosed herein, in the other Loan Documents,. In the Confidential Information Memorandum or in any other documents, certificates and statements furnished to the Administrative Agent and the Lenders for use in connection with the transactions contemplated hereby and by the other Loan Documents.

4.19 Collateral. The Guarantee and Collateral Agreement is effective to create in favor of the Administrative Agent, for the benefit of the Lenders, a legal, valid and enforceable security interest in the Collateral described therein and proceeds thereof. When financing statements in appropriate form are filed in the offices specified on Schedule 4.19, the Guarantee and Collateral Agreement shall constitute a fully perfected Lien on, and security interest in, all right, title and interest of the Loan Parties in such Collateral and the proceeds thereof, as security for the Obligations (as defined in the Guarantee and Collateral Agreement), in each case prior and superior in right to any other Person (except Liens permitted by Section 7.3).

4.20 Solvency. The Loan Parties, taken as a whole, and after giving effect to the incurrence of all Indebtedness and obligations being incurred in connection herewith will be and will continue to be, Solvent.

4.21 Senior Indebtedness. The Obligations constitute "Senior Indebtedness" (or the comparable concept) of the Borrower under and as defined in the Senior Subordinated Note Indenture.

4.22 Year 2000 Matters. Any reprogramming required to permit the proper functioning (but only to the extent that such proper functioning would otherwise be impaired by the occurrence of the year 2000) in and following the year 2000 of computer systems and other equipment containing embedded microchips, in either case owned or operated by the Borrower or any of its Subsidiaries or used or relied upon in the conduct of their business (including any such systems and other equipment supplied by others or with which the computer systems of the Borrower or any of its Subsidiaries interface), and the testing of all such systems and other equipment as so reprogrammed, have been completed. The costs to the Borrower and its Subsidiaries for such reprogramming and testing and for the other reasonably foreseeable consequences to them of any improper functioning of other computer systems and equipment containing embedded

microchips due to the occurrence of the year 2000 could not reasonably be expected to result in a Default or Event of Default or to have a Material Adverse Effect. The computer systems of the Borrower and its Subsidiaries are and, with ordinary course upgrading and maintenance, will continue for the term of this Agreement to be, sufficient for the conduct of their business as currently conducted.

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SECTION 5. CONDITIONS PRECEDENT

5.1 Conditions to Initial Extension of Credit. The agreement of each Lender to make the initial extension of credit requested to be made by it is subject to the satisfaction, prior to or concurrently with the making of such extension of credit on the Closing Date, of the following conditions precedent:

(a) Credit Agreement; Guarantee and Collateral Agreement. The Administrative Agent shall have received (i) this Agreement, executed and delivered by the Administrative Agent, the Borrower and each Person listed on Schedule 1.1 and (ii) the Guarantee and Collateral Agreement, executed and delivered by the Borrower and each Subsidiary Guarantor.

(b) Existing Credit Agreement. The commitments under the Borrower's existing credit agreement and all Liens granted in connection therewith shall have been terminated, and all amounts owing thereunder shall have been paid in full, it being understood that certain letters of credit ("Surviving Letters of Credit") outstanding under such credit agreement on the Closing Date shall continue to remain outstanding.

(c) Approvals. Any governmental and third party approvals necessary in connection with the transactions contemplated hereby shall have been obtained and be in full force and effect.

(d) Lien Searches. The Administrative Agent shall have received the results of a recent lien search in each of the jurisdictions where assets of the Loan Parties are located, and such search shall reveal no liens on any of the assets of the Borrower or its Subsidiaries except for liens permitted by Section 7.3 or discharged on or prior to the Closing Date pursuant to documentation satisfactory to the Administrative Agent.

(e) Fees. The Lenders and the Administrative Agent shall have received all fees required to be paid, and all expenses for which invoices have been presented with appropriate supporting documentation (including the reasonable fees and expenses of legal counsel), on or before the Closing Date.

(f) Closing Certificate. The Administrative Agent shall have received, with a counterpart for each Lender, a certificate of each Loan Party, dated the Closing Date, substantially in the form of Exhibit C, with appropriate insertions and attachments.

(g) Legal Opinions. The Administrative Agent shall have received the following executed legal opinions:

(i) the legal opinion of Skadden, Arps, Slate, Meagher & Flom LLP, special New York counsel to the Borrower and the Subsidiary Guarantors, substantially in the form of Exhibit E-1; and

(ii) the legal opinion of Glenn A. Weinman, general counsel of the Borrower and its Subsidiaries, substantially in the form of Exhibit E-2.

Each such legal opinion shall cover such other matters incident to the transactions contemplated by this Agreement as the Administrative Agent may reasonably require.

(h) Filings, etc. The Uniform Commercial Code financing statements referred to in Section 4.19 shall have been executed and be in proper form for filing. In addition, the Administrative Agent shall have received satisfactory executed landlord lien waivers in respect of leased warehouses significant to the businesses of the Borrower and the Subsidiary Guarantors (determined by the Borrower based on criteria acceptable to the Administrative Agent).

5.2 Conditions to Each Extension of Credit. The agreement of each Lender to make any extension of credit requested to be made by it on any date (including its initial extension of credit) is subject to the satisfaction of the following conditions precedent:

(a) Representations and Warranties. Each of the representations and warranties made by any Loan Party in or pursuant to the Loan Documents shall be true and correct in all material respects on and as of such date as if made on and as of such date (except for those representations and warranties which expressly related to a specific earlier date).

(b) No Default. No Default or Event of Default shall have occurred and be continuing on such date or after giving effect to the extensions of credit requested to be made on such date.

Each borrowing by and issuance of a Letter of Credit on behalf of the Borrower hereunder shall constitute a representation and warranty by the Borrower as of the date of such extension of credit that the conditions contained in this Section 5.2 have been satisfied.

SECTION 6. AFFIRMATIVE COVENANTS

The Borrower hereby agrees that, so long as the Revolving Credit Commitments remain in effect, any Letter of Credit remains outstanding or any Loan or other amount is owing to any Lender or the Administrative Agent hereunder, the Borrower shall and shall cause each of its Subsidiaries to:

6.1 Financial Statements. Furnish to the Administrative Agent and each Lender:

(a) as soon as available, but in any event within 90 days after the end of each fiscal year of the Borrower, a copy of the audited consolidated and unaudited consolidating balance sheet of the Borrower and its consolidated Subsidiaries as at the end of such year and the related audited consolidated and unaudited consolidating statements of income and of cash flows for such year, setting forth in each case in comparative form the figures for the previous year, reported on, in the case of audited financial statements, without a "going concern" or like qualification or exception, or qualification arising out of the scope of the audit, by KPMG LLP or other independent certified public accountants of nationally recognized standing; and

(b) as soon as available, but in any event not later than 45 days after the end of each of the first three quarterly periods of each fiscal year of the Borrower, the unaudited consolidated balance sheet of the Borrower and its consolidated Subsidiaries as at the end of such quarter and the related unaudited consolidated statements of income and of cash flows for such quarter and the portion of the fiscal year through the end of such quarter, setting forth in each case in comparative form the figures for the previous year, certified by a Responsible Officer as being fairly stated in all material respects (subject to normal year-end audit adjustments and the absence of footnotes).

All such financial statements shall be complete and correct in all material respects and shall be prepared in reasonable detail and in accordance with GAAP applied consistently throughout the periods reflected

therein and with prior periods (except as approved by such accountants or officer, as the case may be, and disclosed therein).

6.2 Certificates; Other Information. Furnish to the Administrative Agent and each Lender (or, in the case of clause (f), to the relevant Lender):

(a) concurrently with the delivery of any financial statements pursuant to Section 6.1, (i) a certificate of a Responsible Officer stating that, to the best of each such Responsible Officer's knowledge, each Loan Party during such period has observed or performed all of its covenants and other agreements, and satisfied every condition, contained in this Agreement and the other Loan Documents to which it is a party to be observed, performed or satisfied by it, and that such Responsible Officer has obtained no knowledge of any Default or Event of Default except as specified in such certificate and (ii) in the case of quarterly or annual financial statements, (x) a Compliance Certificate containing all information and calculations necessary for determining compliance by the Borrower and its Subsidiaries with the provisions of this Agreement referred to therein as of the last day of the fiscal quarter or fiscal year of the Borrower, as the case may be, and (y) to the extent not previously disclosed to the Administrative Agent, a listing of any county or state within the United States where any Loan Party keeps inventory;

(b) as soon as available, and in any event no later than 45 days after the end of each fiscal year of the Borrower, a detailed consolidated budget for the following fiscal year (including (i) a projected consolidated balance sheet of the Borrower and its Subsidiaries as of the end of the following fiscal year, the related consolidated statements of projected cash flow, projected changes in financial position and projected income and a description of the underlying assumptions applicable thereto and (ii) the amount of Loans and Letters of Credit projected to be outstanding hereunder on a month-by-month basis), and, as soon as available, significant revisions, if any, of such budget and projections with respect to such fiscal year (collectively, the "Projections"), which Projections shall in each case be accompanied by a certificate of a Responsible Officer stating that such Projections are based on reasonable estimates, information and assumptions and that such Responsible Officer has no reason to believe that such Projections are incorrect or misleading in any material respect;

(c) within 45 days after the end of each fiscal quarter of the Borrower (or 90 days in the case of the last fiscal quarter of the fiscal year of the Borrower), a narrative discussion and analysis of the financial condition and result of operations of the Borrower and its Subsidiaries for such fiscal quarter and for the period from the beginning of the then current fiscal year to the end of such fiscal quarter, as compared to the comparable periods of the previous year (which may consist of a Form 10-Q or 10-K, as the case may be, filed with the SEC);

(d) no later than 10 Business Days prior to the effectiveness thereof, copies of substantially final drafts of any proposed amendment, supplement, waiver or other modification with respect to the Senior Subordinated Note Indenture;

(e) within five days after the same are sent, copies of all financial statements and reports that the Borrower sends to the holders of any class of its debt securities or public equity securities and, within five days after the same are filed, copies of all financial statements and reports that the Borrower may make to, or file with, the SEC, excluding Form 4 and other filings relating to shareholdings of directors or officers of the Borrower; and

(f) promptly, such additional financial and other information as any Lender may from time to time reasonably request.

6.3 Payment of Obligations. Pay, discharge or otherwise satisfy at or before maturity or before they become delinquent, as the case may be, all its material obligations of whatever nature, except where the amount or validity thereof is currently being contested in good faith by appropriate proceedings and reserves in conformity with GAAP with respect thereto have been provided on the books of the Borrower or its Subsidiaries, as the case may be.

6.4 Maintenance of Existence; Compliance. (a) (i) Preserve, renew and keep in full force and effect its corporate existence and (ii) take all reasonable action to maintain all rights, privileges and franchises necessary or desirable in the normal conduct of its business, except, in each case, as otherwise permitted by Section 7.4 and except, in the case of clause (ii) above, to the extent that failure to do so could not reasonably be expected to have a Material Adverse Effect; and (b) comply with all Contractual Obligations and Requirements of Law except to the extent that failure to comply therewith could not, in the aggregate, reasonably be expected to have a Material Adverse Effect.

6.5 Maintenance of Property; Insurance. (a) Keep all property useful and necessary in its business in good working order and condition, ordinary wear and tear excepted and (b) maintain with financially sound and reputable insurance companies insurance on all its property in at least such amounts and against at least such risks (but including in any event public liability, product liability and business interruption) as are usually insured against in the same general area by companies engaged in the same or a similar business.

6.6 Inspection of Property; Books and Records; Discussions. (a) Keep proper books of records and account in which full, true and correct entries in conformity, in all material respects, with GAAP and all Requirements of Law shall be made of all dealings and transactions in relation to its business and activities and (b) permit representatives of any Lender to visit and inspect any of its properties and examine and make abstracts from any of its books and records at any reasonable time (upon reasonable notice) and as often as may reasonably be desired (providing that, so long as no Default or Event of Default has occurred and is continuing, such visits (other than by the Administrative Agent) shall not occur more than once annually) and to discuss the business, operations, properties and financial and other condition of the Borrower and its Subsidiaries with officers and employees of the Borrower and its Subsidiaries and, in the case of the Administrative Agent, with its independent certified public accountants.

6.7 Notices. Promptly give notice to the Administrative Agent and each Lender of:

(a) the occurrence of any Default or Event of Default;

(b) any (i) default or event of default under any Contractual Obligation of the Borrower or any of its Subsidiaries or (ii) litigation, investigation or proceeding that may exist at any time between the Borrower or any of its Subsidiaries and any Governmental Authority, that in either case, could reasonably be expected to have a Material Adverse Effect;

(c) any litigation or proceeding affecting the Borrower or any of its Subsidiaries in which the amount involved is \$2,500,000 or more and not covered by insurance or in which injunctive or similar relief imposing a cost to the Borrower of \$2,500,000 or more is sought;

(d) the following events, as soon as possible and in any event within 30 days after the Borrower knows or has reason to know thereof: (i) the occurrence of any reportable Event with respect to any Plan, a failure to make any required contribution to a Plan, the creation of any Lien in favor of the PBGC or a Plan or any withdrawal form, or the termination, Reorganization or Insolvency of, any Multiemployer Plan or (ii) the institution of proceedings or

the taking of any other action by the PBGC or the Borrower or any Commonly Controlled Entity or any Multiemployer Plan with respect to the withdrawal from, or the termination, Reorganization or Insolvency of, any Plan; and

(e) any development or event that has had or could reasonably be expected to have a Material Adverse Effect.

Each notice pursuant to this Section 6.7 shall be accompanied by a statement of a responsible Officer setting forth details of the occurrence referred to therein and stating what action the Borrower or the relevant Subsidiary proposes to take with respect thereto.

6.8 Environmental Laws. (a) Comply with, and take all reasonable efforts to ensure compliance by all tenants and subtenants, if any, with, all applicable Environmental Laws, and obtain and comply with and maintain, and take all reasonable efforts to ensure that all tenants and subtenants obtain and comply with and maintain, any and all licenses, approvals, notifications, registrations or permits required by applicable Environmental Laws, except when failure to do so could not reasonably be expected to result in a Material Adverse Effect.

(b) Conduct and complete all investigations, studies, sampling and testing, and all remedial, removal and other actions required under Environmental Laws and promptly comply with all lawful orders and directives of all Governmental Authorities regarding Environmental Laws, except when failure to do so could not reasonably be expected to result in a Material Adverse Effect.

6.9 Additional Collateral, etc. (a) With respect to any property acquired after the Closing Date by the Borrower or any of its Subsidiaries (other than property acquired by any Foreign Subsidiary) of the type contemplated by the Guarantee and Collateral Agreement to constitute Collateral and as to which the Administrative Agent, for the benefit of the Lenders, does not have a perfected Lien, promptly take all actions necessary or advisable to grant to the Administrative Agent, for the benefit of the Lenders, a perfected first priority security interest in such property (subject to Liens permitted by Section 7.3), including the filing of Uniform Commercial Code financing statements in such jurisdictions as may be required by the Guarantee and Collateral Agreement or by law or as may be requested by the Administrative Agent.

(b) With respect to any new Subsidiary (other than a Foreign Subsidiary) created or acquired after the Closing Date by the Borrower or any of its Subsidiaries, promptly cause such new Subsidiary (i) to become a party to the Guarantee and Collateral Agreement, (ii) to take such actions necessary or advisable to grant to the Administrative Agent for the benefit of the Lenders a perfected first priority security interest in the Collateral (subject to Liens permitted by Section 7.3) described in the Guarantee and Collateral Agreement with respect to such new Subsidiary, including the filing of Uniform Commercial Code financing statements in such jurisdictions as may be required by the Guarantee and Collateral Agreement or by law or as may be requested by the Administrative Agent and (iii) to deliver to the Administrative Agent a certificate of such Subsidiary, substantially in the form of Exhibit C, with appropriate insertions and attachments.

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SECTION 7. NEGATIVE COVENANTS

The Borrower hereby agrees that, so long as the Revolving Credit Commitments remain in effect, any Letter of Credit remains outstanding or any Loan or other amount is owing to any Lender or the Administrative Agent hereunder, the Borrower shall not, and shall not permit any of its Subsidiaries to, directly or indirectly:

7.1 Financial Condition Covenants.

(a) Consolidated Leverage Ratio. Permit the Consolidated Leverage Ratio as at the last day of any period of four consecutive fiscal quarters of the Borrower to be greater than 3.50 to 1.0.

(b) Consolidated Fixed Charge Coverage Ratio. Permit the Consolidated Fixed Charge Coverage Ratio for any period of four consecutive fiscal quarters of the Borrower ending during any period set forth below to be less than the ratio set forth below opposite such fiscal quarter:

Fiscal Quarter	Consolidated Fixed Charge Coverage Ratio
Closing Date to and including the last day of the second fiscal quarter of fiscal year 2000	1.25 to 1.0
The first day of the third fiscal quarter of fiscal year 2000 to and including the last day of the third fiscal quarter of fiscal year 2000	1.50 to 1.0
The first day of the fourth fiscal quarter of fiscal year 2000 to and including the last day of the third fiscal quarter of fiscal year 2001	1.75 to 1.0
The first day of the fourth fiscal quarter of fiscal year 2001 and thereafter	2.00 to 1.0

(c) Consolidated Net Worth. Permit Consolidated Net Worth at any time to be less than \$100,000,000.

(d) Consolidated Net Income. Permit Consolidated Net Income for any period of four consecutive fiscal quarters of the Borrower to be less than \$1.00.

7.2 Indebtedness. Create, issue, incur, assume, become liable in respect of or suffer to exist any indebtedness, except:

(a) Indebtedness of any Loan Party pursuant to any Loan Document;

(b) Indebtedness of the Borrower to any Subsidiary and of any Subsidiary Guarantor to the Borrower or any other Subsidiary;

(c) (i) Guarantee Obligations incurred in the ordinary course of business by the Borrower or any of its Subsidiaries of obligations of any Subsidiary Guarantor and (ii) Guarantee Obligations, in an aggregate principal amount not to exceed \$2,000,000, incurred by the Borrower in connection with obligations of Strandel, Inc. under Indebtedness permitted by Section 7.2(i);

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(d) Indebtedness of the Borrower in respect of the Senior Subordinated Notes in an aggregate principal amount not to exceed \$93,000,000;

(e) other Indebtedness outstanding on the date hereof and listed on Schedule 7.2(e) and any refinancings, refundings, renewals or extensions thereof (without increasing the principal amount thereof or shortening the maturity thereof);

(f) Indebtedness (including, without limitation, Capital Lease Obligations) secured by Liens permitted by Section 7.3(g) in an aggregate principal amount not to exceed \$10,000,000 (including, if applicable, any Attributable Debt incurred pursuant to this paragraph (f) at any one time outstanding;

(g) Hedge Agreements in respect of Indebtedness otherwise permitted hereby, so long as such agreements are not entered into for speculative purposes;

(h) the Surviving Letters of Credit;

(i) Indebtedness of Strandel, Inc. and its Subsidiaries under a working capital facility in an aggregate principal amount not to exceed \$22,000,000 at any one time outstanding;

(j) Indebtedness of any Subsidiary that is not a Subsidiary Guarantor to any other Subsidiary that is not a Subsidiary Guarantor;

(k) Indebtedness of Strandel, Inc. and its Subsidiaries to the Borrower in an aggregate principal amount not to exceed \$13,500,000 at any one time outstanding;

(l) Indebtedness of the Borrower and its Subsidiaries in respect of tenders for performance, performance bonds, bid bonds, appeal bonds, surety bonds and similar obligations, in each case provided in the ordinary course of business;

(m) Indebtedness arising from the honoring by a bank or other financial institution of a check, draft or similar instrument drawn against insufficient funds in the ordinary course of business, provided that such Indebtedness is extinguished within five Business Days of its incurrence;

(n) Indebtedness in respect of taxes, assessments, governmental charges or levies, claims or customs authorities and claims for labor, worker's compensation, materials and supplies to the extent that payment therefor shall not at the time be required to be made in accordance with the provisions of Section 6.3;

(o) Indebtedness in respect of judgments or awards to the extent an Event of Default has not resulted therefrom;

(p) Guarantee Obligations incurred in the ordinary course of business by any Foreign Subsidiary with respect to obligations of any other Foreign Subsidiary;

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(q) Indebtedness of a Subsidiary acquired after the date hereof and Indebtedness of a Person merged or consolidated with or into the Borrower or a Subsidiary of the Borrower after the date hereof in an aggregate principal amount not to exceed \$10,000,000 at any one time outstanding, provided that (i) such Indebtedness existed at the time of such acquisition, merger or consolidation and was not created in anticipation of such event, (ii) such acquisition, merger or consolidation is a Permitted Acquisition and (iii) immediately after giving effect to such acquisition, merger or consolidation, no default or Event of Default shall have occurred and be continuing; and

(r) additional Indebtedness of the Borrower or any of its Subsidiaries in an aggregate principal amount (for the Borrower and all Subsidiaries, without duplication) not to exceed \$10,000,000 at any one time outstanding.

7.3 Liens. Create, incur, assume or suffer to exist any Lien upon any of its property (including without limitation any trademark, trade name or other intellectual property, or any fixed assets), whether or now owned or hereafter acquired except for:

(a) Liens for taxes not yet due or that are being contested in good faith by appropriate proceedings, provided that adequate reserves with respect thereto are maintained on the books of the Borrower or its Subsidiaries, as the case may be, in conformity with GAAP;

(b) carriers', warehousemen's, mechanics', materialmen's, repairmen's, landlord's or other like Liens arising in the ordinary course of business that are not overdue for a period of more than 60 days or that are being contested in good faith by appropriate proceedings;

(c) pledges or deposits in connection with workers' compensation, unemployment insurance and other social security legislation;

(d) deposits to secure the performance of bids, trade contracts (other than for borrowed money), leases, statutory obligations, surety, customer and appeal bonds, performance bonds and other obligations of a like nature incurred in the ordinary course of business;

(e) easements, rights-of-way, restrictions, title defects and other similar encumbrances incurred in the ordinary course of business that, in the aggregate, are not substantial in amount and that do not in any case materially detract from the value of the property subject thereto or materially interfere with the ordinary conduct of the business of the Borrower or any of its Subsidiaries;

(f) Liens in existence on the date hereof listed on Schedule 7.3(f), and renewals, extensions or replacements thereof, securing Indebtedness permitted by Section 7.2(e), provided that no such Lien is spread to cover any additional property after the Closing Date and that the amount of the indebtedness secured thereby is not increased;

(g) Liens securing Indebtedness of the Borrower or any Subsidiary incurred pursuant to Section 7.2(f) to finance the acquisition of fixed or capital assets or to refinance such Indebtedness, provided that (i) such Liens shall be created substantially simultaneously with the acquisition of such fixed or capital assets or such refinancing, (ii) such Liens do not at any time encumber any property other than the property financed by such Indebtedness and (iii) the amount of Indebtedness secured thereby is not increased;

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(h) Liens created pursuant to the Security Documents;

(i) judgment Liens pursuant to judgments not constituting an Event of Default pursuant to Section 8(h); and

(j) any interest or title of a lessor, sublessor, licensee or licensor under any lease, sublease or license entered into by the Borrower or any other Subsidiary in the ordinary course of its business and covering only the assets so leased, subleased or subject to such license;

(k) Liens in favor of customs and revenue authorities to secure payment of customs duties in connection with the importation of goods;

(l) Liens arising from precautionary UCC financing statement filings regarding operating leases;

(m) rights reserved to or vested in any governmental agency by law or regulation to control or regulate, or obligations or duties under law or regulation to any governmental agency with respect to, the use of any real property or with respect to any right, power, franchise, grant, license or permit;

(n) present or future zoning laws or regulations or other laws or regulations restricting the occupancy, use or enjoyment of real property;

(o) Liens on the property or assets of a Person which becomes a Subsidiary as a result of an acquisition after the date hereof or which merges or consolidates with or into the Borrower or a Subsidiary of the Borrower after the date hereof, securing Indebtedness permitted by Section 7.2(q), provided that (i) such Liens existed at the time of the acquisition, merger or consolidation and were not created in anticipation of such event, (ii) any such Lien does not by its terms cover any property or assets after the time such Person becomes a Subsidiary or the occurrence of such merger or consolidation

which were not covered immediately prior to the time such Person becomes a Subsidiary or the occurrence of such merger or consolidation;

(p) Liens on the property or assets of Strandel, Inc. and its Subsidiaries existing on the date hereof listed on Schedule 7.3(f), and renewals, extensions or replacements thereof which do not spread such Lien to cover any additional property after the Closing Date and which do not increase the amount of Indebtedness secured thereby; and

(q) Liens not otherwise permitted by this Section so long as neither (i) the aggregate outstanding principal amount of the obligations secured thereby nor (ii) the aggregate fair market value (determined as of the date such Lien is incurred) of the assets subject thereto exceeds (as to the Borrower and all Subsidiaries), when added to the aggregate outstanding amount of Attributable Debt (other than Attributable Debt secured by Liens permitted under Section 7.3(g)), \$10,000,000 at any one time.

7.4 Fundamental Changes. Enter into any merger, consolidation or amalgamation or liquidate, wind up or dissolve itself (or suffer any liquidation or dissolution), or Dispose of, all or substantially all of its property or business, except that:

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(a) any Subsidiary of the Borrower may be merged or consolidated with or into the Borrower (provided that the Borrower shall be the continuing or surviving corporation) or with or into any Subsidiary Guarantor, provided that the Subsidiary Guarantor shall be the continuing or surviving corporation (which, in the case of any such merger or consolidation involving a Wholly Owned Subsidiary Guarantor shall be a Wholly Owned Subsidiary Guarantor);

(b) any Subsidiary of the Borrower any Dispose of any or all of its assets (upon voluntary liquidation or otherwise) to the Borrower or any Subsidiary Guarantor (which, in the case of a Disposition by a Wholly Owned Subsidiary Guarantor, shall be a Wholly Owned Subsidiary Guarantor);

(c) any Foreign Subsidiary may be merged or consolidated with or into another Foreign Subsidiary;

(d) any Foreign Subsidiary may Dispose of any or all of its assets (upon voluntary liquidation or otherwise) to another Foreign Subsidiary;

(e) any Person may be merged or consolidated with to into the Borrower, if the Borrower is the surviving or continuing corporation, pursuant to a Permitted Acquisition; and

(f) any Person may be merged or consolidated with or into any Subsidiary of the Borrower, pursuant to a Permitted Acquisition.

7.5 Disposition of Property. Dispose of any of its property, whether now owned or hereafter acquired, or, in the case of any Subsidiary, issue or sell any shares of such Subsidiary's Capital Stock to any Person, except:

(a) the Disposition of obsolete or worn out property, or property no longer useful in the conduct of the borrower's or its Subsidiaries' business (and not material in amount), in each case in the ordinary course of business;

(b) the sale of the inventory in the ordinary course of business;

(c) Dispositions permitted by Section 7.4;

(d) the sale or issuance of any Subsidiary's Capital Stock to the Borrower or any Wholly Owned Subsidiary Guarantor;

(e) the Disposition of any aircraft or art held by the Borrower or its Subsidiaries;

(f) the Disposition of manufacturing equipment in connection with the relocation to foreign countries of certain operations of the Borrower and its Domestic Subsidiaries, so long as the aggregate Net Cash Proceeds received in connection therewith does not exceed \$2,500,000;

(g) the Disposition of warehouse space and related real property of the Borrower and its Subsidiaries in the ordinary course of business;

(h) the Disposition or issuance of any Foreign Subsidiary's Capital Stock to any other Foreign Subsidiary;

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(i) licenses of Intellectual Property in the ordinary course of business of the Borrower or any of its Subsidiaries;

(j) the lease or sublease by the Borrower or any of its Subsidiaries of any real property in the ordinary course of business;

(k) transfers of property or assets subject to a Recovery Event to or at the direction of a governmental agency or authority or insurer, as applicable;

(l) the Disposition of accounts receivable arising in connection with the compromise or collection thereof; and

(m) the Disposition of other property having a fair market value not to exceed \$10,000,000 in the aggregate for any fiscal year of the Borrower.

7.6 Restricted Payments. Declare or pay any dividend (other than dividends payable solely in common stock of the Person making such dividend) on, or make any payment on account of, or set apart assets for a sinking or other analogous fund for, the purchase, redemption, defeasance, retirement or other acquisition of, any Capital Stock of the Borrower or any Subsidiary, whether now or hereafter outstanding, or make any other distribution in respect thereof, either directly or indirectly, whether in cash or property or in obligations of the Borrower or any Subsidiary (collectively, "Restricted Payments"), except that:

(a) any Subsidiary may make Restricted Payments to the Borrower or any Subsidiary Guarantor (which, in the case of Restricted Payments made by a Wholly Owned Subsidiary Guarantor, shall be a Wholly Owned Subsidiary Guarantor);

(b) the Borrower may repurchase its common stock so long as (i) after giving effect thereto, the Basket Amount shall not be less than zero and (ii) the aggregate amount expended in connection therewith shall not exceed \$10,000,000 in any fiscal year of the Borrower or \$25,000,000 during the term of this Agreement;

(c) the Borrower may purchase the Borrower's common stock or common stock options from present or former officers or employees of the Borrower or any Subsidiary upon the death, disability or termination of employment of such officer or employee, provided, that the aggregate amount of payments under this paragraph (c) after the date hereof shall not exceed \$5,000,000; and

(d) any Foreign Subsidiary may make Restricted Payments to any other Foreign Subsidiary.

7.7 Capital Expenditures. Make any Capital Expenditure during any fiscal year ending on or after December 31, 2000, except Capital expenditures of the Borrower and its Subsidiaries in the ordinary course of business not exceeding \$80,000,000 in the 2000 fiscal year and \$85,000,000 in any fiscal year thereafter; provided, that (i) any such amount referred to above, if not so

expended in the fiscal year for which it is permitted and if no Default or Event of Default has occurred and is continuing at the end of such fiscal year, may be carried over for expenditure in the next succeeding fiscal year and (ii) Capital Expenditures made pursuant to this Section 7.7 during any fiscal year shall be deemed made, first, in respect of amounts permitted for such fiscal year as provided above and, second, in respect of amounts carried over from the prior fiscal year pursuant to subclause (i) above.

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7.8 Investments. Make any advance, loan, extension of credit (by way of guaranty or otherwise) or capital contribution to, or purchase of any Capital Stock, bonds, notes, debentures or other debt securities of, or any assets constituting a business unit of, or make any other investment in, any Person (all of the foregoing, "Investments"), except:

(a) extensions of trade credit in the ordinary course of business;

(b) investments in Cash Equivalents;

(c) Guarantee Obligations permitted by Section 7.2;

(d) loans and advances to employees of the Borrower or any Subsidiary of the Borrower in the ordinary course of business (including for travel, entertainment and relocation expenses) in an aggregate amount for the Borrower or any Subsidiary of the Borrower not to exceed \$1,000,000 at any one time outstanding;

(e) intercompany investments by the Borrower or any of its Subsidiaries in the Borrower or any Person that, prior to such investment, is a Subsidiary Guarantor (or, in the case of any such Investment by a Wholly Owned Subsidiary Guarantor, in the Borrower or any Person that, prior to such investment, is a Wholly Owned Subsidiary Guarantor);

(f) Permitted Acquisitions so long as, after giving effect thereto, the Basket Amount shall not be less than zero;

(g) the acquisition by the Borrower of the remaining common stock of Strandel, Inc. not already owned by it for a purchase price which shall not exceed that calculated in accordance with the Unanimous Shareholders Agreement among the Borrower, Freemark Entertainment Corporation and Strandel, Inc. dated July 31, 1999, as in effect on the Closing Date, provided that (i) the Borrower shall be in compliance, on a pro forma basis after giving effect to such acquisition, with the covenants contained in Section 7.1, in each case recomputed as at the last day of the most recently ended fiscal quarter of the Borrower for which the relevant information is available as if such acquisition had occurred on the first day of each relevant period for testing such compliance (as demonstrated in a certificate of a Responsible Officer delivered to the Administrative Agent not less than three Business Days prior to such acquisition) and (ii) no Default or Event of Default shall have occurred and be continuing, or would occur after giving effect to such acquisition;

(h) Investments in equity securities regularly traded over recognized national exchanges in an aggregate amount not to exceed \$10,000,000 (net of any return of capital in respect thereof);

(i) Investments received in connection with Dispositions permitted hereunder;

(j) Investments received in connection with the bankruptcy or reorganization of suppliers and customers and in settlement of delinquent obligations of, and other disputes with, customers and suppliers arising in the ordinary course of business;

(k) Investments consisting of loans to vendors of the Borrower and its Subsidiaries not to exceed \$1,000,000 in aggregate principal amount at any one time outstanding;

(l) deposits to secure payments in the ordinary course of business;

(m) redemption of the Senior Subordinated Notes to the extent permitted under Section 7.9;

(n) repurchases by the Borrower of its common stock or options to the extent permitted under Section 7.6;

(o) intercompany Investments by a Foreign Subsidiary in any other Foreign Subsidiary;

(p) Investments in Foreign Subsidiaries or joint ventures not to exceed \$5,000,000 in any fiscal year (net of any return of capital in respect thereof);

(q) Investments permitted pursuant to Section 7.2(k); and

(r) In addition to Investments otherwise expressly permitted by this Section, Investments by the Borrower or any of its Subsidiaries in an aggregate amount (valued at cost) not to exceed \$5,000,000 during the term of this Agreement.

7.9 Payments and Modifications of Certain Debt Instruments. (a) Make or offer to make any payment, prepayment, repurchase or redemption of or otherwise defease or segregate funds with respect to the principal amount of the Senior Subordinated Notes, other than (i) redemption of the Senior Subordinated Notes so long as, after giving effect thereto, the Basket Amount shall not be less than zero and (ii) in addition, redemption's of \$18,000,000 aggregate principal amount of the Senior Subordinated Notes, provided that, in each case, no Default or Event of Default shall have occurred and be continuing or would occur after giving effect thereto, (b) amend, modify, waive or otherwise change, or consent or agree to any amendment, modification, waiver or other change to, any of the terms of the Senior Subordinated Notes (other than any such amendment, modification, waiver or other change that (i) would not be materially adverse to the interests of the Lenders and (ii) does not involve the payment of a consent fee), or (c) designate any Indebtedness (other than obligations of the Loan Parties pursuant to the Loan Documents) as "Designated Senior Indebtedness" (or any comparable concept) for the purposes of the Senior Subordinated Note Indenture.

7.10 Transactions with Affiliates. Enter into any transaction, including any purchase, sale, lease or exchange of property, the rendering of any service or the payment of any management, advisory or similar fees, with any Affiliate (other than transactions with the Borrower or any Subsidiary transactions described in the notes to the Borrower's financial statements for the period ended December 31, 1998 and continuations, renewals or extensions thereof, and payment of compensation, fees, expenses and indemnities to directors and officers of the Borrower and its Subsidiaries) unless such transaction is (a) otherwise permitted under this Agreement, (b) in the ordinary course of business of the Borrower or such Subsidiary as the case may be, and (c) upon fair and reasonable terms no less favorable to the Borrower or such Subsidiary, as the case may be, than it would obtain in a comparable arm's length transaction with a Person that is not an Affiliate.

7.11 Sales and Leasebacks. Enter into any arrangement with any Person providing for the leasing by the Borrower or any Subsidiary of real or personal property that has been or is to be sold or transferred by the Borrower or such Subsidiary to such Person or to any other Person to whom funds have been or are to be advanced by such Person on the security of such property or rental

obligations of the Borrower or such Subsidiary unless, after giving effect thereto, the aggregate outstanding amount of Attributable Debt (other than Attributable Debt secured by Liens permitted under Section 7.3(g)), when added to the aggregate amount utilized pursuant to Section 7.3(q), does not exceed \$10,000,000.

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7.12 Changes in Fiscal Periods. Permit the fiscal year of the Borrower to end on a day other than December 31 or change the Borrower's method of determining fiscal quarters, provided that the Borrower may change its fiscal year to end on or about the last day of January and the Borrower may change its method of determining fiscal quarters consistent with methods customarily used in the retail apparel business.

7.13 Negative Pledge Clauses. Enter into or suffer to exist or become effective any agreement that prohibits or limits the ability of the Borrower or any of the Subsidiary Guarantors to create, incur, assume or suffer to exist any Lien upon any of its property or revenues, whether now owned or hereafter acquired, other than (a) this Agreement, the other Loan Documents and the Senior Subordinated Note Indenture, (b) any agreements governing any purchase money Liens or Capital Lease Obligations (or refinancings thereof) otherwise permitted hereby (in which case, any prohibition or limitation, shall only be effective against the assets financed thereby) and (c) Hedge Agreements with any Lender or any Affiliate of any Lender (so long as the relevant restrictions are not materially more restrictive than the comparable restrictions contained in the Loan Documents).

7.14 Clauses Restricting Subsidiary Distributions. Enter into or suffer to exist or become effective any consensual encumbrances or restriction on the ability of any subsidiary of the Borrower to (a) make Restricted Payments in respect of any Capital Stock of such Subsidiary held by, or pay any Indebtedness owed to, the Borrower or any other Subsidiary of the Borrower, (b) make loans or advances to, or other Investments in, the Borrower or any other Subsidiary of the Borrower or (c) transfer any of its assets to the Borrower or any other Subsidiary of the Borrower, except for such encumbrances or restrictions existing under or by reason of (i) any restrictions existing under the Loan Documents and the Senior Subordinated Note Indenture, (ii) any restrictions with respect to a Subsidiary imposed pursuant to an agreement that has been entered into in connection with the Disposition of all or substantially all of the Capital Stock or assets of such Subsidiary, (iii) customary restrictions regarding assignments of leases and licenses, (iv) provisions in Indebtedness of Foreign Subsidiaries permitted hereunder (so long as such provisions are applicable only to the relevant Foreign Subsidiaries) and (v) any restrictions contained in Hedge Agreements with any Lender or any Affiliate of any Lender that are not materially more restrictive than the comparable restrictions contained in the Loan Documents.

7.15 Lines of Business. Enter into any business, either directly or through any Subsidiary, except for the Apparel Businesses.

SECTION 8. EVENTS OF DEFAULT

If any of the following events shall occur and be continuing:

(a) the Borrower shall fail to pay any principal of any Loan or Reimbursement Obligation when due in accordance with the terms hereof; or the Borrower shall fail to pay any interest on any Loan or Reimbursement Obligation, or any other amount payable hereunder or under any other Loan Document, within five days after any such interest or other amount becomes due in accordance with the terms hereof; or

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(b) any representation or warranty made or deemed made by any Loan Party herein or in any other Loan Document or that is contained in any certificate, document or financial or other statement furnished by it at any time under or in connection with this Agreement or any such other Loan Document shall prove to have been inaccurate in any material respect on or as of the date made or deemed made; or

(c) any Loan Party shall default in the observance or performance of any agreement contained in clause (i) or (ii) of Section 6.4(a) (with respect to the Borrower only), Section 6.7(a) or Section 7 of this Agreement or Section 5.5 of the Guarantee and Collateral Agreement; or

(d) any Loan Party shall default in the observance or performance of any other agreement contained in this Agreement or any other Loan Document (other than as provided in paragraphs (a) through (c) of this Section), and such default shall continue unremedied for a period of 30 days after notice to the Borrower from the Administrative Agent or the Required Lenders; or

(e) the Borrower or any of its Subsidiaries shall (i) default in making any payment of any principal of any Indebtedness (including any Guarantee Obligation, but excluding the Loans) on the scheduled or original due date with respect thereto, or (ii) default in making any payment of any interest on any such Indebtedness beyond the period of grace, if any, provided in the instrument or agreement under which such Indebtedness was created, or (iii) default in the observance or performance of any other agreement or condition relating to any such Indebtedness or contained in any instrument or agreement evidencing, securing or relating thereto, or any other event shall occur or condition exist, the effect of which default or other event or condition (in the case of this clause (iii) only) is to cause such Indebtedness to become due prior to its stated maturity or (in the case of any such Indebtedness constituting a Guarantee Obligation) to become payable; provided, that a default, event or condition described in clause (i), (ii), or (iii) of this paragraph (e) shall not at any time constitute an Event of Default unless, at such time, one or more defaults, events or conditions of the type described in clauses (i), (ii) and (iii) of this paragraph (e) shall have occurred and be continuing with respect to Indebtedness the outstanding principal amount of which exceeds in the aggregate \$2,500,000; or

(f) (i) the Borrower or any of its Material Subsidiaries shall commence any case, proceeding or other action (A) under any existing or future law of any jurisdiction, domestic or foreign, relating to bankruptcy, insolvency, reorganization or relief of debtors, seeking to have an order for relief entered with respect to it, or seeking to adjudicate it a bankrupt or insolvent, or seeking reorganization, arrangement, adjustment, winding-up, liquidation, dissolution, composition or other relief with respect to it or its debts, or (B) seeking appointment of a receiver, trustee, custodian, conservator or other similar official for it or for all or any substantial part of its assets, or the Borrower or any of its Material Subsidiaries shall make a general assignment for the benefit of its creditors; or (ii) there shall be commenced against the Borrower or any of its Material Subsidiaries any case, proceeding or other action of a nature referred to in clause (i) above that (A) results in the entry of an order for relief or any such adjudication or appointment or (B) remains undismissed, undischarged or unbonded for a period of 60 days; or (iii) there shall be commenced against the Borrower or any of its Material Subsidiaries any case, proceeding or other action seeking issuance of a warrant of attachment, execution, distraint or similar process against all or any substantial part of its assets that results in the entry of an order for any such relief that shall not have been vacated, discharged or stayed or bonded pending appeal within 60 days from the entry thereof, or (iv) the Borrower or any of its Material Subsidiaries shall take any action in furtherance of, or indicating its consent to, approval of, or acquiescence in, any of the acts set forth in clause (i), (ii), or (iii) above; or (v) the Borrower or any of its Material Subsidiaries shall generally not, or shall be unable to, or shall admit in writing its inability to, pay its debts as they become due; or

(g) (i) any Person shall engage in any "prohibited transaction" (as defined in Section 406 of ERISA or Section 4975 of the Code) involving any Plan, (ii) any "accumulated funding deficiency" (as defined in Section 302 of ERISA), whether or not waived, shall exist with respect to any Plan or any Lien in favor of the PBGC or a Plan shall arise on the assets of the Borrower or any Commonly Controlled Entity, (iii) a Reportable Event shall occur with respect to, or proceedings shall commence to have a trustee appointed, or a trustee shall be appointed, to administer or to terminate, any Single Employer Plan, which Reportable Event or commencement of proceedings or appointment of a trustee is, in the reasonable opinion of the Required Lenders, likely to result in the termination of such Plan for purposes of Title IV of ERISA, (iv) any Single Employer Plan shall terminate for purposes of Title IV of ERISA, (v) the Borrower or any Commonly Controlled Entity shall, or in the reasonable opinion of the Required Lenders is likely to, incur any liability in connection with a withdrawal from, or the Insolvency or Reorganization of, a Multiemployer Plan or (vi) any other event or condition shall occur or exist with respect to a Plan; and in each case in clauses (i) through (vi) above, such event or condition, together with all other such events or conditions, if any, could reasonably be expected to have a Material Adverse Effect; or

(h) one or more judgements or decrees shall be entered against the Borrower or any of its Subsidiaries involving in the aggregate a liability (not paid or fully covered by insurance as to which the relevant insurance company has acknowledged coverage) of \$2,500,000 or more, and all such judgments or decrees shall not have been vacated, discharged, stayed or bonded pending appeal within 60 days from the entry thereof, or

(i) the occurrence of one or more of the events or circumstances described in Section 4.12 that, in the aggregate, could reasonably be expected to have a Material Adverse Effect; or

(j) the occurrence of one or more of the events or circumstances described in Section 4.17 that, in the aggregate, could reasonably be expected to have a Material Adverse Effect; or

(k) any of the Security Documents shall cease, for any reason, to be in full force and effect, or any Loan Party or any Affiliate of any Loan Party shall so assert, or any Lien created by any of the Security Documents shall cease to be enforceable and of the same effect and priority purported to be created thereby (other than in connection with a transaction expressly permitted hereunder); or

(l) the guarantee contained in Section 2 of the Guarantee and Collateral Agreement shall cease, for any reason, to be in full force and effect or any Loan Party or any Affiliate of any Loan Party shall so assert; or

(m) (i) any "person" or "group" (as such terms are used in Section 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")), excluding the Permitted Investor, shall become, or obtain rights (whether by means or warrants, options or otherwise) to become the "beneficial owner" (as defined in Rules 13(d)-3 and 13(d)-5 under the Exchange Act), directly or indirectly, of more than 35% of the outstanding common stock of the Borrower; (ii) the board of directors of the Borrower shall cease to consist of a majority of Continuing Directors, or (iii) a Specified Change of Control shall occur; or

(n) the Senior Subordinated Notes shall cease, for any reason, to be validly subordinated to the Obligations, as provided in the Senior Subordinated Note Indenture, or any Loan Party or any Affiliate of any Loan Party shall so

assert;

then, and in any such event, (A) if such event is an Event of Default specified in clause (i) or (ii) of paragraph (f) above with respect to the Borrower, automatically the Revolving Credit Commitments shall immediately terminate and the Loans hereunder (with accrued interest thereon) and all other amounts owing under this Agreement and the other Loan Documents (including all amounts of L/C Obligations, whether or not the beneficiaries of the then outstanding Letters of Credit shall have presented the documents required thereunder) shall immediately become due and payable, and (B) if such event is any other Event of Default, either or both of the following actions may be taken: (i) with the consent of the Required Lenders, the Administrative Agent may, or upon the request of the Required Lenders, the Administrative Agent shall, by notice to the Borrower declare the Revolving Credit Commitments to be terminated forthwith, whereupon the Revolving Credit Commitments shall immediately terminate; and (ii) with the consent of the Required Lenders, the Administrative Agent may, or upon the request of the Required Lenders, the Administrative Agent shall, by notice to the Borrower, declare the Loans hereunder (with accrued interest thereon) and all other amounts owing under this Agreement and the other Loan Documents (including all amounts of L/C Obligations, whether or not the beneficiaries of the then outstanding Letters of Credit shall have presented the documents required thereunder) to be due and payable forthwith, whereupon the same shall immediately become due and payable. With respect to all Letters of Credit with respect to which presentment for honor shall not have occurred at the time of an acceleration pursuant to this paragraph the Borrower shall at such time deposit in a cash collateral account opened by the Administrative Agent an amount equal to the aggregate then undrawn and unexpired amount of such Letters of Credit. Amounts held in such cash collateral account shall be applied by the Administrative Agent to the payment of drafts drawn under such Letters of Credit, and the unused portion thereof after all such Letters of Credit shall have expired or been fully drawn upon, if any, shall be applied to repay other obligations of the Borrower hereunder and under the other Loan Documents. After all such Letters of Credit shall have expired or been fully drawn upon, all Reimbursement Obligations shall have been satisfied and all other obligations of the Borrower hereunder and under the other Loan Documents shall have been paid in full, the balance, if any, in such cash collateral account shall be returned to the Borrower (or such other Person as may be lawfully entitled thereto). Except as expressly provided above in this Section, presentment, demand, protest and all other notices of any kind are hereby expressly waived by the Borrower.

SECTION 9. THE AGENTS

9.1 Appointment. Each Lender hereby irrevocably designates and appoints the Administrative Agent as the agent of such Lender under this Agreement and the other Loan Documents, and each such Lender irrevocably authorizes the Administrative Agent, in such capacity, to take such action on its behalf under the provisions of this Agreement and other Loan Documents and to exercise such powers and perform such duties as are expressly delegated to the Administrative Agent by the terms of this Agreement and the other Loan Documents, together with such other powers as are reasonably incidental thereto. Notwithstanding any provision to the contrary elsewhere in this Agreement, the Administrative Agent shall not have any duties or responsibilities, except those expressly set forth herein, or any fiduciary relationship with any Lender, and no implied covenants, functions, responsibilities, duties, obligations or liabilities shall be read into this Agreement or any other Loan Document or otherwise exist against the Administrative Agent.

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9.2 Delegation of Duties. The Administrative Agent may execute any of the duties under this Agreement and the other Loan Documents by or through agents or attorneys-in-fact and shall be entitled to advice of counsel concerning all matters pertaining to such duties. The Administrative Agent shall not be responsible for the negligence or misconduct of any agents or attorneys-in-fact selected by it with reasonable care.

9.3 Exculpatory Provisions. Neither any Agent nor any of their respective officers, directors, employees, agents, attorneys-in-fact or affiliates shall be (i) liable for any action lawfully taken or omitted to be taken by it or such Person under or in connection with this Agreement or any other Loan Document (except to the extent that any of the foregoing are found by a final and nonappealable decision of a court of competent jurisdiction to have resulted from its or such Person's own gross negligence or willful misconduct) or (ii) responsible in any manner to any of the Lenders for any recitals, statements, representations or warranties made by the Loan Party or any officer thereof contained in this Agreement or any other Loan Document or in any certificate, report, statement or other document referred to or provided for in, or received by the Agents under or in connection with, this Agreement or any other Loan Document or for the value, validity, effectiveness, genuineness, enforceability or sufficiency of this Agreement or any other Loan Document or for any failure of any Loan Party a party thereto to perform its obligations hereunder or thereunder. The Agents shall not be under any obligation to any Lender to ascertain or to inquire as to the observance or performance of any of the agreements contained in, or conditions of, this Agreement or any other Loan Document, or to inspect the properties, books or records of any Loan Party.

9.4 Reliance by Administrative Agent. The Administrative Agent shall be entitled to rely, and shall be fully protected in relying, upon any instrument, writing, resolution, notice, consent, certificate, affidavit, letter, telecopy, telex or teletype message, statement, order or other document or conversation believed by it to be genuine and correct and to have been signed, sent or made by the proper Person or Persons and upon advice and statements of legal counsel (including counsel to the Borrower), independent accountants and other experts selected by the Administrative Agent. The Administrative Agent may deem and treat the payee of any note evidencing Loans as the owner thereof for all purposes unless a written notice of assignment, negotiation or transfer thereof shall have been filed with the Administrative Agent. The Administrative Agent shall be fully justified in failing or refusing to take any action under this Agreement or any other Loan Document unless it shall first receive such advice or concurrence of the Required Lenders (or, if so specified by this Agreement, all Lenders) as it deems appropriate or it shall first be indemnified to its satisfaction by the Lenders against any and all liability and expense that may be incurred by it by reason of taking or continuing to take any such action. The Administrative Agent shall in all cases be fully protected in acting, or in refraining from acting, under this Agreement and the other Loan Documents in accordance with a request of the Required Lenders (or, if so specified by this Agreement, all Lenders), and such request and any action taken or failure to act pursuant thereto shall be binding upon all the Lenders and all future holders of the Loans.

9.5 Notice of Default. The Administrative Agent shall not be deemed to have knowledge or notice of the occurrence of any Default or Event of Default hereunder unless the Administrative Agent has received notice from a Lender or the Borrower referring to this Agreement, describing such Default or Event of Default and stating that such notice is a "notice of default". In the event of that the Administrative Agent receives such a notice, the Administrative Agent shall give notice thereof to the Lenders. The Administrative Agent shall take such action with respect to such Default or Event of Default as shall be reasonably directed by the Required Lenders (or, of so specified by this Agreement, all Lenders); provided that unless and until the Administrative Agent shall have received such directions, the Administrative Agent may (but shall not be obligated to) take such action, or refrain from taking such action, with respect to such Default or Event of Default as it shall deem advisable in the best interests of the Lenders.

9.6 Non-Reliance on Agents and Other Lenders. Each Lender expressly acknowledges that neither the Agents nor any of their respective officers, directors, employees, agents, attorneys-in-fact or affiliates have made any

representations or warranties to it and that no act by any Agent hereinafter taken, including any review of the affairs of a Loan Party or any affiliate of a Loan Party, shall be deemed to constitute any representation or warranty by any Agent to any Lender. Each Lender represents to the Agents that it has, independently and without reliance upon any Agent or any other Lender, and based on such documents and information as it has deemed appropriate, made its own appraisal of and investigation into the business, operations, property, financial and other condition and creditworthiness of the Loan Parties and their affiliates and made its own decision to make its Loans hereunder enter into this Agreement. Each Lender also represents that it will, independently and without reliance upon any Agent or any other Lender, and based on such documents and information as it has deemed appropriate, made its own appraisal of and investigation into the business, operations, property, financial and other condition and creditworthiness of the Loan Parties and their affiliates and made its own decision to make its Loans hereunder and enter into this Agreement. Each Lender also represents that it will, independently and without reliance upon any Agent or any other Lender, and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit analysis, appraisals and decisions in taking or not taking action under this Agreement and the other Loan Documents, and to make such investigation as it deems necessary to inform itself as to the business, operations, property, financial and other condition and creditworthiness of the Loan Parties and their affiliates. Except for notices, reports and other documents expressly required to be furnished to the Lenders by the Administrative Agent hereunder, the Administrative Agent shall not have any duty or responsibility to provide any Lender with any credit or other information concerning the business, operations, property, condition (financial or otherwise), prospects or creditworthiness of any Loan Party or any affiliate of a Loan Party that may come into the possession of the Administrative Agent or any of its officers, directors, employees, agents, attorneys-in-fact or affiliates.

9.7 Indemnification. The Lenders agree to indemnify each Agent in its capacity as such (to the extent not reimbursed by the Borrower and without limiting the obligation of the Borrower to do so), ratably according to their respective Aggregate Exposure Percentages in effect on the date on which indemnification is sought under this Section (or, if indemnification is sought after the date upon which the Revolving Credit Commitments shall have terminated and the Loans shall have been paid in full, ratably in accordance with such Aggregate Exposure Percentages immediately prior to such date), from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind whatsoever that may at any time (whether before or after the payment of the Loans) be imposed on, incurred by or asserted against such Agent in any way relating to or arising out of the Revolving Credit Commitments, this Agreement, any of the other Loan Documents or any documents contemplated by or referred to herein or therein or the transactions contemplated hereby or thereby or any action taken or omitted by such Agent under or in connection with any of the foregoing; provided that no Lender shall be liable for the payment of any portion of such liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements that are found by a final and nonappealable decision of a court of competent jurisdiction to have resulted from such Agent's gross negligence or willful misconduct. The agreements in this Section shall survive the payment of the Loans and all other amounts payable hereunder.

9.8 Agent in Its Individual Capacity. Each Agent and its affiliates may make loans to accept deposits from and generally engage in any kind of business with any Loan Party as though such Agent was not an Agent. With respect to its Loans made or renewed by it and with respect to any Letter of Credit issued or participated in by it, each Agent shall have the same rights and powers under this Agreement and the other Loan Documents as any Lender and may exercise the same as though it were not an Agent, and the terms "Lender" and "Lenders" shall include each Agent in its individual capacity.

9.9 Successor Administrative Agent. The Administrative Agent may resign as Administrative Agent upon 30 days' notice to the Lenders and the Borrower. If the Administrative Agent shall resign as Administrative Agent under this Agreement and the other Loan Documents, then the Required Lenders shall appoint from among the Lenders a successor agent for the Lenders, which successor agent shall (unless an Event of Default under Section 8(a) or Section 8(f) with respect to the Borrower shall have occurred and be continuing) the subject to approval by the Borrower (which approval shall not be unreasonably withheld or delayed), whereupon such successor agent shall succeed to the rights, powers and duties of the Administrative Agent, and the term "Administrative Agent" shall mean such successor agent effective upon such appointment and approval, and the former Administrative Agent's rights, powers and duties as Administrative Agent shall be terminated, without any or further act or deed on the part of such former Administrative Agent or any of the parties to this Agreement or any holders of the Loans. If no successor agent has accepted appointment as Administrative Agent by the date that is 30 days following a retiring Administrative Agent's notice of resignation, the retiring Administrative Agent's resignation shall nevertheless thereupon become effective and the Lenders shall assume and perform all of the duties of the Administrative Agent hereunder until such time, if any, as the Required Lenders appoint a successor agent as provided for above. After any retiring Administrative Agent's resignation as Administrative Agent, the provisions of this Section 9 shall inure to its benefit as to any actions taken or omitted to be taken by it while it was Administrative Agent under this Agreement and the other Loan Documents.

9.10 Co-Agent. The Co-Agent shall not have any duties or responsibilities hereunder in its capacity as such.

SECTION 10. MISCELLANEOUS

10.1 Amendments and Waivers. Neither this Agreement, any other Loan Documents, nor any terms hereof or thereof may be amended, supplemented or modified except in accordance with the provisions of this Section 10.1. The Required Lenders and each Loan Party party to the relevant Loan Document may, or, with the written consent of the Required Lenders, the Administrative Agent and each Loan Party party to the relevant Loan Document may, from time to time, (a) enter into written amendments, supplements or modifications hereto and to the other Loan Documents for the purpose of adding any provisions to this Agreement or the other Loan Documents or changing in any manner the rights of the Lenders or of the Loan Parties hereunder or thereunder or (b) waive, on such terms and conditions as the Required Lenders or the Administrative Agent, as the case may be, may specify in such instrument, any of the requirements of this Agreement or the other Loan Documents or any Default or Event of Default and its consequences; provided, however, that no such waiver and no such amendment, supplement or modification shall (i) forgive the principal amount or extend the final scheduled date of maturity of any Loan, reduce the stated rate of any interest or fee payable hereunder or extend the scheduled date of any payment thereof, or increase the amount or extend the expiration date of any Lender's Revolving Credit Commitment, in each case without the written consent of each Lender directly affected thereby; (ii) eliminate or reduce the voting rights of any Lender under this Section 10.1 with respect to any matter covered by this section 10.1 without the written consent of such Lender, (iii) reduce any percentage specified in the definition of Required Lenders, consent to the assignment or transfer by the Borrower of any of its rights and obligations under this Agreement and the other Loan Documents, release all or substantially all of the Collateral or release all or substantially all of the Subsidiary Guarantors from their obligations under the Guarantee and Collateral Agreement, in each case without the written consent of all Lenders; (v) amend, modify or waive any provision of Section 9 without the written consent of the Administrative Agent; (v) amend, modify or waive any provision of Section 2.3 or 2.4 without the written consent of the Swingline Lender; or (v) amend, modify or waive any provision of Section 3 without the written consent of the Issuing Lender. Any such waiver and any such amendment, supplement or modification shall apply equally to each of the Lenders and shall be binding upon the Loan Parties, the Lenders, the Administrative Agent and all future holders of the Loans. In the case of any waiver, the Loan Parties, the Lenders and the Administrative Agent shall be restored to their former position and rights hereunder and under the other Loan Documents, and any Default or Event of Default waived shall be

deemed to be cured and not continuing; but no such waiver shall extend to any subsequent or other Default or Event of Default, or impair any right consequent thereon.

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For the avoidance of doubt, this Agreement may be amended (or amended and restated) with the written consent of the Required Lenders, the Administrative Agent and the Borrower (a) to add one or more additional credit facilities to this Agreement (it being understood that a Lender shall not be required to provide any such additional credit facilities without such Lender's consent) and to permit the extensions of credit from time to time outstanding thereunder and the accrued interest and fees in respect thereof to share ratably in the benefits of this Agreement and the other Loan Documents with the Revolving Extensions of Credit and the accrued interest and fees in respect thereof and (b) to include appropriately the Lenders holding such credit facilities in any determination of the Required Lenders.

10.2 Notices. All notices, requests and demands to or upon the respective parties thereto to be effective shall be in writing (including by telecopy), and, unless otherwise expressly provided herein shall be deemed to have been duly given or made when delivered or three Business Days after being deposited in the mail, postage prepaid, or, in the case of telecopy notice, when received, addressed as follows in the case of the Borrower and the Administrative Agent, and as set forth in an administrative questionnaire delivered to the Administrative Agent in the case of the Lenders, or to such other address as may be hereafter notified by the respective parties hereto:

The Borrower: Guess?, Inc.
 1444 South Alameda Street
 Los Angeles, California 90021
 Attention: Maurice Marciano, Chairman
 or Brian Fleming, Chief
 Financial Officer
 Telecopy: 213-744-7817
 Telephone: 213-765-3100

The Administrative Agent: The Chase Manhattan Bank
 c/o The Loan and Agency Services Group
 One Chase Manhattan Plaza, 8th Floor
 New York, New York 10081
 Attention: Jesus Sang
 Telecopy: 212-552-5650
 Telephone: 212-552-7916

with a copy to: The Chase Manhattan Bank
 270 Park Avenue
 New York, New York 10018
 Attention: Paul Phalen
 Telecopy: 212-827-4497
 Telephone: 212-827-4421

provided that any notice, request or demand to the or upon the Administrative Agent or the Lenders shall not be effective until received.

10.3 No Waiver; Cumulative Remedies. No failure to exercise and no delay in exercising, on the part of the Administrative Agent or any Lender, any right, remedy, power or privilege hereunder or under the other Loan Documents shall operate as a waiver thereof; nor shall any single or partial exercise of any right, remedy, power or privilege hereunder preclude any other or further exercise thereof or the exercise of any other right, remedy, power or privilege. The rights, remedies, powers and privileges herein provided are cumulative and not exclusive of any rights, remedies, powers and privileges provided by law.

10.4 Survival of Representations and Warranties. All representations

and warranties made hereunder, in the other Loan Documents and in any document, certificate or statement delivered pursuant hereto or in connection herewith shall survive the execution and delivery of this Agreement and the making of the Loans and other extensions of credit hereunder.

10.5 Payment of Expenses and Taxes. The Borrower agrees (a) to pay or reimburse the Administrative Agent for all its reasonable out-of-pocket costs and expenses incurred in connection with the development, preparation and execution of, and any amendment, supplement or modification to, this Agreement and the other Loan Documents and any other documents prepared in connection herewith or therewith, and the consummation and administration of the transactions contemplated hereby and thereby, including the reasonable fees and disbursements of counsel to the Administrative Agent and filing and recording fees and expenses, with statements with respect to the foregoing to be submitted to the Borrower prior to the Closing Date (in the case of amounts to be paid on the Closing Date) and from time to time thereafter on a quarterly basis or such other periodic basis as the Administrative Agent shall deem appropriate, (b) to pay or reimburse each Lender and the Administrative Agent for all its costs and expenses incurred in connection with the enforcement or preservation of any rights under this Agreement, the other Loan Documents and any such other documents, including the reasonable fees and disbursements of counsel to the Administrative Agent (including any local or special counsel) and not more than one additional form of counsel to the Lenders, (c) to pay, indemnify, and hold each Lender and the Administrative Agent harmless from, any and all recording and filing fees and any and all liabilities with respect to, or resulting from any delay in payment, stamp, excise and other taxes, if any, that may be payable or determined to be payable in connection with the execution and delivery of, or consummation or administration or any of the transactions contemplated by, or any amendment, supplement or modification of, or any waiver or consent under or in respect of, this Agreement, the other Loan Documents and any of, or any waiver or consent under, or in respect of, this Agreement, the other Loan Documents and any such other documents, and (d) to pay, indemnify, and hold each Lender and the Administrative Agent and their respective officers, directors, employees, affiliates, agents and controlling persons (each an "Indemnitee") harmless from and against any and all other liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind or nature whatsoever with respect to the execution, delivery, enforcement, performance and administration of this Agreement, the other Loan Documents and any such other documents, including any of the foregoing relating to the use of proceeds of the Loans or the violation of, noncompliance with or liability under, any Environmental Law applicable to the operations of the Borrower any of its subsidiaries or any of the Properties and the reasonable fees and expenses of legal counsel in connection with claims, actions or proceedings by any indemnitee against any Loan Party under any Loan Document (all the foregoing in the clause (d), collectively, the "Indemnified Liabilities"), provided, that the Borrower shall have no obligation hereunder to any Indemnitee with respect to Indemnified Liabilities to the extent such Indemnified Liabilities are found by a final and nonappealable decision of a court of competent jurisdiction to have resulted from the gross negligence or willful misconduct of such Indemnitee or breach of any Loan Document by an Indemnitee. Without limiting the foregoing, and to the extent permitted by applicable law, the Borrower agrees not to assert and to cause its Subsidiaries not to assert, and hereby waives and agrees to cause its Subsidiaries to so waive, all rights for contribution or any other rights of recovery with respect to all claims, demands, penalties, fines, liabilities, settlements, damages, costs and expenses of whatever kind or nature, under or related to Environmental Laws, that any of them might have by statute or otherwise against any Indemnitee. All amounts due under this Section 10.5 shall be payable not later than 10 days after written demand therefor, accompanied by appropriate invoices and supporting documentation. Statements payable by the Borrower pursuant to this Section 10.5 shall be submitted to Brian Fleming (Telephone No. 213-765-3100) (Telecopy No. 213-744-7817), at the address of the Borrower set forth in Section 10.2, or to such other Person or address as may be hereafter designated by the Borrower in a written notice to the Administrative Agent. The agreement in this Section 10.5 shall survive repayment of the Loans and all other amounts payable hereunder.

10.6 Successors and Assigns; Participations and Assignments. (a) This Agreement shall be binding upon and inure to the benefit of the Borrower, the Lenders, the Administrative Agent, all future holders of the Loans and their respective successors and assigns, except that the Borrower may not assign or transfer any of its rights or obligations under this Agreement without the prior written consent of each Lender.

(b) Any Lender may, without the consent of the Borrower, in accordance with applicable law, at any time sell to one or more banks, financial institutions or other entities (each, a "Participant") participating interests in any Loan owing to such Lender, any Revolving Credit Commitment of such Lender or any other interest of such Lender hereunder and under the other Loan Documents. In the event of any such sale by a Lender of a participating interest to a Participant, such Lenders' obligations under this Agreement to the other parties to this Agreement shall remain unchanged, such Lender shall remain solely responsible for the performance thereof, such Lender shall remain the holder of any such Loan for all purposes under this Agreement and the other Loan Documents, and the Borrower and the Administrative Agent shall continue to deal solely and directly with such Lender in connection with such Lender's rights and obligations under this Agreement and the other Loan Documents. In no event shall any Participant under any such participation have any right to approve any amendment or waiver of any provision of any Loan Document, or any consent to any departure by any Loan Party therefrom, except to the extent that such amendment, waiver or consent would reduce the principal of, or interest on, the Loans or any fees payable hereunder, or postpone the date of the final maturity of the Loans, in each case to the extent subject to such participation. The Borrower agrees that if amounts outstanding under this Agreement and the Loans are due or unpaid, or shall have been declared or shall have become due and payable upon the occurrence of an Event of Default, each Participant shall, to the maximum extent permitted by applicable law, be deemed to have the right of setoff in respect of its participating interest in amounts owing under this Agreement to the same extent as if the amount of its participating interest were owing directly to it as a Lender under this Agreement, provided that, in purchasing such participating interest, such Participant shall be deemed to have agreed to share with the Lenders the proceeds thereof as provided in Section 10.7(a) as fully as if it were a Lender hereunder. The Borrower also agrees that each Participant shall be entitled to the benefits of Sections 2.15, 2.16 and 2.17 with respect to its participation in the Revolving Credit Commitments and the Loans outstanding from time to time as if it was a Lender; provided that, in the case of Section 2.16, such Participant shall have complied with the requirements of said Section and provided, further, that no Participant shall be entitled to receive any greater amount pursuant to any such Section than the transferor Lender would have been entitled to receive in respect of the amount of the participation transferred by such transferor Lender to such Participant had no such transfer occurred.

(c) Any Lender (an "Assignor") may, in accordance with applicable law, at any time and from time to time assign to any Lender, any affiliate of any Lender or, with the consent of the Borrower and the Administrative Agent (which, in each case, shall not be unreasonably withheld or delayed), to an additional bank, financial institution or other entity (an "Assignee") all or any part of its rights and obligations under this Agreement pursuant to an Assignment and Acceptance, executed by such Assignee, such Assignor and any other Person whose consent is required pursuant to this paragraph and delivered to the Administrative Agent for its acceptance and recording in the Register, provided that no such assignment to an Assignee (other than any Lender, any affiliate of any Lender) shall be in an aggregate principal amount of less than \$10,000,000 (other than in the case of an assignment of all of a Lender's interests under this Agreement), unless otherwise agreed by the Borrower and the Administrative Agent. Upon such execution, delivery, acceptance and recording, from and after

the effective date determined pursuant to such Assignment and Acceptance, (x) the Assignee thereunder shall be party hereto and, to the extent provided in such Assignment and Acceptance, have the rights and obligations of a Lender hereunder with a Revolving Credit Commitment and/or Loans as set forth therein, and (y) the Assignor thereunder shall, to the extent provided in such Assignment and Acceptance, be released from its obligations under this Agreement (and, in the case of an Assignment and Acceptance covering all of an Assignor's rights and obligations under this Agreement, such Assignor shall cease to be a party hereto). Notwithstanding any provision of this Section 10.6, the consent of the Borrower shall not be required for any assignment that occurs when an Event of Default pursuant to Section 8(f) shall have occurred and be continuing with respect to the Borrower.

(d) The Administrative Agent shall, on behalf of the Borrower, maintain at its address referred to in Section 10.2 a copy of each Assignment and Acceptance delivered to it and a register (the "Register") for the recordation of the names and addresses of the Lenders and the revolving Credit Commitment of, and the principal amount of the Loans owing to, each Lender from time to time. The entries in the Register shall be conclusive, in the absence of manifest error, and the Borrower, each other Loan Party, the Administrative Agent and the Lenders shall treat each Person whose name is recorded in the Register as the owner of the Loans and any notes evidencing the Loans recorded therein for all purposes of this Agreement. Any assignment of any Loan, whether or not evidenced by a note, shall be effective only upon appropriate entries with respect thereto being made in the Register (and each such note shall expressly so provide). Any assignment or transfer of all or part of a Loan evidenced by a note shall be registered on the Register only upon surrender for registration of assignment or transfer of the note evidencing such Loan, accompanied by a duly executed Assignment and Acceptance, and thereupon the old notes will be returned to the Borrower marked "canceled" and one or more new notes shall be issued to the designated Assignee.

(e) Upon its receipt of an Assignment and Acceptance executed by an Assignor, an Assignee and any other Person whose consent is required by Section 10.6(c), together with payment to the Administrative Agent of a registration and processing fee of \$4,000, the Administrative Agent shall (i) promptly accept such Assignment and Acceptance and (ii) record the information contained therein in the Register on the effective date determined pursuant thereto.

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(f) For avoidance of doubt, the parties to this Agreement acknowledge that the provisions of this Section 10.6 concerning assignments relate only to absolute assignments and that such provisions do not prohibit assignments creating security interests, including any pledge or assignments to any Federal Reserve Bank in accordance with applicable law.

(g) The Borrower, upon receipt of written notice from the relevant Lender, agrees to issue a note to any Lender requiring a note to facilitate transactions of the type described in paragraph (f) above.

10.7 Adjustments; Set-off. (a) Except to the extent that the Agreement expressly provides for payments to be allocated to a particular Lender, if any Lender (a "Benefitted Lender") shall receive any payment of all or part of the Obligations owing to it, or receive any collateral in respect thereof (whether voluntarily or involuntarily, by set-off, pursuant to events or proceedings of the nature referred to in Section 8(f), or otherwise), in a greater proportion than any such payment to or collateral received by any other Lender, if any, in respect of the Obligations owing to such other Lender, such Benefitted Lender shall purchase for cash from the other Lenders a participating interest in such portion of the Obligations owing to each such other Lender, or shall provide such other Lenders with the benefits of any such collateral, as shall be necessary to cause such Benefitted Lender to share the excess payment or benefits of such collateral ratably with each of the Lenders; provided, however, that if all or any portion of such excess payment or benefits is thereafter recovered from such Benefitted Lender, such purchase shall be rescinded, and the

purchase price and benefits returned, to the extent of such recovery, but without interest.

(b) In addition to any rights and remedies of the Lenders provided by law, each Lender shall have the right, without prior notice to the Borrower, any such notice being expressly waived by the Borrower to the extent permitted by applicable law, upon any amount becoming due and payable by the Borrower hereunder (whether at the stated maturity, by acceleration or otherwise) and the occurrence and continuance of an Event of Default, to set off and appropriate and apply against such amount any and all deposits (general or special, time or demand, provisional or final), in any currency, and any other credits, indebtedness or claims, in any currency, in each case whether direct or indirect, absolute or contingent, matured or unmatured, at any time held or owing by such Lender or any branch or agency thereof to or for the credit or the account of the Borrower. Each Lender agrees promptly to notify the Borrower and the Administrative Agent after any such setoff and application made by such Lender, provided that the ----- failure to give such notice shall not affect the validity of such setoff and application.

10.8 Counterparts. This Agreement may be executed by one or more of the parties to this Agreement on any number of separate counterparts, and all of said counterparts taken together shall be deemed to constitute one and the same instrument. Delivery of an executed signature page of this Agreement by facsimile transmission shall be effective as delivery of a manually executed counterpart hereof. A set of the copies of this Agreement signed by all the parties shall be lodged with the Borrower and the Administrative Agent.

10.9 Severability. Any provision of this Agreement that is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision of any other jurisdiction.

10.10 Integration. This Agreement and the other Loan Documents represent the agreement of the Borrower, the Administrative Agent and the Lenders with respect to the subject matter hereof, and there are no promises, undertakings, representations or warranties by the Administrative Agent or any Lender relative to such matter hereof not expressly set forth or referred to herein or in the other Loan Documents.

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10.11 GOVERNING LAW. THIS AGREEMENT AND THE RIGHTS AND OBLIGATIONS OF THE PARTIES UNDER THIS AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED AND INTERPRETED IN ACCORDANCE WITH, THE LAW OF THE STATE OF NEW YORK.

10.12 Submission To Jurisdiction; Waivers. The Borrower hereby irrevocably and unconditionally:

(a) submits for itself and its property in any legal action or proceeding relating to this Agreement and the other Loan Documents to which it is a party, or for recognition and enforcement of any judgment in respect thereof, to the non-exclusive general jurisdiction of the courts of the State of New York, the courts of the United States of the Southern District of New York, and appellate courts from any thereof;

(b) consents that any such action or proceeding may be brought in such courts and waives any objection that it may now or hereafter have to the venue of any such action or proceeding in any such court or that such action or proceeding was brought in an inconvenient court and agrees not to plead or claim the same;

(c) agrees that service of process in any such action or proceeding may be effected by mailing a copy thereof by registered or certified mail (or

any substantially similar form of mail), postage prepaid, to the Borrower at its address set forth in Section 10.2 or at such other address of which the Administrative Agent shall have been notified pursuant thereto;

(d) agrees that nothing herein shall affect the right to effect service of process in any other manner permitted by law or shall limit the right to sue in any other jurisdiction; and

(e) waives, to the maximum extent not prohibited by law, any right it may have to claim or recover in any legal action or proceeding referred to in this Section any special, exemplary, punitive or consequential damages.

10.13 Acknowledgements. The Borrower hereby acknowledges that:

(a) it has been advised by counsel in the negotiation, execution and delivery of this Agreement and the other Loan Documents;

(b) neither the Administrative Agent nor any Lender has any fiduciary relationship with or duty to the Borrower arising out of or in connection with this Agreement or any of the other Loan Documents, and the relationship between Administrative Agent and Lenders, on one hand, and the Borrower, on the other hand, in connection herewith or therewith is solely that of debtor and creditor; and

(c) no joint venture is created hereby or by the other Loan Documents or otherwise exists by virtue of the transactions contemplated hereby among the Lenders or among the Borrower and the Lenders.

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10.14 Releases of Guarantees and Liens. (a) Notwithstanding anything to the contrary contained herein or in any other Loan Document, the Administrative Agent is hereby irrevocably authorized by each Lender (without requirement of notice to or consent of any Lender except as expressly required by Section 10.1) to take any action required by the Borrower having the effect of releasing any Collateral or guarantee obligations (i) to the extent necessary to permit consummation of any transaction not prohibited by any Loan Document or that has been consented to in accordance with Section 10.1 or (ii) under the circumstances described in paragraph (b) below.

(b) At such time as the Loans, the Reimbursement of Obligations and the other obligations under the Loan Documents (other than obligations under or in respect of Hedge Agreements) shall have been paid in full, the Revolving Credit Commitments have been terminated and no Letters of Credit shall be outstanding (or any outstanding Letters of Credit have been collateralized in a manner acceptable to the Administrative Agent), the Collateral shall be released from the Liens created by the Security Documents, and the Security Documents and all obligations (other than those expressly stated to survive such termination) of the Administrative Agent and each Loan Party under the Security Documents shall terminate, all without delivery of any instrument or performance of any act by any Person.

10.15 Confidentiality. Each of the Administrative Agent and each Lender agrees to keep confidential all non-public information provided to it by any Loan Party pursuant to this Agreement; provided that nothing herein shall prevent the Administrative Agent or any Lender from disclosing any such information (a) to the Administrative Agent or any Lender from disclosing any such information (a) to the Administrative Agent, any other Lender, any affiliate of any Lender that agrees to comply with the provisions of this Section, (b) to any Transferee or prospective Transferee that agrees to comply with the provisions of this Section, (c) to its employees, directors, agents, attorneys, accountants and other professional advisors or those of any of its affiliates solely in connection with the transactions contemplated hereunder, (d) upon the request or demand of any Governmental Authority, (e) in response to any order of any court or other Governmental Authority or as may otherwise be

required to any Requirement of Law, (f) if required to do so in connection with any litigation or similar proceeding, (g) that has been publicly disclosed, (h) to the National Association of Insurance Commissioners or any similar organization or any nationally recognized rating agency that requires access to information about a Lender's investment portfolio in connection with ratings issued with respect to such Lender, or (i) in connection with the exercise of any remedy hereunder or under any other Loan Document.

10.16 WAIVERS OF JURY TRIAL. THE BORROWER, THE ADMINISTRATIVE AGENT AND THE LENDERS HEREBY IRREVOCABLY AND UNCONDITIONALLY WAIVE TRIAL BY JURY IN ANY LEGAL ACTION OR PROCEEDING RELATING TO THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT AND FOR ANY COUNTERCLAIM THEREIN.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed and delivered by their proper and duly authorized officers as of the day and year first above written.

GUESS ?, INC.

By: _____
Name:
Title:

THE CHASE MANHATTAN BANK,
as Administrative Agent, as Issuing Lender and as a
Lender

By: _____
Name:
Title:

SANWA BANK CALIFORNIA,
as Co-Agent and as a Lender

By: _____
Name:
Title:

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed and delivered by their proper and duly authorized officers as of the day and year first above written.

GUESS ?, INC.

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Title:

THE CHASE MANHATTAN BANK,
as Administrative Agent, as Issuing Lender and as a
Lender

By: _____
Name:
Title:

SANWA BANK CALIFORNIA,
as Co-Agent and as a Lender

By: /s/ Nicole Earnier

Name: Nicole Earnier
Title: Vice President

GMAC COMMERCIAL CREDIT LLC

By: _____
Name:
Title:

ISRAEL DISCOUNT BANK OF NEW YORK

By: _____
Name:
Title:

MERCANTILE BANK NATIONAL ASSOCIATION

By: _____
Name: Stephen M. Reese
Title: Vice President

BANK LEUMI USA

By: _____
Name:
Title:

GMAC COMMERCIAL CREDIT LLC

By: _____
Name:

Title:

ISRAEL DISCOUNT BANK OF NEW YORK

By: _____

Name:

Title:

MERCANTILE BANK NATIONAL ASSOCIATION

By: _____

Name:

Title:

BANK LEUMI USA

By: _____

Name: Richard Silverstein

Title: SVP

By: _____

Name: Phyllis Rosenfeld

Title: Vice President

GMAC COMMERCIAL CREDIT LLC

By: _____

Name:

Title:

ISRAEL DISCOUNT BANK OF NEW YORK

By: _____

Name: Howard Weinberg

Title: First Vice President

MERCANTILE BANK NATIONAL ASSOCIATION

By: _____

Name:

Title:

BANK LEUMI USA

By: _____

Name:

Title:

GMAC COMMERCIAL CREDIT LLC

By: _____

Name:

Title:

ISRAEL DISCOUNT BANK OF NEW YORK

By: _____

Name: Howard W

Title:

MERCANTILE BANK NATIONAL ASSOCIATION

By: _____

Name:

Title:

BANK LEUMI USA

By: _____

Name:

Title:

GMAC COMMERCIAL CREDIT LLC

By: _____

Name:

Title:

ISRAEL DISCOUNT BANK OF NEW YORK

ISRAEL DISCOUNT BANK OF NEW YORK

By: /s/R. David Kamruera

By: /s/ Howard Welchberg

Name: R. David Kamruera
Title: Vice President

Name: Howard Welchberg
Title: First Vice President

MERCANTILE BANK NATIONAL ASSOCIATION

By: _____

Name:

Title:

BANK LEUMI USA

By: _____

Name:

Title:

STANDARD INDUSTRIAL LEASE AGREEMENT

THIS LEASE, made this 14th day of May, 1999, by and between ROBERT PATTILLO PROPERTIES, INC., a Georgia corporation, hereinafter referred to as "Landlord"; and GUESS?, INC., a Delaware corporation, hereinafter referred to as "Tenant":

W I T N E S S E T H:

Premises

1. For and in consideration of the rents, covenants, agreements, and stipulations hereinafter set forth, to be paid, kept and performed by Tenant, Landlord hereby leases and rents to Tenant, and Tenant hereby leases and takes upon the terms and conditions hereinafter set forth, an approximately 371, 440 square foot building shell (the "Existing Shell") to be expanded by approximately 135,000 square feet pursuant to the terms hereof (the Existing Shell as so expanded is hereinafter referred to as the "Building"), and that certain real property on which the Existing Shell is located, which real property is located in Jefferson County, Kentucky and is more particularly described by the legal description attached hereto as Exhibit "A" (collectively, the "Premises"). Landlord shall acquire the approximately seven (7) acres of real property described as the "Expansion Land" on the drawing attached hereto as Exhibit "A-1". Landlord covenants that such Expansion Land shall be sufficiently large to accommodate the expansion of the Existing Shell in accordance with the terms of this Lease. Upon such acquisition, the Expansion Land shall be included within the Premises for all purposes of this Lease. Landlord and Tenant agree to enter into an amendment to this Lease to incorporate a legal description of such Expansion Land to be acquired by Landlord. This Lease is subject to all encumbrances, easements, covenants and restrictions set forth on Exhibit "A-2" attached hereto. Landlord represents that the real property upon which the Premises is to be located is zoned so as to permit office, warehouse and distribution center uses.

Landlord covenants to file a subdivision map or take such other necessary actions as promptly as reasonably practicable in order to render the land upon which the Existing Shell is located, together with the Expansion Land, a legal lot for purposes of applicable law.

Term

2. To have and to hold for a term to commence on the Commencement Date (as defined in Paragraph 4 of the Rider attached hereto as Exhibit "C") and to end at midnight on the last day of the one hundred twentieth (120th) full calendar month after the Commencement Date. For purposes of this Lease, the term "Lease Year" shall mean the period beginning on the Commencement Date and ending on the date twelve (12) months from and after the Commencement Date, and each 12-month period thereafter, except that the final Lease Year shall expire on the expiration date of the Lease term. [See paragraph 1 of Exhibit "C".]

Rental

3. (a) Tenant shall pay to Landlord monthly rental of \$113,949.00 during Lease Years one (1) through five (5) and monthly rental of \$128,720.16 during the Lease Years six (6) through ten (10). Upon completion of Landlord's Work (as defined in Exhibit "C"), Landlord shall cause its architects to measure the square footage of the Building (as defined in Exhibit "C") (measured from the exterior faces of all exterior walls). If the square footage as so measured is not 506,440 square feet, the amount of monthly rental provided for herein shall be adjusted based upon such measured square footage as follows: During Lease Years one (1) through five (5) the monthly rental shall be one-twelfth (1/12) times such measured square footage times \$2.70, and during Lease Years six (6) through (10), the monthly rental shall be one-twelfth (1/12) times such measured square footage times \$3.05. Landlord and Tenant shall enter into an amendment to this Lease memorializing the square footage of the Building and the resulting

installments of monthly rental. All monthly rental shall be due on the first day of each month, in advance, without offset or demand, commencing on the Commencement Date. All payments of rental shall be sent to Robert Pattillo Properties, Inc., P.O. Box 101923, Atlanta, Georgia 30393-1923, or such other address provided to Tenant by Landlord. Tenant has paid to Landlord \$113,949.00 (the "Prepaid Rent"), representing the first month's rent due hereunder. Landlord shall pay to Tenant interest on the Prepaid Rent, which shall accrue at the rate of eleven percent (11%) per annum beginning on the date hereof and ending on the Commencement Date. Such accrued interest shall be due and payable by Landlord to Tenant on the Commencement Date. If Landlord fails to pay Tenant such interest within ten (10) days after written demand, Tenant shall be entitled to offset against rent and other sums which become due from Tenant pursuant to the terms hereof an amount equal to such due and payable interest. In the event Tenant fails to pay rental or any other payment called for under this Lease within ten (10) days of the due date, Tenant shall pay a late charge equal to two percent (2%) of the unpaid amount. Landlord and Tenant agree that such late charge is intended to compensate Landlord for additional administrative charges and other damages incurred by Landlord on account of such late payment and not as a penalty. Landlord and Tenant agree that the actual damages to be suffered by Landlord in such event shall be difficult, if not impossible to ascertain, and that such late charge is a reasonable estimate of such charges and damages.

(b) Tenant has deposited \$113,949.00 (the "Security Deposit") with Landlord to secure Tenant's performance of its obligations hereunder. Landlord shall pay to Tenant interest on the portion of the Security Deposit (as restored by Tenant pursuant to the terms hereof) that is not applied against amounts owed by Tenant to Landlord pursuant to the terms hereof, which interest shall accrue at the rate of eleven percent (11%) per annum beginning on the date hereof and continuing until such time as Tenant shall have been returned the portion of the Security Deposit (as restored by Tenant pursuant to the terms hereof) that is not applied against amounts owed by Tenant to Landlord pursuant to the terms hereof. Any interest which has accrued pursuant to the preceding sentence shall be due and payable annually on each anniversary of the Commencement Date. If Landlord fails to pay any such interest within ten (10) days after written demand, Tenant shall be entitled to offset against rent and other sums which become due from Tenant pursuant to the terms hereof an amount equal to such due and payable interest. If Tenant defaults hereunder, then Landlord may, without prejudice to Landlord's other remedies, apply part or all of the Security Deposit to cure Tenant's default. If Landlord so uses part or all of the Security Deposit, Tenant shall, within ten (10) days after written demand, pay Landlord the amount necessary to restore the Security Deposit to its original amount. Except as provided herein, Landlord shall not be required to pay any interest on said Security Deposit and Landlord may commingle the Security Deposit with other funds. If Landlord sells the Premises, the Security Deposit shall be transferred to the purchaser and Landlord shall be relieved of any further liability in relation to the Security Deposit. Upon the termination of this Lease, Landlord may use the Security Deposit to cure any defaults of Tenant or to reimburse Landlord for expenses of repairing, restoring or cleaning the Premises. In the event all or any portion of the Security Deposit remains after paying for such items, the remaining amount shall be returned to Tenant. Notwithstanding the foregoing, Landlord reserves the right to return at any time after the date hereof the portion of the Security Deposit (as restored by Tenant pursuant to the terms hereof) that has not been applied against amounts owed by Tenant to Landlord pursuant to the terms hereof and be relieved of any further obligation to pay interest thereon.

Utility Bills

4. Tenant shall place utility bills of all types in its name. Tenant shall pay all such bills, along with all charges and assessments pertaining to utilities serving the Premises, including, but not limited to, water and sewer,

natural gas, electricity, fire protection (including sprinkler testing charges), sanitary charges, drainage service fees or similar charges which are included in any water or other utility bill. If Tenant does not pay such charges when due, Landlord may do so. The amount paid by Landlord shall be paid by Tenant to Landlord, as additional rental, within thirty (30) days of demand therefor by Landlord.

Mortgagee's Rights

5. Landlord represents, warrants and covenants to Tenant that the land on which the Existing Shell is located is not encumbered by any mortgage or deed of trust and that the Premises (including the Building and the Expansion Land) will not be encumbered by any mortgage, deed to secure debt or deed of trust on the Commencement Date. Tenant's rights as to the Premises shall be subject and subordinate to any mortgage, deed of trust or deed to secure debt which may be placed upon the Premises by Landlord after the Commencement Date. This subordination is intended to be self-operative, but only if the mortgagee and trustee under trust deeds or mortgages and the ground lessor under any ground lease (herein collectively referred to as "Lender") shall execute and deliver to Tenant a non-disturbance agreement which shall be by its terms binding upon its successors and assigns including any purchaser or transferee at a foreclosure sale or sale of transfer in lieu of foreclosure and shall provide, among other things, that Lender consent to the Lease and that, in the event of foreclosure of said mortgage or trust deed, as the case may be, or in the event Lender comes into possession or acquires title to the Premises as a result of the enforcement or foreclosure of the mortgage, trust deed, trust deed note or ground lease or as a result of any other means, Lender agrees to recognize Tenant and further agrees that Tenant shall not be disturbed in its possession of the Premises for any reason other than one which would entitle the Landlord to terminate the Lease under its terms. Said agreement shall further provide that Tenant and Lender shall be bound each to the other under all of the terms, covenants and conditions of the Lease for the balance of the term thereof remaining and any extension or renewal thereof which may be effected in accordance with any option therefor in the Lease, with the same force and effect as if they were the original Landlord and Tenant, respectively, under the Lease, subject to commercially reasonable exceptions of the type customarily contained in such documents. Without limiting the generality of the foregoing, in no event shall any said Lender or purchaser at a foreclosure sale or grantee under a deed in lieu of foreclosure be bound by the expansion option set forth in paragraph 5 of the Rider. Landlord shall apply any rental payments received from Tenant during any month pursuant to the terms hereof to the payment of any installments of indebtedness which shall be due and payable from Landlord to any such Lender during such month; provided, however, Landlord shall not be obligated to pay to any such Lender the excess of (a) any rental received hereunder during any month over (b) the amounts which shall be due and payable by Landlord to any such Lender during such month. If Landlord fails to pay any such rental payment to any such Lender as contemplated by the preceding sentence, without obligating Landlord to obtain any notice and cure rights from any Lender for the benefit of Tenant, Tenant shall be entitled to pay directly to such Lender any due but unpaid amount which Landlord owes such Lender. Tenant shall be entitled to offset against rent and any other sum which shall next become due and payable from Tenant to Landlord under this Lease any amounts paid by Tenant to any such Lender pursuant to the preceding sentence. Should the Lender or any purchaser or transferee at a foreclosure sale or sale or transfer in lieu of foreclosure of any other person who may come into possession of or acquire title to the Premises as a result of the enforcement or foreclosure of such mortgage, trust deed, trust deed note or ground lease fail or refuse to recognize and assume this Lease and recognize the rights of Tenant hereunder and agree not to disturb Tenant as aforesaid, this Lease (except for the terms of paragraph 5 of Exhibit "C", which shall be subordinate to any such mortgage, trust deed, trust deed note or ground lease) shall be deemed prior and superior to the lien of any such trust deed or mortgage or ground lease. In addition, Tenant shall not be obligated to attorn to the purchaser or transferee upon any foreclosure sale or sale or transfer in lieu of foreclosure unless and until such purchaser or transferee acknowledges in writing the foregoing privity of contract between it, as Landlord, and Tenant. If requested, Tenant shall execute a subordination, nondisturbance and attornment agreement which meets the requirements set forth in this paragraph.

Repairs by Tenant

6. Tenant, at its sole cost, shall keep and maintain the Premises (except portions of the Premises to be repaired by Landlord under terms of Paragraph 7 below), including without limitation, all paving, lawn maintenance and landscaping, in good order and repair. Tenant also agrees to keep in good repair, and replace if necessary, all systems pertaining to water, fire protection, drainage, sewer, electrical, heating, ventilation, air conditioning and lighting. Tenant agrees to return such systems to Landlord upon the expiration or earlier termination of the term of this Lease in a condition comparable to that existing at the Commencement Date, reasonable wear and tear and damage not otherwise required to be repaired by Tenant under this Lease excepted. Tenant shall keep the Premises free from all liens, charges or encumbrances whatsoever (or shall cause the same to be bonded over or otherwise removed within 30 days after Tenant has received written notice of filing). Tenant shall have no authority, express or implied, to create any lien, charge or encumbrance upon the interest of the Landlord in the Premises. Tenant shall, at its sole cost, maintain a regularly scheduled preventive maintenance and service contract with a maintenance contractor reasonably acceptable to Landlord for the repair, maintenance and servicing of all heating and air-conditioning systems and equipment within the Premises. If Landlord fails to disapprove any such contractor within two (2) business days after receipt of written request from Tenant, Landlord shall irrevocably be deemed to have approved such contractor for the repair and maintenance work specified in such request from Tenant. Tenant shall have the right to contract with third-party contractors reasonably acceptable to Landlord to perform any maintenance or repair work required to be performed by Tenant hereunder; provided, however, any such contractor shall not be subject to approval by Landlord in the event of an emergency or if such contractor is to perform repairs or maintenance (or any series of related repairs or maintenance) which costs less than \$5,000.00. If Landlord fails to disapprove any contractor within two (2) business days after written request from Tenant, Landlord shall irrevocably be deemed to have approved such contractor for the repair and maintenance work specified in such request from Tenant. Upon request by Tenant and at Tenant's sole cost, Landlord will arrange for any repair which is Tenant's responsibility pursuant to the terms of this Lease to be performed by Landlord's employees, agents or contractors. Tenant shall pay, as additional rent, the cost of such repair within thirty (30) days of receipt of a bill therefor from Landlord.

Repairs by Landlord

7. Except for damage caused by Tenant, its agent, employees, contractors and invitees which arises from a risk not generally insurable by the insurance carried (and issued by insurance companies of recognized standing and financial strength) or required to be carried by Landlord pursuant to the terms of this Lease or otherwise, Landlord, at its sole cost, shall keep in good repair the roof (including gutters and downspouts), foundation and exterior walls, exclusive of painting, glass and exterior doors. Landlord shall repair any damage to the Premises which is caused by Landlord, its agents, representatives, employees or contractors and which would otherwise be the responsibility of Tenant hereunder if such damage arises from a risk not generally insurable by any insurance which is carried (and issued by insurance companies of recognized standing and financial strength) by Tenant pursuant to the terms of this Lease or otherwise or required to be carried by Tenant pursuant to the terms hereof. Tenant shall promptly notify Landlord of the need for any repairs which are Landlord's responsibility hereunder, unless Landlord otherwise has knowledge of the need therefor. Landlord shall be under no duty to make any repairs hereunder unless Landlord receives notice of the need for such repairs, unless Landlord otherwise has knowledge of the need therefor.

Modifications and Alternations to the Premises

8. Tenant shall make no modifications, alterations or improvements to the Premises, cut any openings or penetrations in the roof or install any satellite or communications antennas or other structures without the prior written consent of Landlord, which consent shall not be unreasonably withheld, conditioned or delayed; provided, however, Tenant shall have the right to make non-structural, interior modifications, alterations or improvements to the Premises without Landlord's consent. All modifications or alterations shall be completed in a good, workmanlike and lien-free manner in accordance with all applicable codes and regulations. Tenant shall have the right to contract with third-party contractors reasonably acceptable to Landlord to perform any modifications, alterations or improvement work which Tenant is otherwise permitted to perform pursuant to the terms hereof; provided, however, any such contractor shall not be subject to approval by Landlord in the event of an emergency or if such contractor is to perform any modifications, alterations or improvements (or any series of related modifications, alterations or improvements) which costs less than \$5,000.00. If Landlord fails to disapprove any such contractor within two (2) business days after written request from Tenant, Landlord shall irrevocably be deemed to have approved such contractor for the work specified in such request from Tenant. Upon request by Tenant and at Tenant's sole cost, Landlord will arrange for any modification, alteration or improvement consented to by Landlord be performed by Landlord's employees, agents or contractors. Tenant shall pay, as additional rent, the cost of such modification, alteration or improvement within ten (10) days of receipt of a bill therefor from Landlord.

Return of Premises

9. Tenant agrees to return the Premises to Landlord at the expiration or prior termination of this Lease broom clean and in a condition and repair comparable to that existing at the time the Premises was delivered to Tenant, reasonable wear and tear, damage by storm, fire, lightning, earthquake or other casualty excepted. Upon Landlord's request, Tenant agrees to remove any modifications, alterations or improvements made by Tenant without Landlord's consent (if Landlord's consent was required hereunder) or which are not typically found in industrial distribution facilities in the vicinity of the Premises. Within ten (10) days of written request by Tenant, which request shall include plans and specifications for the modifications, alterations or improvements at issue. Landlord shall inform Tenant whether the proposed modifications, alterations or improvements will be required to be removed at the expiration or earlier termination of the Lease, and Landlord shall be bound by such decision. Tenant shall remove its personal property from the Premises at the expiration or prior termination of this Lease. Tenant shall repair any damage caused by such removal. Notwithstanding the foregoing, at Landlord's option, Tenant shall remove, upon the expiration or earlier termination of this Lease, the items which are part of Tenant's initial build-out and which are listed on Exhibit "D" hereto; provided, however, Tenant shall not be obligated to remove any of the "Group Removal Items" (as defined on Exhibit "D") unless Landlord requires Tenant to remove all items within the Group Removal Items. If Tenant fails to remove any item which it is required to remove pursuant to the terms hereof within five (5) days of the expiration or earlier termination of this Lease, Landlord may remove such items and Tenant shall reimburse Landlord on demand for all costs with such removal.

Destruction of or Damage to Premises

10. If the Premises are totally destroyed by storm, fire, lightning, earthquake or other casualty, this Lease shall terminate as of the date of such destruction and rental shall be abated as of such date. If the Premises are damaged, but not wholly destroyed by any of such casualties, rental shall abate in such proportion as use of Premises has been destroyed, and Landlord shall restore (i) the Building as modified by the Landlord's Work and as expanded (if at all) onto the Adjacent Land and (ii) any portion of the Tenant's Work for which Landlord pays Tenant pursuant to the terms of paragraph 3 of Exhibit "C" to substantially the same condition as existed before such casualty as speedily as practicable; provided, however, that if the damage shall be so extensive that

the same cannot be reasonably repaired and restored within nine (9) months from the date of the casualty, then Tenant may terminate this Lease by giving written notice to Landlord within thirty (30) days from the date that either party notifies the other that such party has determined that the repair and restoration work cannot reasonably be completed within such nine (9) month period. In the event of such termination, rental shall be abated as of the date of such casualty. In no event shall Landlord be responsible for repairing or restoring the Tenant's Work, any personal property of Tenant or any alterations or improvements made by Tenant (other than portions of Tenant's Work for which Landlord has paid Tenant pursuant to the terms of Exhibit "C"). Tenant's right of rental abatement provided above shall expire on the earlier to occur of (i) the date on which Tenant reopens for business in the damaged portion of the Premises; or (ii) the date on which the work required to be performed by Landlord pursuant to this paragraph 10 is substantially complete. Subject to all of the terms and conditions of this Lease (but subject to the rent abatement provided for in this paragraph 10), so long as Tenant, its agents, representatives, employees, contractors and invitees do not interfere with Landlord's performance of the work required to be performed by Landlord pursuant to the terms of this paragraph. Tenant shall have the right to enter the Premises prior to the date of substantial completion of such work to be performed by Landlord for the purpose of performing any work which is Tenant's responsibility pursuant to the terms of this paragraph.

Indemnity

11. Except for damage caused by Landlord's negligence or that of Landlord's agents, representatives, employees or contractors, or the failure of Landlord to discharge its obligations under this Lease and subject to the provisions of paragraph 27(c) below, Tenant agrees to indemnify, defend and save harmless Landlord against all claims, losses, liabilities, costs and expenses (including attorney's fees and costs of litigation) suffered by Landlord by reason of the use or occupancy of the Premises by Tenant. Unless caused by Landlord's negligence or that of Landlord's agents, representatives, employees or contractors or the failure of Landlord to discharge its obligations under this Lease, Landlord shall not be liable to Tenant's employees, agents, contractors or invitees for any injury to a person or damage to property on or about the Premises, or any damage caused by the improvements becoming out of repair, the failure or cessation of any utility or by any leakage of gas, oil, water or steam or electricity emanating from the Premises. Subject to the provisions of paragraph 27(c) below, Landlord agrees to indemnify, defend and save harmless Tenant against all claims, losses, liabilities, costs and expenses (including attorney's fees and costs of litigation) suffered by Tenant by reason of the negligent or willful acts or omissions of Landlord, its agents, representatives, employees and contractors or the failure of Landlord to discharge its obligations under this Lease.

Governmental Orders

12. Reference is made herein to paragraphs 2(b) and 3(b) of the Rider, which provide for the allocation of responsibility with respect to compliance with laws for the initial construction. Thereafter, subject to the terms of paragraph 15, Tenant agrees, at its own expense, to promptly comply with all requirements of any applicable law, ordinance, statute or regulation applicable to the Premises or Tenant's operations in the Premises other than applicable laws, ordinances, statutes or regulations which apply to the structural aspects of the Premises for any reason other than Tenant's specific use or manner of use of the Premises.

Condemnation

13. If the entire Premises or such portion thereof as will make the Premises unusable (in Tenant's reasonable opinion) for the purpose herein leased shall be condemned by any legally constituted authority for any public use or purpose, or sold under threat of condemnation, then this Lease shall terminate as of the date of such condemnation or sale and rental shall be accounted for between Landlord and Tenant as of such date. In the event of a condemnation which does not result in the termination of this Lease, rental shall be abated in a fair and equitable manner and Landlord, shall restore to the extent

practicable (i) the Building as modified by the Landlord's Work and as expanded (if at all) onto the Adjacent Land and (ii) any portion of the Tenant's Work for which Landlord pays Tenant pursuant to the terms of paragraph 3 of Exhibit "C". All condemnation awards or sales proceeds in lieu thereof shall belong to Landlord; provided, however, Tenant shall be entitled to file a separate claim for its loss, provided the filing of such claim does not affect or diminish Landlord's claim as to such awards or proceeds. Notwithstanding the foregoing, Tenant shall be entitled to any condemnation award, whether made to Landlord or Tenant, which is made for the taking of furniture, fixtures, improvements or property placed on the Premises by Tenant at Tenant's expense; provided, however, Tenant shall not be entitled to (and expressly assigns to Landlord all Tenant's right, title and interest in and to) any condemnation award based upon the present or future estate or interest of Tenant in the unexpired Lease term.

Assignment

14. Tenant may not assign this Lease or any interest thereunder or sublet the Premises in whole or in part or allow all or a portion of the Premises to be used by a third party without the prior written consent of Landlord, which consent shall not be unreasonably withheld, conditioned or delayed. If Tenant is a corporation, partnership, limited liability company or other entity other than a corporation the shares of which are publicly traded on a national stock exchange, the transfer of more than thirty-five percent (35%) of the ownership interests of Tenant, whether in one transaction or a series of related transactions, shall constitute an assignment for purposes of this Lease. Any assignee (and if Landlord so elects, any subtenant) shall become liable directly to Landlord for all obligations of Tenant hereunder. No such assignment or sublease nor any subsequent amendment of the Lease shall release Tenant or any guarantor of Tenant's obligations hereunder. If such subtenant or assignee pays rental in excess of the rental due hereunder or if Tenant receives any other consideration on account of any such assignment or sublease, Tenant shall pay Landlord, as additional rent, one-half of such excess rental or other consideration upon the receipt thereof; provided, however, this sentence shall not apply to any Permitted Transfer (as defined in paragraph 8 of the Rider).

Hazardous Substances

15. Landlord represents and warrants that upon delivery to Tenant, the Building and the Premises shall be free of Hazardous Materials at levels which violate any applicable laws, ordinances or regulations. Landlord shall indemnify, defend and hold Tenant harmless from and against any and all claims, judgments, damages, penalties, fines, costs (including without limitation, consultants' fees, experts' fees, attorney's fees and court costs and all costs of repair of any portion of the Premises or its contents), liabilities or losses (other than consequential damages such as lost profits or loss of business) resulting from any breach of the foregoing representation or warranty or from the presence upon the Premises of any Hazardous Materials which were not introduced by Tenant, its agents, representatives, employees, contractors or invitees. In the event that Landlord breaches the representation and warranty set forth in the first sentence of this paragraph 15 and Tenant is deprived of the use of all or a portion of the Premises, Tenant's obligation to pay base rental pursuant to the terms hereof shall abate in proportion to the affected portion of the Premises until such time as Tenant is no longer deprived of the use of the Premises.

Tenant covenants that, without first obtaining Landlord's written consent, that neither Tenant, nor any of its agents, employees, contractors or invitees shall cause any Hazardous Materials to be stored, handled, treated, released or brought upon or disposed of on the Premises other than Hazardous Materials of the type commonly utilized by the operators of businesses in first class industrial or warehouse facilities. Tenant shall comply with any and all applicable laws, ordinances, rules, regulations and requirements respecting the storage, handling, treatment, release, disposal, presence or use of permitted Hazardous Materials in, on or about the Premises. "Hazardous Materials" for purposes of this Lease shall be interpreted broadly to mean any material or

substance that is defined, regulated or classified under federal, state, or local laws as: (a) a "hazardous substance" pursuant to section 101 of the Comprehensive Environmental Response, Compensation and Liability Act, 42 U.S.C. ss.9601(14), section 311 of the Federal Water Pollution Control Act, 33 U.S.C. ss.1321, as now or hereafter amended (or any state or local counterpart of the foregoing statutes); (b) a "hazardous waste" pursuant to section 1004 or section 3001 of the Resource Conservation and Recovery Act, 42 U.S.C. ss.6903, 6921, as now or hereafter amended; (c) a toxic pollutant under section 307(a)(1) of the Federal Water Pollution Control Act, 33 U.S.C. ss.1317(a)(1) (or any state or local counterpart of the foregoing states); (d) a "hazardous air pollutant" under section 112 of the Clean Air Act, 42 U.S.C. ss.7412, as now or hereafter amended (or any state or local counterpart of the foregoing statutes); (e) a "hazardous material" under the Hazardous Materials Transportation Uniform Safety Act of 1990, 49 U.S.C. App. ss.1802(4), as now or hereafter amended (or any state or local counterpart of the foregoing statutes); (f) determined to present the unreasonable risk of injury to health or the environment under the Toxic Substances Control Act, as amended, 15 U.S.C. ss.2601 et seq. (or any state or local counterpart of the foregoing statutes); (g) toxic or hazardous pursuant to regulations promulgated now or hereafter under the aforementioned laws or any state or local counterpart to any of the aforementioned laws; or (h) presenting a risk to human health or the environment under other applicable federal, state or local laws, ordinances, or regulations, as now or as may be passed or promulgated in the future. Tenant shall indemnify, defend and hold Landlord harmless from and against any and all claims, judgments, damages, penalties, fines, costs (including without limitation, consultants' fees, experts' fees, attorney's fees and court costs), liabilities or losses (other than consequential damages such as lost profits, diminution in the market value of the Premises, and lost opportunities to lease or sell the Premises) resulting from any breach of any promise, covenant or agreement set forth in this paragraph. Without limiting the generality of the foregoing indemnity, in the event Landlord has reason to believe that the covenant set forth in this paragraph has been violated by Tenant, Landlord shall be entitled to take such actions as Landlord deems necessary in order to assess, contain, delineate and/or remediate any contamination by such Hazardous Materials. If it shall be determined that Tenant violated any of the covenants or agreements set forth in this paragraph, any such sums expended by Landlord shall be reimbursed by Tenant, as additional rent, within thirty (30) days of demand therefor by Landlord. Upon the expiration or earlier termination of this Lease, Landlord may cause to be performed environmental studies of the Premises to determine whether any Hazardous Materials have been stored, handled, treated, released, brought upon or disposed of on the Premises during the term of this Lease in violation of the terms hereof. If any such study reveals any breach of any Tenant's representations, warranties or covenants under this paragraph 15, Tenant shall pay all costs of such studies. The obligations of this Paragraph 15 shall survive the expiration or earlier termination of this Lease.

Removal of Fixtures

16. Provided Tenant is not then in default hereunder beyond any applicable notice and cure period, Tenant may remove all fixtures and equipment which Tenant has placed in the Premises, provided Tenant repairs all damages to the Premises caused by such removal, but in on event shall Tenant remove heating, ventilating, air conditioning, plumbing, electrical and lighting systems and fixtures or dock levelers. In the event this Lease is terminated for any reason, any property remaining in or upon the Premises, at the option of the Landlord, may either be deemed to become property of Landlord or Landlord may dispose of such property as Landlord deems proper with no obligation to Tenant.

Default; Remedies

17. In the event (i) any payment of rental or other sum due hereunder is not paid as and when due and Tenant fails to cure such failure within ten (10) days after notice of such delinquency by Landlord to Tenant; (ii) Tenant shall fail to comply with any term, provision, condition, or covenant of this Lease, other than an obligation requiring the payment of rent or other sums hereunder

and shall not cure such failure within thirty (30) days after written notice to the Tenant of such failure to comply (or if such failure cannot by its nature be cured within such thirty (30) day period. Tenant shall have reasonable time not to exceed ninety (90) days to cure such failure, so long as Tenant promptly commences such cure within such thirty (30) day period and thereafter diligently prosecutes such cure to completion); or (iii) Tenant or any guarantor shall file a petition under any applicable federal or state bankruptcy or insolvency law or have any involuntary position filed thereunder against it and the same shall not be dismissed or otherwise terminated within ninety (90) days of such filing, then Landlord shall have the option to do nay one or more of the following:

(a) Terminate this Lease, in which event Tenant shall immediately surrender the Premises to Landlord. Upon such termination, Landlord may recover from Tenant and Tenant agrees to pay to Landlord, as compensation for all loss, damage and expense which Landlord may suffer by reason of such termination, the following: (i) the worth at the time of award of the unpaid rent which had been earned at the time of termination; (ii) the worth at the time of award of the amount by which the unpaid rent which would have been earned after termination until the time of award exceeds the amount of such rental loss that the Tenant proves could have been reasonably avoided; (iii) subject to clause (ii), the worth at the time of ward of the amount by which the unpaid rent for the balance of the term after the time of award exceeds the amount of such rental loss that the Tenant proves could be reasonably avoided; and (iv) any other amount necessary to compensate the Landlord for all the detriment proximately caused by the Tenant's failure to perform his obligations under the Lease or which in the ordinary course of things would be likely to result therefrom. For purposes hereof, the "worth at the time of award" of the amounts referred to in clauses (i) and (ii) above is computed by allowing interest at a rate equal to the rate announced by the Wall Street Journal (or if the Wall Street Journal shall cease publication of the "prime rate", such other publication of comparable quality which shall be reasonably acceptable to Landlord) from time to time as the "prime rate" plus 2% per annum. The worth at the time of award of the amount referred to in paragraph (iii) is computed by discounting such amount by six percent (6%).

(b) Without terminating this Lease, terminate Tenant's right of possession, whereupon rental shall continue to accrue and be owed by Tenant hereunder. Thereafter, at Landlord's option, Landlord may enter upon and relet all or a portion of the Premises (or relet the Premises together with any additional space) for a term longer or shorter than the remaining term hereunder and otherwise on terms satisfactory to Landlord. Tenant shall be liable to Landlord for the deficiency, if any, between Tenant's rent hereunder and all net sums received by Landlord on account of such reletting (after deducting all costs incurred by Landlord in connection with any such reletting, including without limitation, tenant improvement costs, brokerage commissions and attorney's fees).

(c) Pursue a dispossessory action against Tenant, in which event Tenant shall remain liable for all amounts computed pursuant to paragraph 17(a) above.

(d) Perform any unperformed obligation of Tenant. Any sums expensed by Landlord shall be repaid by Tenant, as additional rent, within thirty (30) days of demand therefor by Landlord.

Landlord agrees to use reasonable efforts to relet the Premises and to otherwise mitigate any damages arising out of a default on the part of Tenant; provided, however, that (i) Landlord shall have no obligation to treat preferentially the Premises compared to other premises Landlord has available for leasing in properties owned or managed by Landlord; (ii) Landlord shall not be obligated to expend any efforts or any monies beyond those Landlord would expend in the ordinary course of leasing properties similar to the Premises; and (iii) in evaluating a prospective reletting of the Premises, the term, rental, use and the reputation, experience and financial standing of prospective tenants are factors which Landlord may properly consider.

Pursuit of any of the foregoing remedies shall not preclude pursuit of any other remedies herein provided or any other remedies provided by law. If either party institutes a lawsuit to enforce any of the provisions of this Lease, the prevailing parties' reasonable attorney's fees and court costs shall be paid by the non-prevailing party.

Entry by Landlord

18. Landlord may post a sign stating that the Premises are "For Lease" or "For Sale" six (6) months prior to the termination of this Lease. Landlord may enter the Premises at reasonable hours during the term of this Lease, upon reasonable advance notice to Tenant, to exhibit same to prospective purchasers or tenants and to make repairs required of Landlord under the terms hereof, or to make repairs to Landlord's adjoining property, if any.

Estoppel Certificates

19. Tenant agrees to furnish within twenty (20) days of receipt of request from Landlord or Landlord's mortgagee a written statement certifying as to the then-current status of the Lease; provided, however, if Tenant fails to respond to such request within such twenty (20) day period, Landlord shall deliver to Tenant a second written request for such estoppel certificate, and Tenant shall provide such estoppel certificate to Landlord within ten (10) days of receipt of such second request. Such estoppel certificate shall be in substantially the form attached hereto as Exhibit "B" hereto. The notice and cure provisions of paragraph 17 shall not apply to Tenant's obligations under this paragraph 19.

No Estate in Land

20. This Lease shall create the relationship of landlord and tenant between Landlord and Tenant.

Holding Over

21. If Tenant remains in possession of the Premises after expiration of the term hereof, with Landlord's acquiescence and without any express written agreement of parties, Tenant shall be a month-to-month tenant upon all the same terms and conditions as contained in this Lease, except that the rental rate shall become one and one-half times the amount in effect at the end of the term of this Lease, and there shall be no renewal of this Lease by operation of law. Such month-to-month tenancy be terminable upon thirty (30) days notice by either party to the other. Tenant waives any right that it may have to additional notice pursuant to applicable law. If Tenant remains in possession of the Premises after the expiration of the term hereof without Landlord's acquiescence, Tenant shall be a tenant as sufferance subject to immediate eviction. In such event, in addition to paying Landlord any damages resulting from such holdover, Tenant shall pay rental at the rate of two times the amount in effect at the end of the term of the Lease. Notwithstanding the foregoing, if Tenant vacates the Premises but fails to remove all of its property therefrom, Tenant shall not be deemed to be holding over pursuant to the terms hereof, provided, however, Landlord shall have the right to remove all such property and to store the same at Tenant's expense and risk.

Miscellaneous

22. All rights, powers and privileges conferred hereunder upon parties hereto shall be cumulative but not restrictive to those given by law. No failure of Landlord to exercise any power given Landlord hereunder, or to insist upon strict compliance by Tenant with its obligations hereunder, and no custom or practice of the parties at variance with the terms hereof shall constitute a waiver of Landlord's right to demand exact compliance with the terms hereof. Time is of the essence of this Lease. Subject to the terms of paragraph 14 above, this Lease shall be binding upon and shall inure to the benefit of the respective successors and assigns of Landlord and Tenant. Tenant shall pay and

be liable for all rental, sales and use taxes, and other similar taxes, if any, levied or imposed by any city, state, county or other governmental authority. Such payments shall be paid concurrently with the payment of rental or other sum due hereunder upon which the tax is based. This Lease contains the entire agreement to the parties hereto as to the Premises, and no representations, inducements, promises or agreements, oral or otherwise, between the parties, not embodied herein, shall be of any force or effect. If any term, covenant or condition of this Lease or the application thereof to any person, entity or circumstance shall, to any extent, be invalid or unenforceable, the remainder of this Lease, or the application of such term, covenant or condition to persons, entities or circumstances other than those which or to which used may be held invalid or unenforceable, shall not be affected thereby, and each term, covenant or condition of this Lease shall be valid and enforceable to the fullest extent permitted by law. The circulation of one or more drafts of this Lease shall not constitute a reservation of the Premises or an offer to lease the Premises to Tenant. Neither party shall be bound hereunder until such time as both parties have signed this Lease.

Notices

23. Any notice given pursuant to this Lease shall be in writing and sent by certified mail, return receipt requested, by hand delivery, by facsimile transmission or by reputable overnight courier to:

(a) Landlord: Robert Pattillo Properties, Inc. 2987 Clairmont Road, Suite 550, Atlanta, Georgia; Facsimile Number: 404-235-3541, or at such other address or to such other facsimile number as Landlord may designate in writing to Tenant.

(b) Tenant: Guess?, Inc., 1444 South Alameda Street, Los Angeles, California 90021; Facsimile number: 213-765-0911, or at such other address or to such other facsimile number as Tenant may designate in writing to Landlord.

Any notice sent in the manner set forth above shall be deemed sufficiently given for all purposes hereunder on the day said notice is deposited in the mail if sent by certified mail, upon receipt if sent by hand delivery or reputable overnight courier, or if sent by facsimile, on the date such notice is transmitted, provided a copy of such notice is sent within two (2) business days by regular mail to the recipient's address set forth above.

Brokerage

24. CB Richard Ellis/Nicklies ("Tenant's Broker") has represented Tenant in connection with this Lease. Landlord shall pay Tenant's Broker a commission pursuant to the terms of a separate agreement. Tenant covenants and agrees to indemnify and hold the other harmless from any and all loss, liability, damage, claim, judgment, cost and expense (including without limitation attorney's fees and litigation costs) that may be incurred or suffered by the other because of any claim for any fee, commission or similar compensation with respect to this Lease, made by any broker, agent or finder other than Tenant's Broker claiming by, through or under Tenant, whether or not such claim is meritorious. Landlord covenants and agrees to indemnify and hold the other harmless from any and all loss, liability, damage, claim, judgment, cost and expense (including without limitation attorney's fees and litigation costs) that may be incurred or suffered by the other because of any claim for any fee, commission or similar compensation with respect to the Lease, made by Tenant's Broker or any broker, agent or finder claiming by, through or under Landlord, whether or not such claim is meritorious.

Signs

25. Subject to any applicable laws, ordinances, codes, regulations or any of the matters set forth on Exhibit "A-2" hereto, Tenant may erect a building sign on or about the Premises. Prior to the expiration of the term of this Lease, Tenant shall remove any such sign and repair any damage to the building

occasioned by the removal of such sign.

Use of Premises

26. The Premises shall be used for any legal purpose, including, but not limited, to use for general offices, general merchandising and distribution of apparel and accessories. The Premises shall not be used for any illegal purposes, nor in any manner to create any nuisance or trespass, vitiate Landlord's insurance or violate any restrictive covenants encumbering the Premises as of the Commencement Date.

Insurance

27. (a) Tenant will carry, at Tenant's expense, all-risk insurance coverage on or self insure all equipment, inventory, fixtures, furniture, appliances and other personal property on the Premises. Tenant shall procure, maintain and keep in full force and effect at all times during the term of this Lease commercial general liability insurance with respect to the Premises and the conduct and operation of Tenant's business therein, naming Landlord and its mortgagees as additional insured parties, with limits of not less than \$2,000,000.00 for death or bodily injury to one or more persons in a single occurrence and not less than \$2,000,000 for property damage. Such general liability insurance policy shall contain broad form contractual liability coverage covering Tenant's indemnities in favor of Landlord provided hereunder.

(b) Landlord will carry, at Tenant's expense, all risk insurance coverage on the Premises in an amount equal to 100% of the replacement cost thereof with commercially reasonable deductibles. Such insurance shall include coverage for damage due to earthquake or flood. Landlord shall procure, maintain and keep in full force and effect at all times during the term of this Lease commercial general liability insurance with respect to the Premises, naming Tenant as an additional insured party, with limits of not less than \$2,000,000.00 for death or bodily injury to one or more persons in a single occurrence and not less than \$2,000,000 for property damage. Such general liability insurance policy shall contain broad form contractual liability coverage covering Landlord's indemnities in favor of Tenant provided hereunder. Tenant shall pay to Landlord, as additional rent, the amount of Landlord's premium as to coverages required by this subparagraph 27(b) within thirty (30) days after Landlord bills Tenant for the annual premium for such insurance. Tenant's obligation as to the payment of such insurance premiums shall be apportioned on a per diem basis for the years in which the Lease term commences and terminates.

(c) To the fullest extent permitted by law, Landlord and Tenant and their respective insurance carriers waive all right of recovery against the other and its officers, employees and agents and agrees to release the other and its officers, employees and agents from liability for loss or damage arising from risks generally insurable by insurance carried (and issued by insurance companies of recognized standing and financial strength) or required to be carried by the waiving party pursuant to the terms hereof.

(d) All insurance required to be carried by Tenant shall be effected under enforceable policies issued by insurers licensed to do business in the Commonwealth of Kentucky. At least fifteen (15) days prior to the expiration date of any policy procured by Tenant, the certificates for such insurance shall be delivered by Tenant to Landlord. Certificates for all insurance required to be carried by Tenant pursuant to the terms hereof shall be delivered to Landlord prior to the commencement of the term of this Lease. All such policies shall contain an agreement by the insurers that such policies shall not be canceled or materially modified without at least thirty (30) days prior written notice to the Landlord and to the holder of any mortgage to whom loss hereunder may be payable. If Tenant provides any insurance required by this Lease in the form of a blanket policy, Tenant shall furnish proof that such blanket policy complies in all respects with the provisions of this Lease and that the coverage thereunder is at least equal to the coverage which would be provided under a

separate policy covering only the Premises. Landlord agrees to provide Tenant certificates evidencing the insurance required to be maintained by Landlord pursuant to the terms hereof as promptly as reasonably practicable.

Ad Valorem Taxes

28. Tenant shall pay, as addition rent, all ad valorem real estate taxes and assessments assessed or levied against the Premises for full taxable years within the Lease term and shall pay a per diem apportionment thereof for the years in which the Lease commences and terminates. Tenant shall remit such amounts to Landlord within thirty (30) days of notice from Landlord of such amount; provided, however, Tenant shall be allowed to take the maximum benefit of any law allowing real estate taxes or assessments to be paid in installments. As promptly as reasonably practicable, Landlord shall cause the Premises to be comprised of one or more tax parcels which are separately assessed for tax purposes. Until such time as the Premises is comprised of one or more tax parcels which are separately assessed for tax purposes, ad valorem taxes and assessments as to parcels covering other property in addition to the Premises shall be equitably allocated to the Premises.

Exhibits

29. The following exhibits attached hereto constitute a portion of this Lease:

Exhibit A	Legal Description
Exhibit A-1	Description of Expansion Property
Exhibit A-2	List of Title Matters
Exhibit B	Estoppel Certificate
Exhibit C	Rider
Exhibit C-1	General Specifications
Exhibit C-2	Tenant's Work General Specifications
Exhibit D	Items to be Removed
Exhibit E	Example of Renewal and Expansion Provisions

IN WITNESS WHEREOF, the parties have hereunto set their hands and seals, effective the day and year first above written.

LANDLORD:

ROBERT PATILLO PROPERTIES, INC.,
a Georgia Corporation

By: _____
Title: _____

Witness

(Corp. Seal)

TENANT:

GUESS?, INC., a Delaware corporation

By: _____
Title: _____

Witness

(Corp. Seal)

Being Lot 214, Revised as shown on the Minor Subdivision Plat approved by the Louisville and Jefferson County Planning Commission on July 22, 1998, as Docket No. 191-98, and attached to Deed dated July 28, 1998, of record in Deed Book 7078, Page 695, in the Office of the Clerk of Jefferson County, Kentucky.

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EXHIBIT "A-1"

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EXHIBIT "A-2"
[List of Title Matters]

1. State, County and School District Taxes due and payable in 1999 and thereafter, a lien not yet due and payable.
2. Conditions, stipulations, restrictions, building lines and easements, together with incidental rights, as provided for on the recorded plat of Riverport Phase 3 of record in Plat and Subdivision Book 43, Page 93, in the Office of the Clerk of Jefferson County, Kentucky.
3. Declaration of Restrictions for Riverport Complex of record in Deed Book 6561, Page 89, and as amended by Fourth Amendment to Declaration of Restrictions of record in Deed Book 7079, Page 548, aforesaid records.
4. Public Utility, Sewer, Drainage and Access Easement, 100 feet in width, granted and shown on the Minor Subdivision Plat attached to the Deed of record in Deed Book 7078, Page 695, aforesaid records.
5. 30' Sanitary Sewer and Drainage Easement centered on southern property line as shown on Minor Subdivision Plat attached to the Deed of record in Deed Book 7078, Page 695, aforesaid records.

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EXHIBIT "B"

ESTOPPEL CERTIFICATE

Date: _____

TO: [Insert Name of Recipient]

LEASE AGREEMENT dated May __, 1999 ("Lease") by and between ROBERT PATTILLO PROPERTIES, a Georgia corporation ("Landlord") and GUESS ?, INC., a Delaware corporation ("Tenant") for the premises more fully described on Exhibit A attached hereto.

The undersigned, as Tenant, under the above referenced Lease, hereby certifies to the best of its actual knowledge as of the date hereof the following:

(1) The undersigned has entered into occupancy of the premises described in said Lease;

(2) The Lease is in full force and effect and has not been assigned, modified, supplemented or amended in any way, except as follows:

(3) The commencement date of the Lease is _____, 19__;

(4) The expiration date of the Lease is _____, provided, however, Tenant has additional options to extend the term of the Lease as provided therein;

(5) Current annual Base Rent is \$_____; (\$_____ monthly;

(6) All conditions of the Lease to be performed by Landlord and necessary to the enforceability of the Lease have been satisfied;

(7) There are no defaults by either Landlord or Tenant thereunder;

(8) No rents have been paid in advance of one (1) month except _____; and

(9) There are no existing defenses or offsets which the undersigned has against the Landlord.

(1) There have been no assignments of the Lease, in whole or in part, or subleases of all or part of the Premises except as follows _____.

Executed the day and date above written.

TENANT: GUESS ?, INC., a Delaware corporation

By: _____
Name: _____
Title: _____

EXHIBIT "C"

RIDER TO STANDARD INDUSTRIAL LEASE AGREEMENT DATED MAY ____, 1999, BY AND BETWEEN ROBERT PATILLO PROPERTIES, INC., A GEORGIA CORPORATION, HEREINAFTER COLLECTIVELY REFERRED TO AS "LANDLORD"; AND GUESS ?, INC., A DELAWARE CORPORATION, HEREINAFTER REFERRED TO AS "TENANT";

This Rider is attached to and made part of the referenced Standard Industrial Lease Agreement. In the event of an inconsistency between the terms of this Rider and the terms of the Standard Industrial Lease Agreement, the terms of this Rider shall control.

1. Renewal Options. Tenant shall have the right to renew the term of the Lease for two (2) additional periods of five (5) years each or if Tenant shall have previously exercised a renewal option in connection with the exercise of an expansion option pursuant to paragraph 5 below, either of such periods of five (5) years less the Stub Term as to the Expansion in question, as defined in subparagraph 5(c) below (individually, a "Renewal Term" and collectively, the "Renewal Terms") by giving Landlord prior written notice six (6) months prior to the expiration of the then existing term that Tenant has exercised such renewal right, subject to the following conditions:

(a) There shall not be a default or breach beyond any applicable notice and cure period under any of the terms or provisions of the Lease at the time such notice is given or at the time of the commencement of the Renewal Term.

(b) Tenant shall occupy the Premises during the Renewal Term under the same terms and conditions as specified in the Lease, except Tenant shall lease the Premises in their then "as-is" condition, the rental for any Renewal Term shall be then Market Rate (as defined in Paragraph 1(d) below), but not less than the rental for the original Premises or Expansion, if different and as applicable, in effect immediately prior to the commencement of such Renewal Term.

(c) As used herein, the term "CPI Ceiling" shall be an amount determined by multiplying the monthly rental for the first month of the term of this Lease by a fraction, the numerator of which shall be the Index most recently published prior to the commencement of the Renewal Term in question (whether such Renewal Term be a 5-year or shorter period of time), and the denominator of which shall be the Index most recently published prior to the commencement date of the term of this Lease. In no event shall the CPI Ceiling be less than the monthly rental for the first month of the term. As used herein, the term "Index" shall mean the United States, Bureau of Labor Statistics Consumer Price Index for All Items - All Wage Earners and Clerical Workers (base year 1982-84=100) applicable to the SMSA including Louisville, Kentucky ("CPI"). If the Index has changed so that the base year differs from that used in this Section, the Index shall be converted in accordance with the conversion factor published by the United States Department of Labor, Bureau of Labor Statistics, to the 1982-84 base. If the Index is discontinued or revised during the Lease term, such other governmental index or computation with which it is replaced shall be used in order to obtain substantially the same result as would be obtained if the Index had not been discontinued or revised.

(d) As used herein, the term "Market Rate" shall be initially determined by Landlord as (i) the amount of initial base annual rental per square foot then being charged in comparable warehouse/distribution facilities located in the Louisville, Kentucky market (the "Comparable Buildings") (ii) together with the annual escalation rate, if any, for space comparable to the Premises and taking into consideration all other relevant factors establishing similarity or dissimilarity between the comparable lease and the leasing of the Premises to Tenant for the Renewal Term, including, without limitation, escalations (including type, base year and stop), concessions, length of lease term, size and location of the Premises, building standard work letter and/or tenant improvement allowances, quality and quantity of any existing tenant improvements, quality and creditworthiness of Tenant, amenities offered, location of building, and other generally applicable concessions, allowances, terms and conditions of tenancy. The reference to the foregoing factors is illustrative only and the presence or absence of such factors shall be taken into account in determining Market Rate. Notwithstanding the foregoing, as to any portion of any Renewal Term falling between the tenth (10th) and fifteen (15th) anniversaries of the Commencement Date, the Market Rate shall not exceed the CPI Ceiling with respect to such period of time; provided, however, this limitation to the amount of the CPI Ceiling shall not apply to any portion of the Expansion Term as any Expansion (i.e., the rental payable during the Expansion Term as to any Expansion shall be the Market Rate computed without reference to the CPI Ceiling). The determination of the Market Rate shall not take into account any permanent leasehold improvements installed by Tenant the cost of which shall not have been reimbursed by Landlord ("Tenant Owned Improvements") pursuant to the terms of paragraph 3(c)(iv) below. If the Market Rate shall be determined by arbitration pursuant to subparagraph (e) below, then the arbitrators shall be expressly directed to make such determination as if such Tenant Owned Improvements did not exist.

(e) Within thirty (30) days after Landlord receives the notice of Tenant's exercise of the renewal option, Landlord shall notify Tenant of the proposed Market Rate; provided, however, in no event shall Landlord be obligated to notify Tenant of the proposed Market Rate prior to the ninth (9th) month before the expiration of the then existing term. Consequently, as to any renewal of the term effected in connection with Expansion so as to meet the requirements set forth in paragraph 5(c) below that ten years remain in the term as of the Expansion Rent Commencement Date, Landlord shall not be required to notify Tenant as to the Market Rate as to the Stub Term as to the Premises existing prior to such Expansion until nine (9) months prior to the commencement of such Stub Term. In the event that Landlord and Tenant are not able to agree as to the Market Rate within sixty (60) days from Landlord's receipt of notice of Tenant's exercise of the Renewal Option, the Market Rate shall be determined as follows:

- (i) Each of the Landlord and Tenant shall within ten (10) days of the expiration of the aforementioned sixty (60) day period, select an independent appraiser who is a member of MAI experienced in appraising real property similar to the land in question.
- (ii) In the event that either Landlord or Tenant fails to appoint such an appraiser within such ten (10) day period, the party which has appointed such an appraiser shall notify the party which has not appointed an appraiser. If the party which failed to appoint an appraiser continues to fail to appoint an appraiser within five (5) days after such notice, then the appraiser appointed by the party making an appointment shall determine the Market Rate which shall be binding on parties hereto.
- (iii) In the event that Landlord and Tenant each appoint a qualified appraiser within such ten (10) day period, then the two appraisers so appointed shall meet in good faith in an attempt to agree on the Market Rate within thirty (30) days of such appointment.
- (iv) In the event that the appraiser appointed by Landlord and the appraiser appointed by Tenant cannot agree on the Market Rate within thirty (30) days of the last appointment of such two appraisers, the two appraisers shall agree on the identity of a similarly qualified independent appraiser who is a member of MAI, or if the two appraisers have not agreed on the identity of such third appraiser within forty-five (45) days of such last appointment, then a third similarly qualified, independent appraiser who is a member of MAI shall be appointed by the American Arbitration Association in accordance with the Commercial Arbitration Rules of the American Arbitration Association, and the decision of such third appraiser shall be binding. Such third appraiser shall make its decision in accordance with the Commercial Arbitration Rules of the American Arbitration Association. Each party shall pay the fees and expenses of the appraiser that such party appoints, and the parties shall split the fees and expenses of the third appraiser, if any.
- (v) Notwithstanding any provision to the contrary, if Tenant disapproves of the amount of the Market Rate, in its sole discretion, Tenant shall be entitled to rescind the exercise of its renewal option by notice given to Landlord within ten (10) days of the date on which Tenant receives notice of the determination of the Market Rate, but only if Tenant reimburses Landlord for all out of pocket expenses incurred by Landlord in connection with such renewal process (including without limitation, the cost of Landlord's appraiser which would otherwise be Landlord's cost). If Tenant fails to provide such written notice within such ten (10) day period, Tenant shall be deemed conclusively to have waived such right of rescission.

(f) In the event that Tenant effects two Expansions pursuant to the terms

of paragraph 5 below, then the Renewal Terms as to the original Premises and the two Expansions may not be coterminous. In such event, the Renewal Terms shall be effected in connection with the Expansion as required by the terms of paragraph 5(c) below and Tenant shall be required to exercise any renewal options as to any remaining Renewal Terms such that the term of this Lease shall at all times be coterminous as to the entire Premises including the Expansions. If Tenant fails to do so, then the renewal and the computation of rental with respect thereto may be effected by Landlord by written notice to Tenant. In such event, the amount of rental shall be computed independently as to each Renewal Term as to the original Premises and each Expansion. The example set forth on Exhibit "E" illustrates the application of this provision.

- (g) The failure by Tenant to exercise any renewal option shall result in the termination of all further options.

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- (h) In the event Tenant fails to timely notify Landlord in the manner herein specified, Tenant shall be conclusively deemed to have waived its right to enter into any Renewal Term.
- (i) The renewal options described in this paragraph 1 shall be assignable to an assignee of Tenant's right, title and interest in and to this Lease if such assignee is a permitted assignee pursuant to the terms of this Lease.

2. Landlord's Work. (a) Landlord shall expeditiously perform the following work (collectively, the "Landlord's Work") in accordance with the Landlord's Final Plans (as hereinafter defined) after the date on which both parties have executed this Lease:

- (i) Landlord shall expand the Existing Shell (as defined in Paragraph 1 of the Lease) by approximately 135,000 square feet; and
- (ii) Landlord shall improve and modify the Building (as defined in Paragraph 1 of the Lease) in accordance with the specifications attached hereto as Exhibit C-1.

(b) Landlord warrants to Tenant that all building systems in the Existing Shell shall be in good working order as of the date of delivery to Tenant, subject to any damage arising out of any negligent or willful act of Tenant, its agents, representatives, employees or contractors. Landlord further warrants to Tenant that as of the date of delivery to Tenant, the Building, as improved by the Landlord's Work (but specifically excluding the Tenant's Work), shall (subject to paragraph 15 of the Lease) comply with all laws, ordinances, codes and regulations including any provision of the Americans with Disabilities Act ("ADA") which apply to any structure which is a "commercial facility," Landlord not being responsible for compliance with ADA requirements applicable any portion of the Premises which by virtue of Tenant's use constitutes a "public accommodation." Landlord also warrants the Building, as improved by the Landlord's Work, against any defects for a period of one (1) year from and after the date of delivery to Tenant. Landlord shall assign to Tenant any assignable warranties on building systems within the Premises. If any such warranties are not assignable, Landlord shall cooperate with Tenant to permit Tenant to benefit from any warranties held by Landlord on any building systems within the Premises.

(c) The Landlord's Final Plans shall be prepared as follows:

- (i) Landlord shall deliver to Tenant no later than May 7, 1999, proposed final plans and specifications (the "Proposed Landlord's Final Plans") for the Landlord's Work. The Plans and Specifications shall be consistent with the pre-architectural

specifications (the "General Specifications") of Landlord's Work attached hereto as Exhibit "C-1". Within five (5) business days after receipt of the Proposed Landlord's Final Plans Tenant shall, in writing, inform Landlord of required revisions or corrections thereto. Tenant's revisions and corrections to the Proposed Landlord's Final Plans shall be limited to any aspect thereof which is materially inconsistent with the General Specifications. Any other requested change shall constitute a Change Order (as defined below). In the event Tenant shall not inform Landlord of such desired revisions or corrections within such five (5) business day period, the Proposed Landlord's Final Plans shall be deemed approved and accepted for the purposes hereof.

- (ii) In the event Tenant shall inform Landlord of required revisions or corrections to the Proposed Landlord's Final Plans, Landlord shall revise the Proposed Landlord's Final Plans and shall submit the revised Proposed Landlord's Final Plans to Tenant for Tenant's approval within three (3) business days of the receipt of Tenant's comments. Tenant shall have three (3) business days after the receipt of such revised Proposed Landlord's Final Plans to review, approve or comment on the required provisions or corrections thereto. Tenant's revisions and corrections to any revision to the Proposed Landlord's Final Plans shall be limited to any aspect thereof which is materially inconsistent with the revision(s) requested by Tenant pursuant to the terms hereof. Any other requested change shall constitute a Change Order (as defined below). In the event Tenant shall not inform Landlord of such desired revisions or corrections to the revised Proposed Landlord's Final Plans within said three (3) business day period, the revised Proposed Landlord's Final Plans shall be deemed approved or accepted for the purposes hereof. This process shall continue until the Proposed Landlord's Final Plans are finally approved by Landlord and Tenant.

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- (iii) The Proposed Landlord's Final Plans, as finally approved by Landlord and Tenant, shall collectively be referred to as the "Landlord's Final Plans."
- (iv) Tenant shall not be entitled to make any Change Order without Landlord's approval, which approval shall not be unreasonably withheld or delayed. For purposes hereof, "Change Order" shall mean any alteration, substitution, addition or change to or in the Landlord's Final Plans requested by Tenant or any requested change to the Proposed Landlord's Final Plans which is deemed to be a Change Order pursuant to this subparagraph (c). If at any time after the Landlord's Final Plans are approved by Landlord, Tenant desires to make a Change Order, Tenant shall submit to Landlord a written description of such desired Change Order. Any such Change Order shall be subject to Landlord's prior reasonable approval. Landlord shall respond to Tenant as promptly as practicable with an estimate of the cost of such Change Order (the "Change Order Effect Notice"). Within three (3) days after receipt of such Change Order Effect Notice, Tenant shall respond to such Change Order Effect Notice, by either withdrawing such Change Order or authorizing such Change Order. Notwithstanding the preceding sentence, if Landlord notifies Tenant that such Change Order affects the critical path of construction, Tenant shall respond to such Change Order Effect Notice within 24 hours of receipt of such critical path notification, by either withdrawing such Change Order or authorizing such Change Order pursuant to subparagraph (iv) hereof. No Change Order shall be approved by Landlord until approved in writing by Jim Topple (the "Landlord

Representative"). No Change Order shall be approved by Tenant until approved in writing by Tenant's Vice President of Finance (the "Tenant Representative"). Any Change Order approved in writing by the Landlord Representative and Tenant Representative shall be binding. A failure by Tenant to so respond to any such Change Order Effect Notice within three (3) days after receipt of such Change Order Effect Notice shall be deemed a withdrawal of such Change Order. Once the cost and the schedule change, if any, for such Change Order has been approved by Tenant, all references herein to the "Landlord's Final Plans" shall be to the Landlord's Final Plans, as changed and modified pursuant to such Change Order. Tenant shall pay Landlord, as additional rent, within thirty (30) days of demand the cost of such Change Order as disclosed in the Change Order Effect Notice.

- (v) The target date for the Substantial Completion Date is October 1, 1999; provided, however, Landlord shall not be liable for failure to meet such target date.

3. Tenant's Work. (a) Tenant, at its sole cost and expense, shall complete Tenant's build out of the Premises (collectively, the "Tenant's Work") in accordance with the Tenant's Final Plans (as hereinafter defined).

(b) Subject to paragraph 15 of the Lease, Tenant warrants to Landlord Tenant shall complete Tenant's Work in accordance with all laws, ordinances, codes and regulations, including without limitation the Americans with Disabilities Act (the "ADA"). Tenant shall also be responsible for causing the Premises to comply with any provision of the ADA which applies to "public accommodations", if Tenant desires to operate all or any portion of the Premises so as to render the Premises or any portion thereof a "public accommodation." Unless caused by the negligent or intentional acts or omissions of Landlord or its agents, representatives, employees or contractors or the failure of Landlord to discharge its obligations under this Lease, Tenant agrees to indemnify, defend and hold Landlord and Landlord's agents harmless from and against any and all loss, liability, cost and expense (including without limitation, attorney's fees and court costs) incurred by Landlord or its agents relating in any way to the performance of Tenant's Work, including without limitation, the imposition of any lien against the Premises or the Building in connection therewith. In no event shall Landlord be deemed to have consented to the imposition of any lien against any interest of Landlord on the Building or the Premises.

(c) The Tenant's Final Plans shall be prepared as follows:

- (i) Tenant shall prepare proposed final plans and specifications (the "Proposed Tenant's Final Plans") for the Tenant's Work. The Plans and Specifications shall be consistent with the pre-architectural specifications (the "Tenant's Work General Specifications") of Tenant's Work attached hereto as Exhibit "C-2". Within five (5) business days after receipt of the Proposed Tenant's Final Plans Landlord shall, in writing, inform Tenant of required revisions or corrections thereto. Landlord's revisions and corrections to the Proposed Tenant's Final Plans shall be limited to any aspect thereof which is materially inconsistent with the Tenant's Work General Specifications. In the event Landlord shall not inform Tenant of such desired revisions or corrections within such five (5) business day period, the Proposed Tenant's Final Plans shall be deemed approved and accepted for the purposes hereof.

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- (ii) In the event Landlord shall inform Tenant of required revisions or corrections to the Proposed Tenant's Final Plans, Tenant shall revise the Proposed Tenant's Final Plans and shall submit the revised Proposed Tenant's Final Plans to Tenant for Tenant's approval within three (3) business days of the receipt of Tenant's comments. Landlord shall have three (3) business days

after the receipt of such revised Proposed Tenant's Final Plans to review, approve or comment on the required provisions or corrections thereto. Landlord's revisions and corrections to any revision to the Proposed Tenant's Final Plans shall be limited to any aspect thereof which is materially inconsistent with the revision(s) requested by Tenant pursuant to the terms hereof. In the event Landlord shall not inform Tenant of such desired revisions or corrections to the revised Proposed Tenant's Final Plans within said three (3) business day period, the revised Proposed Tenant's Final Plans shall be deemed approved or accepted for the purposes hereof. This process shall continue until the Proposed Tenant's Final Plans are finally approved by Landlord and Tenant.

(iii) The Proposed Tenant's Final Plans, as finally approved by Landlord and Tenant, shall collectively be referred to as the "Tenant's Final Plans." Without the prior written consent of Landlord, Tenant shall not make any changes to the Tenant's Final Plans. Subject to all of the terms and conditions of this Lease (other than the obligation to pay rent) and so long as Tenant its agents, representatives, employees, contractors and invitees do not interfere with Landlord's performance of the Landlord's Work, Tenant shall have the right to enter the Premises prior to the Commencement Date for the purpose of performing the Tenant's Work. Tenant's Work shall be performed by contractors reasonably approved by Landlord (such approved contractors are hereinafter referred to as "Tenant's Contractors"). If Landlord fails to disapprove any such proposed contractor within two (2) business days of demand from Tenant, such contract shall be deemed approved for purposes of completing the Tenant's Work.

(iv) Landlord shall not be entitled to any construction management fee or any other similar fee in connection with Tenant's Work. By sending Tenant written notice designating which elements of Tenant's Work Landlord is electing to purchase, Landlord will have the option from time to time to pay the Tenant for the cost of some or all of the Tenant's Work, whereupon the amount of monthly rental due hereunder shall increase by the amount computed by multiplying the amount paid by Landlord by eleven percent (11%) and dividing such product by twelve (12). If Landlord exercises the option described in the preceding sentence, Landlord and Tenant shall enter into an amendment to this Lease to memorialize any such payments made by Landlord and the resulting return due Landlord.

4. Commencement Date. The term of this lease shall commence on the date (the "Commencement Date") which is ninety (90) days from and after the date (the "Substantial Completion Date") on which Landlord obtains a temporary certificate of occupancy for the Building, as improved by the Landlord's Work (but excluding any work performed by Tenant). The parties shall execute a written statement setting forth the Commencement Date and the date of expiration of this Lease promptly after the same shall have been ascertained, but the enforceability of this Lease shall not be affected if either party fails to execute such statement.

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5. Expansion as to Adjacent Land.

(a) Landlord has an option (the "Purchase Option") to purchase approximately twenty-five (25) acres of real property described as "Lot 215 Revised" on the site plan attached hereto as Exhibit "A-1" (the "Adjacent Land") which includes the Expansion Land (as defined in Paragraph 1 of the Lease). As part of its acquisition of the Expansion Land, Landlord anticipates that the Purchase Option shall be modified so as to apply to the Adjacent Land less and except the Expansion Land (hereinafter

referred to as the "Option Land"). Landlord agrees to perform its obligations under the Purchase Option so as to keep its option rights thereunder in full force and effect. Landlord shall invoice Tenant for the cost of keeping the Purchase Option in full force and effect, and Tenant shall pay such amounts to Landlord, as additional rent hereunder, within thirty (30) days of receipt of any such invoice. At the request of Tenant, Landlord shall use good faith efforts to cause the term of the Purchase Option to be extended so as to be exercisable during the entire original ten (10) year term of the Lease. Tenant, within thirty (30) days after being invoiced therefor by Landlord, shall pay all amounts required to be paid by Landlord in order initially to so extend the term of the Purchase Option and thereafter to keep the Purchase Option in full force and effect; provided, however, Landlord shall notify Tenant of the terms of any such extension of the Purchase Option in advance of its commitment to so extend the Purchase Option, and Tenant may withdraw its request that the Purchase Option be so extended by giving written notice to Landlord within ten (10) days of the receipt of Landlord's notice, in which event Tenant shall not be required to pay to Landlord any costs or other amounts incurred by Landlord in seeking the extension of the Purchase Option or to maintain the Purchase Option beyond the original term thereof. At any time during the term of this lease, Tenant may notify Landlord that it no longer requires Landlord to maintain the Purchase Option in full force and effect, and in such event, effective one hundred eighty (180) days after Landlord's receipt of such notice (or sooner if Landlord causes the Purchase Option to terminate), (i) Tenant's rights under this paragraph 5 shall irrevocably cease and be of no further force and effect, and (ii) Tenant shall no longer be required to pay to Landlord the cost of keeping the Purchase Option in full force and effect, nor shall Tenant thereafter have any rights to the Option Land.

(b) Provided that there does not exist a default by Tenant with all applicable notice and cure periods having expired without such default having been cured, Tenant shall have the option, at any time during the original 10-year term (but no more than two (2) times) by written notice to Landlord ("Tenant's Election Notice"), to cause Landlord to exercise its option to purchase the Option Land or a portion thereof sufficient to effect the expansion of the Building as hereinafter described and expand the Building thereon (such expansion is hereinafter referred to as the "Expansion"), at Landlord's sole cost and expense, by a minimum of one hundred fifty-seven thousand five hundred (157,500) square feet and a maximum of three hundred fifteen thousand (315,000) square feet in the aggregate, which Expansion shall be located on the north side of the Building on Lot 215, as set forth on the Site Plan. In any such event, Landlord shall provide a shell building in quality and design comparable to the Existing Shell, except that Landlord shall install no office pod or vehicle parking areas. The design and build out of the Expansion shall be constructed in the same manner as the design and build out of the Existing Shell pursuant to Exhibit "C-1". An amendment documenting the Expansion shall include provisions similar to paragraph 2 of this Rider. Tenant's right to exercise the Expansion two times is subject to the following: (i) Landlord shall have the reasonable right to approve the size of any Expansion if it is other than 157,500 square feet or 315,000 square feet; and (ii) if the first Expansion is 315,000 square feet, there shall be no second Expansion.

(c) Tenant's exercise of the expansion option shall not be effective unless Tenant contemporaneously therewith shall exercise an option as to a portion of a Renewal Term, an entire Renewal Term or a combination of Renewal Terms or portions thereof remaining unexercised pursuant to paragraph 1 of this Rider so there remains exactly ten (10) years in the Lease term effective as of Expansion Rent Commencement Date as to the original Premises and any prior Expansion, as well as the current Expansion. If Tenant exercises only a portion of a Renewal Term in order to meet the requirement that ten (10) years remains in the term, the remainder of such Renewal Term may be exercised independently pursuant to the terms of Paragraph 1 above. Tenant's obligation to pay monthly rental as to the Expansion shall commence on the date on which temporary or permanent certificate of occupancy has been issued as to such Expansion (the "Expansion Rent

Commencement Date"). The time period commencing on the Expansion Rent Commencement Date and ending on the last day of the term hereof, including the renewal options exercised in connection with the exercise of such expansion option, is hereinafter referred to as the "Expansion Term". The Expansion Term shall consist of two components: the "Remaining Term" which shall consist of the remainder of the term hereof prior to the exercise of such expansion and renewal options, and the "Stub Term" which shall consist of that portion of the Expansion Term remaining after the Remaining Term. For example, if Tenant's obligation to pay Expansion Rent occurred when there were 7 years remaining in the original term, then such original term would be extended by 3 years so that the term remaining as of such date was 10 years, the Remaining Term would be 7 years and the Stub Term would be 3 years. In such event, as provided in paragraph 1 above, the first Renewal Term remaining to be exercised pursuant to paragraph 1 would be reduced to 2 years (5 years less Stub Term of 3 years). If Tenant exercises its expansion right two (2) times, then the Remaining Term and Stub Term shall be determined separately as to each Expansion.

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(d) The Expansion shall be governed by all of the terms and conditions of this Lease except that amount of monthly rental as to the Expansion ("Expansion Rent") for the Expansion Term shall be the Market Rate as determined pursuant to this subparagraph (d). Within thirty (30) days of the receipt of Tenant's Election Notice, Landlord shall notify Tenant of Landlord's good faith determination ("Landlord's Determination") of the Market Rate. Within thirty (30) days of the receipt of Landlord's Determination, Tenant shall provide Landlord written notice of the approval of Landlord's Determination. If Tenant disapproves such Landlord's Determination and wishes to withdraw Tenant's exercise of the expansion option, Tenant's written response shall so provide, and in such event, Tenant's exercise of this expansion option shall be rescinded and of no effect. However, the provisions of this Paragraph 5 of this Rider shall remain in full force and effect and Tenant shall thereafter again have the right pursuant to the provisions of said Paragraph 5 to exercise the expansion option. If Tenant provides such notice of disapproval of Landlord's Determination and does not withdraw the exercise of such expansion option, then Landlord and Tenant shall determine the Market Rate pursuant to the procedure described in paragraphs 1(d) and (e) of this Rider. In such event, the Market Rate as to the Stub Term shall not be determined at the time of the exercise of the expansion option, but instead shall be determined within the time period specified in paragraph 5(c)(ii)(B) below. If Tenant provides notice of approval of Landlord's Determination, then Landlord and Tenant shall execute an amendment to this Lease effecting such Expansion. If Tenant fails to respond to Landlord's notice of Landlord's Determination within such thirty (30) day period, then Tenant shall be conclusively deemed to have disapproved Landlord's Determination and withdrawn the exercise of its expansion option.

(e) Monthly rental due during the Expansion Term shall be as follows:

(i) Monthly rental payable as to the Expansion during the Expansion Term shall be the Expansion Rent as provided in subparagraph (d) above. If there are two Expansions, monthly rental shall be computed separately as to each Expansion.

(ii) Monthly rental payable as to original Premises or the first Expansion in the event of a second Expansion shall be as follows:

(A) Monthly rental as to the Remaining Term shall be the amount of monthly rental which shall otherwise be payable hereunder as to the Premises or first Expansion, as applicable, absent any such expansion and renewal.

(B) Monthly rental as to the Stub Term shall be the Market Rate as determined pursuant to paragraph 1 hereof except that (i) such process shall be initiated by notice from Landlord given to

Tenant no later than 6 months nor sooner than 9 months prior to the commencement of the Stub Term and (ii) Tenant shall not have the right to vitiate the exercise of the renewal option regardless of whether Tenant approves the Market Rate, as so determined.

(f) Landlord's obligations under this paragraph 5 shall be contingent upon (i) Landlord's ability to finance the Expansion on terms and conditions which are then commercially reasonable (which terms shall include a loan to value ratio of not less than 75%, a debt service ratio of not more than 1.25 based on loan which fully amortizes over a term of not greater than 25 years); (ii) the receipt of such approval and entitlements as may be necessary for the development of the Expansion; (iii) Tenant having net worth of not less than \$100,000,000 and the ratio of Tenant's total debt to the aggregate balance of Tenant's total debt plus equity not exceeding seventy five percent (75%). The satisfaction of the financial conditions set forth in subparagraph 5(f) shall be evidenced by audited financial statements or Form 10-Q or other periodic filings with the SEC.

(g) This expansion option shall terminate on first to occur of (i) the foreclosure of any mortgage encumbering the Premises or the conveyance of the Premises in lieu of foreclosure; (ii) the expiration of the original ten (10) year term of this Lease; (iii) the consummation by Guess ? Inc., the named tenant, of a sublease or assignment other than a Permitted Transfer as defined in paragraph 8 of this Rider.

6. Declaration. Tenant shall pay to Landlord, as additional rental under this Lease, within thirty (30) days after receipt of an invoice from Landlord, any sums which relate to the Premises and which, by virtue of Tenant's acts or omissions, shall be due and payable from Landlord pursuant to the terms of that certain Declaration of Restrictions for Riverport Complex of record in Deed Book 6561, Page 89, as amended.

7. Contingencies. The Lease is in full force and effect as of the date hereof, but Tenant shall have the right to terminate the Lease as follows:

(a) On or before June 15, 1999 Landlord shall notify Tenant whether Landlord has acquired the Expansion Land. If Landlord shall have failed to acquire the Expansion Land on or before June 15, 1999, Tenant and Landlord shall each have the right to terminate this Lease by notice to the other party given on or before June 18, 1999, in which event this Lease shall be of no further force or effect and neither party hereto shall have any further liability to the other party. If Tenant fails to terminate this Lease pursuant to this paragraph on or before June 18, 1999, Tenant shall be deemed to have waived its right to terminate this Lease pursuant to this subparagraph.

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(b) Landlord shall deliver to Tenant a copy of any recorded covenants, conditions and restrictions affecting the Expansion Land on or before May 10, 1999. Tenant shall have the right to terminate this Lease by notice to Landlord given on or before May 18, 1999, if Tenant fails to approve any matter which adversely affects title to the Expansion Land, in which event this Lease shall be of no further force or effect and neither party hereto shall have any further liability to the other party. If Tenant fails to terminate this Lease pursuant to this paragraph on or before May 18, 1999, Tenant shall be deemed to have waived its right to terminate this Lease pursuant to this subparagraph.

(c) If the Riverport Board shall not have approved Landlord's request for an extension of its Purchase Option through June 30, 2003 (as defined below) on or before May 15, 1999, Tenant shall have the right to terminate this Lease by notice to Landlord given on or before May 18, 1999, in which event this Lease shall be of no further force or effect and neither party hereto shall have any further liability to the other party. If Tenant fails

to terminate this Lease pursuant to this paragraph on or before May 18, 1999, Tenant shall be deemed to have waived its right to terminate this Lease pursuant to this subparagraph.

(d) If Tenant determines that the Existing Shell, including the structure, all systems therein, and all appurtenances thereto are not suitable for Tenant's proposed use, Tenant shall notify Landlord on or before May 18, 1999, of the defects that render the foregoing unsuitable for Tenant's proposed use. If Tenant fails to provide such notice to Landlord on or before May 18, 1999, Tenant shall be deemed to have waived its right to terminate this Lease pursuant to this subparagraph. If Tenant gives such notice and Landlord fails to agree to cure such defects or agrees to cure such defects but fails to complete such cure within thirty (30) days of such notice from Tenant, this Lease shall terminate and be of no further force and effect and neither party hereto shall have any further liability to the other party.

(e) Tenant fails to obtain approval from the appropriate local governmental authorities for economic assistance under the Kentucky Jobs Development Act, Tenant fails to obtain such approval on or before May 15, 1999, Tenant shall be entitled to terminate this Lease by notice given to Landlord on or before May 18, 1999, in which event this Lease shall be of no further force or effect and neither party hereto shall have any further liability to the other party. If Tenant fails to terminate this Lease pursuant to this paragraph on or before May 18, 1999, Tenant shall be deemed to have waived its right to terminate this lease pursuant to this subparagraph.

8. Assignment. Notwithstanding anything to the contrary contained in this Lease, Tenant shall have the right, without the consent of the Landlord, to assign this Lease or sublet the Premises to a corporation or other entity which:

(a) is Tenant's parent corporation, so long as such assignee or sublessee remains Tenant's parent corporation; or

(b) is a wholly-owned subsidiary of Tenant, so long as such assignee or sublessee remains a wholly-owned subsidiary of Tenant; or

(c) is a corporation of which Tenant or Tenant's parent corporation owns or the shareholders of Tenant or Tenant's parent corporation own in excess of fifty percent (50%) of the outstanding capital stock, so long as Tenant or Tenant's parent corporation continues to own or the shareholders of Tenant or Tenant's parent corporation continues to own in excess of fifty percent (50%) of the outstanding capital stock of such assignee or sublessee; or

(d) as a result of a consolidation, merger or other reorganization with Tenant and/or Tenant's parent corporation, shall own all or substantially all of the capital stock or assets of Tenant or Tenant's parent corporation, but only if such assignee or sublessee has a tangible net worth of not less than \$75,000,000.00 immediately before such assignment or subletting and such consolidation, merger or other reorganization does not involve any distribution of cash or other assets which would result in such assignee or sublessee having a net worth less than \$75,000,000.00 after such assignment or subletting; or (e) Acquires or is acquiring all or substantially all of the outstanding capital stock of Tenant or all or substantially all of the assets of Tenant, but only if such assignee or sublessee has a tangible net worth of not less than \$75,000,000.00 immediately before such assignment or subletting and such acquisition does not

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not involve any distribution of cash or other assets which would result in such assignee or sublessee having a net worth less than \$75,000,000.00 after such assignment or subletting; or

(f) as a result of a change of the domicile of Tenant or the

reincorporation of Tenant in another jurisdiction shall own all or substantially all of the assets of Tenant, but only if such assignee or sublessee has a tangible net worth of not less than \$75,000,000.00 immediately before such assignment or subletting and such change of domicile does not involve any distribution of cash or other assets which would result in such assignee or sublessee having a net worth less than \$75,000,000.00 after such assignment or subletting.

Any assignment or subletting pursuant to a-f above, inclusive, shall be subject to the following conditions: (a) Tenant shall remain fully liable during the unexpired term of this Lease, unless Tenant shall cease to exist as a result of any transaction described in subparagraphs (d) or (f) above; (b) any such assignment or subletting shall be subject to all of the terms of this Lease; and (c) such assignee (other than a person or entity that acquires all or substantially all of the capital stock of Tenant) shall assume all obligations of "Tenant" under this Lease from and after the date of such assignment. Tenant shall notify Landlord within thirty (30) days of any such assignment or subletting, and Tenant shall deliver to Landlord within thirty (30) days of any such assignment a fully executed, recordable form agreement from any such assignee to Landlord whereby such assignee (other than a person or entity that acquires all or substantially all of the capital stock of Tenant) agrees to assume all obligations of Tenant under this Lease from and after the date of such assignment.

FAMILY TRANSFERS

The transfer of shares of stock of Tenant among the immediate members of the family of a shareholder, to a living trust for estate planning purposes or by will or intestacy, or to existing shareholders of Tenant or to Tenant shall not be deemed an assignment of this Lease or the subletting of the Premises.

PUBLIC OFFERING/TRADING

In no event shall a sale, issuance or transfer of the stock of Tenant to the public or public trading of the stock of Tenant constitute an assignment of this Lease or a subletting of the Premises.

HYPOTHECATION

An hypothecation of shares of stock of Tenant shall not be deemed an assignment of this Lease or a subletting of the Premises unless and until either the person to whom said shares have been so hypothecated obtain the right to vote said shares for directors of Tenant prior to any foreclosure of any security interest in said shares or acquires all right, title and interest of the hypothecator in said shares.

Any assignment or subletting which is permitted without Landlord's consent pursuant to this paragraph 8 is referred to herein as a "Permitted Transfer."

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EXHIBIT "D"

Guess?
Distribution Center
Preliminary Pre-Architectural Specifications
Dated: April 7, 1999

Items to be removed at end of lease by Guess? (at the discretion of RPP):

1. All conveyors (product, trash, etc.)
2. Personnel catwalks
3. Personnel lockers (at peak a total of 560 lockers)

4. All racking
5. Air compressor lines (terminate at the source and remove)
6. Electrical lines for equipment (terminate at the source and remove conduit)
7. Specialized computer room features (including: raised flooring, special fire protection system)
8. Cafeteria (4,000 square feet without patio)
9. Training room (1,000 square feet)
10. Exercise room (1,000 square feet)
11. Employee entrance area (9,600 square feet)
12. Service room area (8,400 square feet)

Items 7 through 12 (inclusive of items 7 and 12) are referred to in this Lease as the "Group Removal Items."

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EXHIBIT "E"

Assume that during the second Lease Year Tenant elects to expand the Building by 157,500 square feet by exercising its first Expansion right pursuant to paragraph 5 of this Rider and that the Expansion Rent Commencement Date for such Expansion is the first day of the third Lease Year. Assume further that during the eighth Lease Year Tenant elects to expand the Building by an additional 157,500 square feet by exercising its second Expansion right pursuant to paragraph 5 of this Rider and that the Expansion Rent Commencement Date for such Expansion is the first day of the ninth Lease Year. Given these assumptions, the following would apply:

(A) As to the first Expansion:

(1) Tenant would be required to renew the Lease pursuant to this paragraph 1 of the Rider in order to extend the term by two years. After such renewal, the term would expire at the end of the twelfth Lease Year.

(2) The Remaining Term would begin on the first day of the third Lease Year and end on the last day of the initial term. The Stub Term would be the two year period of time which is the subject of the renewal option described in item (1) above (i.e., Lease Years 11-12). This would result in the next Renewal Term consisting of Lease Years 13-15, inclusive.

(3) The rent would be the Market Rate during the Remaining Term and the Stub Term.

(4) As a consequence of the second Expansion, Tenant would be required to exercise two Renewal Terms -- as to Lease Years 13-15 remaining after the renewal referred to Paragraph (A)(1) above and as to the Lease Years 16-18 -- so as to meet the requirement of paragraph 5(c) of this Rider that the term of this Lease be extended for ten years as of the Expansion Rent Commencement Date as to the second Expansion. In such event, the rent for Lease Years 13-15 for the first Expansion shall be the lesser of the CPI Ceiling or the Market Rate, as determined as of the beginning of such three year period (subject always to the provisions of paragraph 1(b) of this Rider, which provide that rent shall never be less than the rent applicable immediately prior to any adjustment in the rent). The rent for Lease Years 16-18 for the first Expansion shall be the Market Rate, as determined as of the first day of such three year period. If Tenant exercises its option to renew as to the last remaining Renewal Term as to Lease Years 19-20 (i.e., renew after the expiration of the Expansion Term for the second Expansion), the rent as to the first Expansion shall be the Market Rate, as determined as of the first day of such two year period.

(B) As to the second Expansion:

(1) Tenant would be required to renew the Lease pursuant to this paragraph 1 of the Rider in order to extend the term by an additional six years so that it would expire at the end of Lease Year 18. Thus, the ten year period after the Expansion Rent Commencement Date which Tenant is required to have pursuant to the terms of paragraph 5 of this Rider shall be comprised of the two years remaining in the initial ten year term, the two years of the Stub Term for the first Expansion, three years until the end of the first five year renewal term and the first three years of the second five year renewal term.

(2) The Remaining Term would begin on the first day of the ninth Lease Year and would end on the last day of the Stub Term for the first Expansion. The Stub Term for the second Expansion would be Lease Years 13-18.

(3) The rent would be the Market Rate during the Remaining Term and the Stub Term. If Tenant exercises its option to renew as to the last remaining Renewal Term as to Lease Years 19-20 (i.e., renew after the expiration of the Expansion Term for the second Expansion), the rent as to the second Expansion shall be the Market Rate, as determined as of the first day of such two year period.

(C) As to the Building (exclusive of the Expansions):

(1) Rent increases pursuant to paragraph 3 of the Lease at the end of the fifth Lease Year. The term will be renewed as to Lease Years 11-12 as to the First Expansion and Lease Years 13-18 as to the Second Expansion. During Lease Years 11-15, the rent shall be the lesser of the CPI Ceiling or the Market Rate, as determined as of the beginning of Lease Year 11 (subject always to the provisions of paragraph 1(b) of this Rider, which provide that rent shall never be less than the rent applicable immediately prior to any adjustment in the rent). During Lease Years 16-18, if Tenant exercises its option to renew as to the last remaining Renewal Term as to Lease Years 19-20 (i.e., renew after the expiration of the Expansion Term for the second Expansion), the rent as to the first Expansion shall be the Market Rate, as determined as of the first day of such two year period. The rent is the Market Rate, as determined as of the beginning of Lease Year 16.

The following chart further clarifies Exhibit "E":

Rent Applicable to Exhibit "E"

Lease Year	1-2	3-5	6-8	8-10	11-12	13-15	16-18	18-20
Original Premises	\$2.70/sft.	\$2.70/sft.	\$3.05/sft.	\$3.05/sft.	lesser of Market Rate or CPI Ceiling	lesser of Market Rate or CPI Ceiling	Market Rate	Market Rate
First Expansion	N/A	Market Rate	Market Rate	Market Rate	Market Rate	lesser of Market Rate or CPI Ceiling	Market Rate	Market Rate
Second Expansion	N/A	N/A	N/A	Market Rate	Market Rate	Market Rate	Market Rate	Market Rate

SUBSCRIPTION AGREEMENT

BY AND AMONG

STRANDEL INC.

GUESS?, INC.

AND

FREEMARK ENTERTAINMENT CORPORATION

July 31, 1999

SUBSCRIPTION AGREEMENT

MEMORANDUM OF AGREEMENT made at Montreal on the 31st day of July, 1999

BY AND AMONG: STRANDEL INC., a corporation incorporated under the laws of Canada, with its registered office at 7077 Park Avenue, Suite 5031, Montreal, Quebec, H3N 1X7,

the "Corporation");

AND: GUESS?, INC., a corporation incorporated under the laws of Delaware, with its registered office at 1444 South Alameda Street, Los Angeles, California, 90021, U.S.A.,

(the "Purchaser");

AND: FREEMARK ENTERTAINMENT CORPORATION, a corporation incorporated under the laws of Canada, with its registered office at 7077 Park Avenue, Suite 503, Montreal, Quebec, H3N 1X7,

("Freemark").

WHEREAS the Purchaser desires to subscribe for thirty thousand (30,000)

Class A Common Shares from the treasury of the Corporation, in consideration of an aggregate amount of three million dollars (\$3,000,000) (the "Equity Investment"), which would increase its equity position in the Corporation to 60%, at such price and on such terms as hereinafter set forth (the "Subscription"); and

WHEREAS the Equity Investment will be used by the Corporation for purposes of working capital and to become current with trade creditors;

THIS AGREEMENT WITNESSETH THAT, in consideration of the mutual covenants herein contained, it is agreed by and between the Parties as follows:

ARTICLE I
INTERPRETATION

1.1 Definitions. Where used herein or in any amendments hereto or in any communication required or permitted to be given hereunder, the following terms shall have the following meanings, respectively, unless the context otherwise requires:

(a) "Agreement" shall mean this Subscription Agreement and all instruments supplemental hereto or in amendment of confirmation hereof; "herein", "hereof", "hereto", "hereunder" and similar expressions mean and refer to this Agreement and not to any particular Article, Section, Subsection or other subdivision; "Article", "Section", "Subsection" or other subdivision of this Agreement means and refers to the specified Article, Section, Subsection or other subdivision of this Agreement.

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(b) "Closing" shall mean the delivery to the Purchaser of the share certificates for the Subscribed Shares and the payment to the Corporation of the Subscription Price for the Subscribed Shares at the place of closing on the Closing Date.

(c) "Closing Date" shall have the meaning ascribed thereto at Section 8.1.

(d) "Financial Statements" shall mean the Corporation's audited financial statements as at March 31, 1999 and the combined audited financial statements as at January 30, 1999 of 176995 Canada Inc., 3032116 Canada Inc., 2996197 Canada Inc., 3032507 Canada Inc., 3098605 Canada Inc., 3133320 Canada Inc., 3133338 Canada Inc., 3138925 Canada Inc. and Spinardi Inc., copies of which financial statements are annexed hereto as Schedule 1.1(d).

(e) "Indemnified Party" shall have the meaning ascribed thereto at Section 7.3.

(f) "Indemnifying Party" shall have the meaning ascribed thereto at Section 7.3.

(g) "Intellectual Property Rights" shall mean (i) all domestic and foreign patents, trade marks, trade names, service marks, copyrights, trade secrets, inventions, know-how, technology, software, licenses, and other intellectual property, and (ii) all registrations and applications for registration of intellectual property; and "Intellectual Property Right" shall mean any one of them.

(h) "Laws" shall mean:

(i) all constitutions, treaties, laws, statutes, codes, ordinances, orders, decrees, rule, regulations, and municipal by-laws; and

(ii) all judgments, orders, writs, injunctions, decisions, rulings, decrees, and awards of any governmental authority or body,

in each case binding on or affecting the Party or Person referred to in the context in which such word is used; and "Law" shall mean any one of them.

- (i) "License" and "Licenses" shall have the respective meanings ascribed thereto at Section 3.1(z).
- (j) "Lien" and "Liens" shall mean any pledge, hypothec, charge, claim, restriction on transfer, mortgage, security interest or encumbrance of any sort.
- (k) "Losses" shall have the meaning ascribed thereto at Section 7.1.
- (l) "Parties" shall mean the Purchaser, Freemark and Strandel; and "Party" shall mean any one of them.
- (m) "Person" shall mean an individual, corporation, company, cooperative, partnership, limited liability company, trust, unincorporated association, entity with juridical personality or governmental authority or body, and pronouns which refer to a Person shall have a similarly extended meaning.

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- (n) "Reorganization" shall mean the transfer by the Purchaser and Freemark of all of the issued and outstanding shares of the capital of 3535762 Canada Inc. to the Corporation according to the terms disclosed in Schedule 1.1(n) annexed hereto.
- (o) "Subscribed Shares" shall mean 30,000 Class A Common Shares from the treasury of the Corporation representing, after giving effect to said share subscription, 40% of the issued and outstanding shares of the share capital of the Corporation, delivered to the Purchaser.
- (p) "Subscription Price" shall have the meaning ascribed thereto at Section 2.1.
- (q) "Subsidiaries" shall mean 3535762 Canada Inc., 3106021 Canada Inc., Spinardi Inc., 176995 Canada Inc., 3562786 Canada Inc., 3138925 Canada Inc., 3032507 Canada Inc., 3032116 Canada Inc., 2996197 Canada Inc., 3098605 Canada Inc., 3133320 Canada Inc. and 3133338 Canada Inc.
- (r) "Tax" and "Taxes" shall have the respective meanings ascribed thereto at Section 3.1(w).

1.2 Schedules. The following is a list of the Schedules attached hereto and incorporated herein by reference:

Schedule 1.1(d)	-	Financial Statements
Schedule 1.1(n)	-	Reorganization
Schedule 3.1(d)	-	No Conflict
Schedule 3.1(e)	-	Corporate Chart
Schedule 3.1(f)	-	Subsidiary
Schedule 3.1(g)	-	No Options
Schedule 3.1(j)	-	Liabilities
Schedule 3.1(l)	-	No Changes; No Unusual Transactions
Schedule 3.1(m)	-	Permitted Liens
Schedule 3.1(o)	-	Condition and Sufficiency of Assets; Inventory
Schedule 3.1(p)	-	Place of Business
Schedule 3.1(q)	-	Intellectual Property Rights
Schedule 3.1(r)	-	Contracts
Schedule 3.1(t)	-	Insurance
Schedule 3.1(u)	-	Bank Accounts
Schedule 3.1(v)	-	Outstanding Litigation
Schedule 3.1(w)	-	Tax Matters
Schedule 3.1(z)	-	Licenses
Schedule 3.1(bb)	-	Benefit Plans

- Schedule 3.1(cc) - Environmental Matters
- Schedule 4.1(c) - Form of Unanimous Shareholders Agreement
- Schedule 4.1(d) - Form of Employment Agreements
- Schedule 4.1(f) - Form of Loan Agreement
- Schedule 4.1(g) - Form of Opinion of Counsel for the Corporation

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ARTICLE II SUBSCRIPTIONS

2.1 Subscription. Upon and subject to the terms and conditions hereof, the Purchaser hereby subscribes for the Subscribed Shares for an aggregate subscription price equal to three million dollars (\$3,000,000) (the "Subscription Price") all of which shall be allocated to the Subscribed Shares.

2.2 Acceptance. The Corporation hereby accepts the subscription of the Purchaser for the Subscribed Shares indicated in Section 2.1, subject to the terms and conditions contained herein.

2.3 Payment of the Subscription Price. Purchaser hereby acknowledges receipt of the Subscribed Shares and the Corporation hereby acknowledges receipt of the Subscription Price, by way of certified cheque or bank draft. It is understood that the entire Subscription Price shall be added to the stated capital account of the Class A Common Shares.

ARTICLE III REPRESENTATIONS AND WARRANTIES

3.1 Representations and Warranties of the Corporation and Freemark. Each of the Corporation and Freemark, on a solidary (joint and several) basis, each waiving the benefits of division and discussion, represents and warrants to the Purchaser as follows and acknowledges that the Purchaser is relying upon such representations and warranties in connection with the subscription by the Purchaser of the Subscribed Shares and that the Purchaser would not have entered into this Agreement without such representations and warranties:

- (a) Due Incorporation. Each of the Corporation, the Subsidiaries and Freemark:
 - (i) is duly incorporated, validly existing and in good standing under the Laws of its jurisdiction of incorporation; and
 - (ii) has all necessary corporate power and authority to own, lease and operate its properties and to conduct its business as and in the places where such properties are now owned, leased or operated or such business is now conducted.
- (b) Due Authorization. Each of the Corporation and Freemark has the necessary corporate power and authority to execute this Agreement and to perform its obligations hereunder. The execution of this Agreement by each of the Corporation and Freemark and the performance by each of the Corporation and Freemark of its obligations hereunder has been duly authorized by all necessary action on their part. Such execution and performance by the Corporation and Freemark does not require any action or consent of, any registration with, or notification to, any Person, or any action or consent under any Laws to which each of the Corporation and Freemark is subject, except for any such disclosure as each of the Corporation and Freemark shall determine to be necessary or appropriate to comply with securities laws, stock exchange rules and/or covenants in loan agreements.

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- (c) Enforceability. This Agreement constitutes a legal, valid and binding

obligation of the Corporation and of Freemark enforceable against them in accordance with its terms, except to the extent that enforcement may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting creditors' rights generally and by general principles of equity.

(d) No Conflict. The execution of this Agreement, the consummation of the transactions contemplated herein, the performance by each of the Corporation and Freemark of its obligations hereunder and the compliance by each of the Corporation and Freemark with this Agreement do not:

(i) violate, contravene or breach, or constitute a default under, the constating instruments or by-laws of the Corporation or of Freemark;

(ii) violate, contravene or breach, or constitute a default under any contract, agreement, indenture, instrument, or commitment to which the Corporation or the Subsidiaries may be a party, or their properties may be subject, or by which either of them is bound or affected, except for those agreements listed in Schedule 3.1(d);

(iii) result in, or give any Person the right to seek, or to cause (a) the termination, cancellation, modification, amendment, variation or renegotiation of any contract, agreement, indenture, instrument or commitment to which the Corporation or the Subsidiaries or any of their properties may be a party or subject or by which either of them is bound or affected, or (b) the acceleration or forfeiture of any term of payment, or (c) the loss in whole or in part of any benefit which would otherwise accrue to the Corporation or the Subsidiaries, except for these agreements listed in Schedule 3.1(d);

(iv) result in, or require the creation of any lien, hypothec, pledge, charge, prior claim, security interest, adverse claim or other encumbrance or right of others of any nature, whatsoever or howsoever arising (individually, a "Lien" and collectively, "Liens"), upon any of the Subscribed Shares or any of the Subscribed Shares or any property of the Corporation of the Subsidiaries; or

(v) violate, contravene or breach any Laws.

(e) Authorized and Issued Capital. The authorized capital of the Corporation consists of an unlimited number of Class A Common Shares, Class B Common shares, Class A Preferred shares, Class B Preferred Shares, Class C Preferred shares and Class D Preferred shares, of which thirty thousand (30,000) Class A Common Shares (and no more) have been (without giving effect to the Subscription) validly subscribed and issued and are outstanding as fully paid and non-assessable, free and clear of all Liens.

Immediately following the issuance pursuant hereto of the Subscribed Shares, the Subscribed Shares represent 40% of all of the issued and outstanding shares in the capital of the Corporation.

All of the issued outstanding shares in the capital of each of the Subsidiaries have been validly subscribed and issued, and are outstanding as fully paid non-assessable, free and clear of all Liens and are beneficially owned by the Corporation or any of the Subsidiaries, as the case may be, as the corporate chart sets out in Schedule 3.1(e).

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(f) No Subsidiary. Except as disclosed in Schedule 3.1(f) annexed hereto, the Corporation does not own, directly or indirectly, any shares in the capital of any Person and has never had any property interest in any Person.

(g) No Options. Except as disclosed in Schedule 3.1(g). There is no:

- (i) outstanding security of the Corporation or any of the Subsidiaries convertible or exchangeable or exercisable into any share or shares in the capital of the Corporation or any Subsidiary;
 - (ii) outstanding subscription, option, warrant, call, commitment or agreement obligating the Corporation or the Subsidiaries, presently or in the future, to issue any share or shares of its capital or any security or securities of any class or kind which in any way relate to the authorized or issued capital of the Corporation or any Subsidiary;
 - (iii) agreement (other than this Agreement) which grants to any Person the right to purchase or otherwise acquire any share or shares issued and outstanding in the capital of the Corporation or any Subsidiary; or
 - (iv) voting trust or voting agreement or pooling agreement or proxy with respect to any shares of the capital of the Corporation or any Subsidiary.
- (h) Books and Records. The minute books of the Corporation and the Subsidiaries are complete and accurate and contain copies of all by-laws and resolutions passed by the shareholders and directors (and any committees) since the respective dates of their incorporation; all of which by-laws and resolutions have been duly passed.

The share certificate books, registers of shareholders, registers of transfers and registers of directors of the Corporation and the Subsidiaries are complete and accurate.

The financial books and records of the Corporation and the Subsidiaries have been maintained in accordance with sound business practices and fairly, accurately and completely present and disclose in accordance with generally accepted accounting principles consistently applied (i) the financial position of the Corporation and the Subsidiaries, and (ii) all material transactions of the Corporation and the Subsidiaries.

- (i) Financial Statements. The Financial Statements fairly, accurately and completely present and disclose in all material respects in accordance with GAAP (i) the financial position of the Corporation and of the Subsidiaries, (ii) the results of operations of the Corporation and the Subsidiaries, and (iii) the changes in the financial position of the Corporation and the Subsidiaries, all as at the dates and for the periods therein specified (except that in the case of unaudited statements, such statements are subject to audit and year-end adjustments, and do not have any notes).

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- (j) Liabilities. Each of the Corporation and the Subsidiaries has no liabilities or obligations of any nature whatsoever, whether direct, indirect, absolute, contingent or otherwise, except for those liabilities or obligations (i) reflected in or reserved against in their Financial Statements, (ii) incurred after their respective year ends in the usual and ordinary course of business consistent with past practice, or (iii) set forth in Schedule 3.1(j) annexed hereto.
- (k) Accounts Receivable. All accounts receivable of the Corporation and the Subsidiaries are bona fide, result from the ordinary course of business, have been properly recorded in the ordinary course of business.
- (l) No Changes; No Unusual Transactions. Except as disclosed in Schedule 3.1(l) since the last audited balance sheet date, the Corporation and each of the Subsidiaries has conducted its business in the ordinary course and there has not been any material change in either the business, operations, properties, or condition of the Corporation and the Subsidiaries taken as a whole, nor any event, condition or contingency that could reasonably be expected to result in any such material change.

(m) Title to Property. The Corporation and each of the Subsidiaries is the sole and unconditional owner of, and has a good and valid title to all of its assets reflected on the Financial Statements, or which have been acquired on or after January 30, 1999 (other than such assets consumed or disposed of on or after January 30, 1999 in the ordinary course of business and in a manner consistent with past practice), in each case free and clear of all Liens, except for the Permitted Liens described in Schedule 3.1(m).

(n) Immovable. The Corporation and the Subsidiaries do not own any immovable property.

(o) Condition and Sufficiency of Assets; Inventory. Except as disclosed in Schedule 3.1(o)annexed hereto, all of the tangible assets of the Corporation and the Subsidiaries are (i) in good operating condition and repair, ordinary wear and tear excepted, (ii) not in need of maintenance or repairs (except ordinary or routine maintenance or repairs that are not material in nature or costs, individually or collectively), and (iii) adequate and sufficient for the continuing conduct of the business of the Corporation and the Subsidiaries as now conducted.

All inventory of each of the Corporation and the Subsidiaries is of a quality and quantity usable and salable in the ordinary course of business.

(p) Location; Place of Business. Other than inventory in transit and vehicles used in the transportation of such inventory, each of the Corporation and the Subsidiaries does not hold, directly or indirectly, any of its moveable or personal property anywhere other than in the locations set forth in Schedule 3.1(p) annexed hereto.

(q) Intellectual Property Rights. Other than the license agreement entered into with the Purchaser or licenses related to the use of software in the ordinary course of business, the only Intellectual Property Rights used by the Corporation and the Subsidiaries are related to the use of the name Strandel. The operations of the business do not infringe the Intellectual Property Rights of any Person. No proceeding for infringement of the Intellectual Property Rights of any Person is pending or threatened against the Corporation or the Subsidiaries in connection with the business of any of its affiliates (as defined under the Canada Business Corporations Act).

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(r) Contracts; Leases. Schedule 3.1(r) annexed hereto contains a description of all written or oral contracts, agreements, indentures, instruments, commitments and all the leases to which the Corporation or any of the Subsidiaries is a party or by which it is bound other than (i) involving receipts or expenditures of the Corporation of less than \$100,000 per annum or (ii) verbal contracts of employment which are terminable on notice required by law, or (iii) purchase orders issued or received in the ordinary course of business.

Except as disclosed in Schedule 3.1(d), all leases to which the Company or any Subsidiary is a party are in good standing and in full force and effect without amendment thereto, and each of the Corporation and the Subsidiaries, as the case may be, is entitled to all benefits under such leases.

(s) Guarantees. Neither the Corporation nor any Subsidiary is party to or bound either absolutely or on a contingent basis by any comfort letter, understanding or agreement of guarantee, indemnification, assumption or endorsement or any like commitment with respect to the liabilities or obligations of any Person (whether accrued, absolute or otherwise contingent), except in the ordinary course of business.

(t) Insurance. Schedule 3.1(t) is a true and complete list of all insurance policies currently maintained by or for each of the Corporation and the

Subsidiaries. The coverage under each such policy is in full force and effect and each of the Corporation and the Subsidiaries, as the case may be, is in good standing under such policies.

The Corporation and the Subsidiaries have not received notice of, and each of Freemark and the Corporation has no knowledge of any fact, condition or circumstance which might reasonably form the basis of any claim against the Corporation or any of the Subsidiaries which (i) is not fully covered by insurance (subject to deductibles) maintained by or for the Corporation or any of the Subsidiaries, or (ii) could reasonably be expected to result in any increase in insurance premiums payable by the Corporation or any of the Subsidiaries.

- (u) Bank Accounts. Schedule 3.1(u) annexed hereto sets forth the name of each Person with whom each of the Corporation and the Subsidiaries maintains an account or safety deposit box and the names of all Persons authorized to draw thereon or to have access thereto.
- (v) Litigation. Except as disclosed in Schedule 3.1(v) annexed hereto, there are (i) no actions, claims, investigations, arbitrations, or other proceedings pending or, to the knowledge of Freemark or the Corporation, threatened against, any of the Corporation's or any Subsidiary's properties, which if adversely determined would have a material adverse effect on the Corporation or the Subsidiaries; and (ii) no outstanding judgments, orders, decrees, writs, injunctions, decisions, rulings or awards against, with respect to, or in any manner affecting the Corporation or any of the Subsidiaries or their respective properties.

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- (w) Tax Matters. For the purposes of this Agreement, the term "Tax" or, collectively, "Taxes" shall mean (i) any and all federal, state, provincial, municipal, local and foreign taxes, assessments and other governmental charges, duties, impositions and liabilities including Canada Pension Plan and Provincial Pension Plan contributions and unemployment insurance contributions and employment insurance contributions including taxes based upon or measured by gross receipts, income, profits, sales, capital use and occupation, goods and services, and value added, ad valorem, transfer, franchise, withholding, payroll, recapture, employment, excise and property taxes, together with all interest, penalties and additions imposed with respect to such amounts and (ii) any liability for the payment of any amounts of the type described in clause (i) of this Section 3.1(w) as a result of any express or implied obligation to indemnify any other person or as a result of any obligations under any agreements or arrangements with any other person with respect to such amounts and including any liability for taxes of a predecessor entity.

(i) Tax Returns and Audits

1. The Corporation and the Subsidiaries have correctly computed all Taxes prepared and duly and timely filed all federal, provincial, local and foreign returns, estimates, information statements and reports ("Tax Returns"), required to be filed by them, have timely paid all Taxes which are due and payable and have made adequate provision in the Financial Statements for the payment of all Taxes that are or may become payable for any taxation year ending on or prior to March 31, 1999. The Corporation and the Subsidiaries have made adequate and timely installments of Taxes required to be made.
2. With respect to any periods for which Tax Returns the Corporation and the Subsidiaries have not yet been required to be filed or for which Taxes are not yet due and payable, they have only incurred liabilities for Taxes in the ordinary course of its business and in a manner consistent with prior periods.

3. All Tax Returns of the Corporation and the Subsidiaries have been assessed through and including each of the dates set forth in Schedule 3.1(w), and there are no outstanding waivers, except as set forth in Schedule 3.1(w), of any limitation periods or agreements providing for an extension of time for the filing of any Tax Return or the payment of any Tax by the Corporation and the Subsidiaries or any outstanding objections to any assessment or reassessment of Taxes. Any deficiencies proposed as a result of such assessments or reassessments of the Tax Returns through and including the dates set forth in Schedule 3.1(w) have been paid and settled with the exception of the GST/PST Taxes assessments as set forth in Schedule 3.1(j).

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4. There are no contingent Tax liabilities or any grounds that could prompt an assessment or reassessment, including, but without limitation, aggressive treatment of income, expenses, deductions, credits or other amounts in the filing of earlier or current Tax Returns, nor have the Corporation and the Subsidiaries received any indication from any taxation authorities that an assessment or reassessment of Tax is proposed.
5. The Corporation and the Subsidiaries have withheld from each payment made to any of their past and present shareholders, directors, officers, employees and agents the amount of all Taxes and other deductions required to be withheld and have paid such amounts when due, in the form required under the appropriate legislation, or made adequate provision for the payment of such amounts to the proper receiving authorities.
6. The Corporation and the Subsidiaries have collected from each receipt from any of the past and present customers (or other persons paying amounts to the Corporation) the amount of all Taxes (including goods and services tax and provincial sales taxes) required to be collected and have remitted such Taxes when due, in the form required under the appropriate legislation or made adequate provision for the payment of such amount to the proper receiving authorities.
7. The Corporation and the Subsidiaries are not subject to any assessments, levies, penalties or interest with respect to Taxes which will result in any liability on their part in respect of any period ending on or prior to the date hereof, in excess of the amount to be provided for in the Financial Statement.
8. The Corporation and the Subsidiaries have not been and are not currently required to file any returns, reports, elections, designations or other filings with any taxation authority located in any jurisdiction outside Canada or outside the province of Quebec.
9. Except as disclosed in Schedule 3.1(w), the Corporation and the Subsidiaries have not filed or been party to any election pursuant to Section 83 or 85 of the Income Tax Act (Canada) (the "ITA") or the corresponding provisions of any provincial statute.
10. The Corporation and the Subsidiaries have not at any time benefited from a forgiveness of debt, except pursuant to the transaction with Pantorama Industries Inc. referred to in Schedule 3.1(1), or entered into any transaction or arrangement (including conversion of debt into shares of its share capital) which could have resulted in the application of Section 80 and following of the ITA or the relevant provisions of any provincial statute.

11. Since its date of incorporation, the Corporation and each of the Subsidiaries has been a "Canadian controlled private corporation" within the meaning of the ITA and the relevant provincial legislation.

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12. Except as disclosed in Schedule 3.1(w), the Corporation and the Subsidiaries are not, nor have they been at any time, associated (within the meaning of the ITA and the relevant provincial legislation) with any other corporation.
 13. The Corporation and the Subsidiaries have made available to Purchaser or its legal counsel, copies of all available foreign, federal, state, provincial and local income and all state and local sales and use Tax Returns for the Corporation and the Subsidiary filed for all periods since its inception.
 14. There are no Liens on the assets of the Corporation or any Subsidiaries relating to or attributable to Taxes other than Liens for Taxes not yet due and payable.
 15. As of the Closing, there will not be any contract, agreement, plan or arrangement, including but not limited to the provisions of this Agreement, covering any employee or former employee of the Corporation that, individually or collectively, could give rise to the payment of any amount that would not be deductible by the Corporation or the Subsidiaries as an expense under applicable Law other than reimbursements of a reasonable amount of travel, entertainment expenses and other nondeductible expenses that are commonly paid by similarly situated businesses in reasonable amounts.
 16. The Corporation and the Subsidiaries tax basis in their assets (and the undepreciated capital cost of such assets) for purposes of determining their future amortization, depreciation and other Federal and provincial income tax deductions is accurately reflected on the Corporation's Tax Returns and records.
 17. The Corporation and the Subsidiaries have not acquired property or services from, or disposed of property, or provided services to a person with whom they do not deal at arm's length (within the meaning of the ITA and the relevant provincial legislation) for an amount that is other than the fair market value of such property or services, or have been deemed to have done so for purposes of the ITA and the relevant provincial legislation.
- (x) Reorganization. All the steps and transactions contemplated by the Reorganization have been fully implemented and have been effected in compliance with all Laws and have not caused or resulted, nor shall they as at the Closing Date cause or result, in any (i) adverse financial or Tax consequences to the Corporation or any of its Subsidiaries, (ii) current or deferred liability to the Corporation or any of its Subsidiaries or (iii) any liability for Taxes, interest or penalties under any Tax Laws for the Corporation. All of the assets of the Corporation are sufficient for the continuing conduct of the business as currently conducted and as conducted in the past. The assets of Corporation include all of the assets and rights necessary for the conduct of the business on a going forward basis. The Corporation shall be responsible for the costs and expenses incurred in connection with the preparation of the documents for the implementation of the Reorganization.

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- (y) Paid-up Capital. The paid-up capital for tax purposes of each of the Subscribed Shares is no less than its stated capital for corporate purposes.
- (z) Licenses, Permits. To the knowledge of the Corporation and Freemark, each of the Corporation and the Subsidiaries has, and is in full compliance with and entitled to all of the benefits under, all permits, licenses, certificates of compliance, consents, approvals and authorizations of, or registrations with, any governmental, judicial or public authority or regulatory body (collectively, the "Licenses", and individually a "License") necessary or required to conduct its business as presently conducted, and each License has been validly issued and is in full force and effect. Other than as set forth in Schedule 3.1(z) annexed hereto, there are no Licenses required to conduct the business of the Corporation or any of the Subsidiaries as presently conducted.
- (aa) Employee Matters. Each of the Corporation and the Subsidiaries has complied in all material respects, with all applicable Laws relating to employment matters, including, without limitation, any provisions thereof relating to wages and hours.
- (bb) Benefit Plans. Except as set forth in Schedule 3.1(bb) annexed hereto, neither the Corporation nor any of the Subsidiaries is a party to any pension, retirement, bonus, profit sharing, compensation, incentive, stock purchase, stock option, stock appreciation, severance, change-of-control, savings, thrift, insurance, medical, hospitalization, disability, death or other similar program, or practice providing directors, officers, shareholders or employee benefits (the "Benefit Plans").
- (cc) Environmental Matters. Except as set forth at Schedule 3.1(cc) annexed hereto, the Corporation and the Subsidiaries have at all times conducted, held and used, and are continuing to conduct, hold and use, their affairs, business and properties in accordance with all applicable Laws relating in whole or in part to the environment or its protection.
- Except as disclosed at Schedule 3.1(cc) annexed hereto, at no time have any contaminants been released, emitted, discharged, deposited, issued, sprayed, injected, abandoned, buried, spilled, incinerated, disposed, leaked, poured, emptied, dumped, or placed on, in under or adjacent to any immovable or real property owned or used by the Corporation or any of the Subsidiaries.
- (dd) Compliance with Laws. Except as may be specifically provided in this Section 3.1, each of the Corporation and the Subsidiaries has complied and continues to comply with all Laws in all material respects.
- (ee) Full Disclosure. The Corporation and Freemark have made or caused to be made due inquiry with respect to (i) each covenant, agreement, obligation, representation and warranty contained in this Agreement, (ii) the Schedules annexed hereto, and (iii) any certificates or other documents referred to herein or furnished to the Purchaser pursuant hereto or in connection herewith, and none of the aforesaid covenants, agreements, obligations, representations, warranties, Schedules, certificates or documents contains any untrue statement of a material fact or omits to state a material fact necessary to make such representation, warranty, Schedule, certificate or other document not misleading.
- (ff) Resident. The Corporation is not a non-resident of Canada within the meaning of the ITA).

3.2 Representations and Warranties of the Purchaser. The Purchaser represents and warrants to the Corporation and Freemark as follows and acknowledges that the Corporation and Freemark are relying upon such representations and warranties in connection with the sale by the Corporation of the Subscribed

Shares and that the Corporation and Freemark would not have entered into this Agreement without such representations and warranties:

- (a) Due Incorporation. The Purchaser is duly incorporated, validly existing and in good standing under the laws of its jurisdiction of incorporation and has the necessary corporate power to own or lease its properties and to carry on its business as such business is presently conducted.
- (b) Due Authorization. The Purchase has the necessary corporate power and authority to execute this Agreement and to perform its obligations hereunder. The execution of this Agreement by the Purchaser and the performance by the Purchaser of its obligations hereunder have been duly authorized by all necessary corporate action on its part. Such execution and performance by the Purchaser does not require any action or consent of, any registration with, or notification to, any Person, or any action or consent under any Laws to which the Purchaser is subject, except for any such disclosure as the Purchaser shall determine to be necessary or appropriate to comply with securities laws, stock exchange rules and/or covenants in loan agreements.
- (c) Enforceability. This Agreement constitutes a legal, valid and binding obligation of the Purchaser, enforceable against it in accordance with its terms, except to the extent that enforcement may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting creditors' rights generally and by general principles of equity.
- (d) No Conflict. The execution of this Agreement, the consummation of the transactions contemplated herein, the performance by the Purchaser of its obligations hereunder and the compliance by the Purchaser with this Agreement do not violate, contravene or breach, or constitute a default under, the constating instruments or by-laws of the Purchaser or any Law applicable to the Purchaser.
- (e) Resident. The Purchaser is a non-resident of Canada within the meaning of the ITA.

ARTICLE IV
COVENANTS OF THE CORPORATION

4.1 Closing. The Corporation hereby acknowledges having taken the following actions on the date hereof at the place of Closing:

- (a) delivered to the Purchaser and/or its nominee share certificates in its name representing the Subscribed Shares;
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- (b) delivered to the Purchaser copies of resolutions of the shareholders and directors of the Corporation (in form and substance reasonably satisfactory to the Purchaser's legal counsel) (i) authorizing and approving the issue of the Subscribed Shares by the Corporation to the Purchaser and/or its nominee and their registration in the name of the Purchaser and/or its nominee and (ii) appointing such new directors, officers and auditors of the Corporation as may be nominated by the Purchaser;
 - (c) executed a Unanimous Shareholders Agreement with the Purchaser and Freemark substantially in the form of Schedule 4.1(c) annexed hereto;
 - (d) executed employment agreements with Michael Routtenberg, Lawrence Routtenberg, Mark Routtenberg and Ginette Godbout in the forms of Schedule 4.1(d) hereto;
 - (e) executed a loan agreement between the Purchaser and the Corporation in the form of Schedule 4.1(f) hereto;
 - (f) delivered to the Purchaser a favourable opinion of Goodman Phillips &

Vineberg substantially in the form of Schedule 4.1(f) annexed hereto.

- (g) delivered all such documentation to evidence the completion of the Reorganization as shall be reasonably requested by Purchaser.

ARTICLE V
SURVIVAL OF REPRESENTATIONS AND WARRANTIES

5.1 Survival of Representations and Warranties of the Corporation and Freemark. The representations and warranties of each of the Corporation and Freemark contained in this Agreement, in the Schedules annexed hereto or in any certificate of other document delivered or given pursuant to this Agreement shall survive the completion of the transactions contemplated by this Agreement, and notwithstanding such completion or any investigation made by or on behalf of the Purchaser or any knowledge by the Purchaser of any incorrectness in, or breach of, such representations or warranties, shall continue in full force and effect for the benefit of the Purchaser for a period of three (3) years from the Closing Date; (i) except for any representation and warranty relating to Tax matters which shall survive until ninety (90) days after the last date on which the relevant tax authority is entitled to assess or reassess the Corporation or the Purchaser with respect to such Tax matters, (ii) except for any representation and warranty in respect of which a claim based on fraud is made, and (iii) except for the representations and warranties contained in sections 3.1(a), (b), (c), (e), (g) and (p), which in each such case shall be unlimited as to duration.

5.2 Survival of Representations and Warranties of Purchaser. The representations and warranties of the Purchaser contained in this Agreement or in any certificate or other document delivered or given pursuant to this Agreement shall survive the completion of the transactions contemplated by this Agreement, and notwithstanding such completion or any investigation made by or on behalf of the Corporation or any knowledge by the Corporation of any incorrectness in, or breach of, such representations or warranties, shall continue in full force and effect for the benefit of, such representations or warranties, shall continue in full force and effect for the benefit of the Corporation for a period of three (3) years from the Closing Date; except for any representation and warranty in respect of which a claim based on fraud is made and except for the representations and warranties contained in sections 3.2(a), (b) and (c), which in each such case shall be unlimited as to duration.

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ARTICLE VI
CONDITIONS OF CLOSING

6.1 Conditions for the Benefit of the Purchaser. The subscription of the Subscribed Shares in accordance with the terms of this Amendment is subject to the following conditions, each of which is hereby declared to be the exclusive benefit of the Purchaser. The Corporation and Freemark hereby acknowledge that each condition has been performed or complied with in all respects at or prior to the date hereof.

- (a) Truth of Representations and Warranties of the Corporation and Freemark. The representations and warranties of the Corporation and Freemark contained in this Agreement or in any Schedule annexed hereto or in any certificate or other document delivered or given pursuant to this Agreement (considered individually and collectively) shall have been accurate as of the date of this Agreement, and shall be true and correct as of the date hereof.
- (b) Performance of Covenants by the Corporation and Freemark. All of the covenants, obligations and agreements that each of the Corporation and Freemark is required to perform or to comply with pursuant to this Agreement at or prior to the date hereof (considered individually and collectively) shall have been performed or complied with in all material respects at or prior to the date hereof.

- (c) Third Party Approvals. There shall have been obtained all approvals, consents and assurances, in form and substance reasonably satisfactory to the Purchaser's legal counsel, necessary in order to permit the transactions contemplated herein to be completed without affecting or resulting in the termination, cancellation, modification, amendment, variation or renegotiation of this Agreement including, without limitation, all consents required (with the exception of the items disclosed in Schedule 3.1(d)) in order to consummate the transactions contemplated herein which, if not obtained, could have a material adverse effect on the ability of the Corporation and its Subsidiaries to carry on their affairs.
- (d) Litigation. There shall be no actions, claims, investigations, arbitrations or other proceedings (whether or not on behalf of the Corporation or any of the Subsidiaries) pending or threatened to restrain, enjoin or invalidate any transaction contemplated by this Agreement.

ARTICLE VII
INDEMNIFICATION

7.1 Indemnification by the Corporation and Freemark. The Corporation and Freemark, on a solidary basis, without right of contribution each waiving the benefits of division and discussion, shall indemnify and hold the Purchaser and each of its officers, directors, employees, agents, representatives and affiliates (the "Purchaser Indemnified Parties") harmless from and against any and all claims, demands, actions, causes of action, judgments, damages, losses (which shall include any diminution in value of the Subscribed Shares), liabilities, costs or expenses (including, without limitation, interest, penalties and reasonable attorneys' and experts' fees and disbursements), including Tax liabilities, suffered or incurred in connection with the transactions contemplated herein, (collectively, the "Losses") which may be made against the Purchaser Indemnified Parties or any of the Corporation and the Subsidiaries, or which any of them may suffer or incur as a result of, arising out of or relating to:

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- (a) any violation, contravention or breach of any covenant, agreement or obligation of the Corporation or Freemark under or pursuant to this Agreement; or
- (b) any incorrectness in, or breach of, any representation or warranty made by the Corporation or Freemark in Section 3.1, the Schedules annexed hereto or in any certificate or other document delivered or given pursuant to this Agreement; or
- (c) any liabilities or obligations of the Corporation, the Subsidiaries or of Freemark of any nature whatsoever arising after the Closing Date in respect of any fact, condition or circumstance existing or occurring on or prior to the Closing Date (including, without limitation, any liabilities or obligations of the Corporation or any Subsidiary for Taxes due, together with any penalties or interest, in connection with any period ending on or prior to the Closing Date), save and except for any liabilities or obligations arising after the Closing Date in respect of any fact, condition or circumstance existing on or prior to the Closing Date which has been disclosed in writing to the Purchaser prior to the Closing (including, without limitation, by way of disclosure in this Agreement or any of the Schedules hereto).

In connection with the foregoing, Freemark hereby waives its right to claim from the Corporation any amount paid to the Purchaser pursuant to this Article 7.

7.2 Indemnification by Purchaser. The Purchaser shall indemnify and hold the Corporation harmless from and against any Losses which may be made against the Corporation or which the Corporation may suffer or incur as a result of, arising

out of or relating to:

- (a) any violation, contravention or breach of any covenant, agreement, or obligation of the Purchaser under or pursuant to this Agreement; or
- (b) any incorrectness in, breach of, any representation or warranty made by the Purchaser in Section 3.2, the Schedules annexed hereto or in any certificate or other document delivered or given pursuant to this Agreement.

7.3 Obligation to Reimburse. The Party providing indemnification, hereunder (the "Indemnifying Party") shall reimburse, on demand, to the Party being indemnified hereunder (the "Indemnified Party") the amount of any Losses suffered or incurred by the Indemnified Party, the whole as of the date that the Indemnified Party incurs any such Losses, together with interest thereon from the aforesaid date until payment in full at the rate per annum equal to 8%.

7.4 Notification. Promptly upon obtaining knowledge thereof, the Indemnified Party shall notify the Indemnifying Party of any cause which the Indemnified Party has determined has given or could give rise to indemnification under this Article VII. The omission so to notify the Indemnifying Party shall not relieve the Indemnifying Party from any duty to indemnify and hold harmless which otherwise might exist with respect to such cause unless (and only to that extent) the omission to notify materially prejudices the ability of the Indemnifying Party to exercise its right to defend provided in this Article VII.

7.5 Defense of Third Party Claim. If any legal proceeding shall be instituted or any claim or demand shall be asserted by a third party against the Indemnified Party (each a "Third Party Claim"), then the Indemnifying Party shall have the right, after receipt of the Indemnified Party's notice under Section 7.4 and upon giving notice to the Indemnified Party within 30 calendar days of such receipt, to defend the Third Party Claim at its own cost and expense with counsel of its own selection, provided that:

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- (a) the Indemnified Party shall at all times have the right to fully participate in the defense at its own expense; and
- (b) the Third Party Claim seeks only monetary damages and does not seek any injunctive or other relief against the Indemnified Party.

Amounts payable by the Indemnifying Party pursuant to a Third Party claim shall be paid in accordance with the terms of the settlement or, the judgment, as applicable, but in any event prior to the expiry of any delay for a judgment to become executory.

7.6 No Compromise. The Indemnifying Party shall not be permitted to compromise and settle or to cause a compromise and settlement of any Third Party Claim, without the prior written consent of the Indemnified Party, unless:

- (a) the terms of the compromise and settlement require only the payment of money and do not require the Indemnified Party, the Corporation or any of the Subsidiaries to admit any of the Subsidiaries to admit any wrongdoing or take or refrain from taking any action; and
- (b) the Indemnified Party receives, as part of the compromise and settlement, a legally binding and enforceable unconditional satisfaction or release, which is in form and substance satisfactory to the Indemnified Party, acting reasonably, from any and all obligations or liabilities it may have with respect to the Third Party Claim.

7.7 Failure to Defend. If the Indemnifying Party fails within 30 calendar days from receipt of the notice of a Third Party Claim to give notice of its intention to defend the Third Party Claim in accordance with Section 7.5 or fails to promptly assume such defense at any time after such notice has been

given, then the Indemnifying Party shall be deemed to have waived its right to defend the Third Party Claim and the Indemnified Party shall have the right (but not the obligation) to undertake or to cause the Corporation, Freemark or any of the Subsidiaries to undertake the defense of the Third Party Claim and compromise and settle the Third Party Claim on behalf, for the account and at the risk and expense of the Indemnifying Party.

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7.8 Expiration of Indemnification. The obligation of indemnification set out in Sections 7.1 and 7.2 shall survive the Closing Date for the period prescribed by law. The obligation of indemnification arising from any material incorrectness in, or material breach of, any representation for warranty made by the Corporation, Freemark or the Purchaser, as the case may be, in each case shall be subject to the limitations regarding survival of representations and warranties set forth in Section 5.1 or 5.2, as the case may be; provided, however, that the obligation of indemnification shall not expire if a claim for indemnity is made on or before the expiration dates set forth in Sections 5.1 and 5.2.

ARTICLE VIII CLOSING

8.1 Date, Time and Place of Closing. The Closing shall take place at the offices of Stikeman, Elliott, 1155 Rene-Levesque Blvd. West, 40th Floor, Montreal, Quebec on July 31, 1999 (the "Closing Date") at the hour of 10:00 a.m. (Montreal time) or at such other place, on such other date and/or at such other time as may be agreed between the parties.

ARTICLE IX MISCELLANEOUS

9.1 Announcements. Any press release, public announcement or publicity with respect to the transaction contemplated in this Agreement shall be made only with the prior written consent of the Parties unless such release, announcement or publicity is required by Law or the rules of any relevant securities exchange, in which case the Party required to make such release, announcement or publicity shall use its best efforts to obtain approval of the other Party to the form, nature and extent of such disclosure, which approval shall not unreasonably be withheld.

9.2 Further Assurances. Each Party upon the request of the other, whether at or after the Closing Date, shall do, execute, acknowledge and deliver or cause to be done, executed, acknowledged or delivered all such further acts, deeds, documents, assignments, transfers, conveyances, powers of attorney and assurances as may be reasonably necessary or desirable to effect complete consummation of the transactions contemplated by this Agreement.

9.3 Successors in Interest. This Agreement and the provisions hereof shall enure to the benefit of and be binding upon the Parties and their respective successors and assigns. Neither the Corporation nor Freemark may assign this Agreement or any of its rights and obligations hereunder without the prior written consent of the Purchaser. Notwithstanding the foregoing, the Purchaser may assign or transfer this Agreement and all of the Purchaser's rights and obligations hereunder to an affiliate (as defined under the Canada Business Corporations Act).

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9.4 Notices. Any notice, consent, authorization, direction or other

communication required or permitted to be given hereunder shall be in writing and shall be delivered either by personal delivery or by telex, telecopier or similar telecommunications device and addressed as follows:

(a) in the case of the Corporation, to it at:

7077 Park Avenue, Suite 503
Montreal, Quebec
H3N 1X7

Attention: Mark Routtenberg

Telecopier: (514) 270-8028

and

Attention: Brian L. Fleming

Telecopier: (213) 744-7817

and

Attention: Glenn A. Weinman

Telecopier: (213) 765-0911

(b) in the case of the Purchaser, to it at:

Guess?, Inc.
1444 South Alameda Street
Los Angeles, CA
USA 90021

Attention: Brian L. Fleming

Telecopier: (213) 744-7817

and

Attention: Glen A. Weinman

Telecopier: (213) 765-0911

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With a copy to:

STIKEMAN, ELLIOTT
1155 Rene-Levesque Blvd. West
40th Floor
Montreal, Quebec H3B 3V2

Attention: William B. Rosenberg

Telecopier: (514) 397-3222

(c) in the case of Freemark, to it at:

7077 Park Avenue, Suite 503
Montreal, Quebec
H3N 1X7

Attention: Mark Routtenberg

Telecopier: (514) 270-8028

With a copy to:

GOODMAN, PHILLIPS & VINEBERG
1501, avenue McGill College
26th Floor
Montreal, Quebec
H3A 3N9

Attention: Sidney Horn

Telecopier: (514) 841-6499

Any notice, consent, authorization, direction or other communication delivered as aforesaid shall be deemed to have been effectively delivered and received, if sent by telex, telecopier or similar telecommunications device on the calendar day next following receipt of such transmission or, if delivered, to have been delivered and received on the date of such delivery provided, however, that if such date is not a business day then it shall be deemed to have been delivered and received on the business day next following such deemed to have been delivered and received on the business day next following such delivery. Either Party may change its address for service by notice delivered as aforesaid.

9.5 Counterparts. This Agreement may be executed in one or more counterparts, each of which when so executed shall be deemed an original, and such counterparts together shall constitute one and the same instrument.

9.6 Severability. Any term of provision of this Agreement that is held by a court of competent jurisdiction or other authority to be invalid, void or unenforceable in any situation in any jurisdiction shall not affect the validity or enforceability of the remaining terms and provisions hereof or the validity or enforceability of the offending term or provision in any other situation or in any other jurisdiction. If the final judgment of a court of competent jurisdiction or other authority declares that any term or provision hereof is invalid, void or unenforceable, the parties agree that the court making such determination shall have the power to reduce the scope, duration, area or applicability of the term of provision, to delete specific words or phrases, or to replace any invalid, void or unenforceable term of provision with a term or provision that is valid and enforceable and that comes closest to expressing the intention of the invalid or unenforceable term of provision.

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9.7 Governing Law. This Agreement shall be governed by and interpreted and construed in accordance with the laws of the Province of Quebec and the laws of Canada applicable therein.

9.8 Entire Agreement. This Agreement, including the Schedules and the Unanimous Shareholders' Agreement executed concurrently herewith, constitute the entire agreement between the Parties pertaining to the subject matter hereof, and supersedes all prior agreements, understandings, negotiations and discussions of the Parties.

9.9 Inconsistency. This Agreement shall override the Schedules annexed hereto to the extent of any inconsistency.

9.10 Gender. Any reference in this Agreement to any gender shall include both genders and the neuter, and words herein importing the singular number only shall include the plural and vice-versa.

9.11 Currency. All of the dollar amounts mentioned in this Agreement or in the Schedules annexed hereto shall be in Canadian Funds.

9.12 Headings. The headings in this Agreement are inserted for convenience of

reference only and shall not affect the interpretation hereof.

9.13 Amendment. No amendment shall be binding unless expressly provided in any instrument duly executed by the Parties.

9.14 Waiver. No waiver, whether by conduct or otherwise, of any of the provisions of this Agreement shall be deemed to constitute a waiver of any other provisions (whether or not similar) nor shall such waiver constitute a continuing waiver unless otherwise expressly provided in an instrument duly executed by the Parties to be bound thereby.

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IN WITNESS WHEREOF, the Parties have executed this Agreement on the date and at the place first above mentioned.

STRANDEL INC.

Per: /s/ Mark Routtenberg

Mark Routtenberg

GUESS ?, INC.

Per: -----
Maurice Marciano

FREEMARK ENTERTAINMENT CORPORATION

Per: /s/ Mark Routtenberg

Mark Routtenberg

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IN WITNESS WHEREOF, the Parties have executed this Agreement on the date and at the place first above mentioned.

STRANDEL INC.

Per: /s/ Maurice Marciano

Mark Routtenberg

GUESS ?, INC.

Per: -----
Maurice Marciano

FREEMARK ENTERTAINMENT CORPORATION

Per: -----
Mark Routtenberg

EXHIBIT 21.1 LIST OF SUBSIDIARIES

LIST OF SUBSIDIARIES

INVESTMENT IN -----	LOCATION -----	OWNED BY -----	PERCENT OF OWNERSHIP -----
GUESS? Retail, Inc.	United States	Guess ?, Inc.	100%
GUESS? Licensing, Inc.	United States	Guess ?, Inc.	100%
GUESS? Europe, BV	Netherlands	Guess ?, Inc.	100%
Ranche Ltd.	Hong Kong	GUESS? Europe, BV	100%
Guess.com, Inc.	United States	Guess ?, Inc.	100%
Baby GUESS? Inc.	United States	Guess ?, Inc.	100%
Guess Italia, S.r.l.	Italy	GUESS? Europe, BV	100%
GUESS? Canada Corporation	United States	Guess ?, Inc.	60%

INDEPENDENT ACCOUNTANTS' CONSENT

The Board of Directors
Guess?, Inc.:

We consent to incorporation by reference in the registration statement (Nos. 333-10069) on Form S-8 of Guess?, Inc. of our report dated February 9, 2000, except for note 15, which is as of March 3, 2000, relating to the consolidated balance sheets of Guess?, Inc. and subsidiaries as of December 31, 1998, and 1999, and the related consolidated statements of earnings, stockholders' equity and comprehensive income (loss), and cash flows for each of the years in the three-year period ended December 31, 1999, and the related financial statement schedule, which report appears in the December 31, 1999 annual report on Form 10-K of Guess?, Inc.

KPMG LLP
Los Angeles, California
March 27, 2000

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