

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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FORM 10-K

(Mark one)

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

For fiscal year ended January 31, 1999,  
OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934

For the transition period from to  
Commission File Number 0-22378

MOVADO GROUP, INC.

(Exact name of registrant as specified in its charter)

New York	13-2595932
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

125 Chubb Avenue	07071
Lyndhurst, New Jersey	(Zip Code)
(Address of principal executive offices)	

Registrant's telephone number, including area code: (201) 460-4800

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

Name of each exchange on which registered:  
NONE

Securities registered pursuant to Section 12(b) of the Act;  
Common Stock, \$.01 par value  
(Title of Class)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  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.

Based on the closing sales price of the Common Stock as of April 23, 1999, the aggregate market value of the voting stock held by non-affiliates of the registrant was approximately \$234,295,255. For purposes of this computation, each share of Class A Common Stock is assumed to have the same market value as one share of Common Stock into which it is convertible and only shares of stock held by directors and executive officers were excluded.

The number of shares outstanding of the registrant's Common Stock and Class A Common Stock as of April 23, 1999 were 9,438,938 and 3,527,000 respectively.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive proxy statement relating to Registrant's 1998 annual meeting of shareholders (the "Proxy Statement") are incorporated by reference in Part III hereof.

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## PART I

## Item 1. Business

## CORPORATE ORGANIZATION

The registrant, Movado Group, Inc., is a designer, manufacturer and distributor of quality watches with prominent brands sold in almost every price category comprising the watch industry. It was incorporated in New York in 1967 to acquire Piaget Watch Corporation and Corum Watch Corporation, which had been, respectively, the exclusive importers and distributors of Piaget and Corum watches in the United States since the 1950's. The registrant and its subsidiaries are referred to herein as "Movado Group, Inc.," or the "Company" unless the context otherwise requires.

In 1970, the Company acquired the Swiss manufacturer of Concord watches, which had been manufacturing Concord watches since 1908, and in 1983, the Company acquired the U.S. distributor of and substantially all the assets related to the Movado watch brand from the Swiss manufacturer of Movado watches.

On October 7, 1993, the Company completed a public offering of 2,666,667 shares of common stock, par value \$.01 per share (the "Common Stock"). In connection with the public offering, each share of old Class A Common Stock was reclassified into 10.46 shares of Class A Common Stock, par value \$.01 per share (the "Class A Common Stock"). Each share of Common Stock is entitled to one vote per share and each share of Class A Common Stock is entitled to 10 votes per share on all matters submitted to a vote of the shareholders. Each holder of shares of Class A Common Stock is entitled to convert, at any time, any and all such shares into the same number of shares of Common Stock. Each share of Class A Common Stock is converted automatically into Common Stock in the event that the beneficial or record ownership of such share of Class A Common Stock is transferred to any person, except to certain family members or affiliated persons deemed "permitted transferees" pursuant to the Company's Amended Restated Certificate of Incorporation. The Common Stock is quoted on the NASDAQ National Market under the trading symbol "MOVA".

On October 21, 1997, the Company completed a secondary stock offering in which 1,500,000 shares of Common Stock were issued.

On February 22, 1999, the Company completed the sale of its Piaget business to VLG North America, Inc. ("VLG"). The Company sold all of its right, title and interest in substantially all the assets, properties and rights relating to the business of selling and distributing Piaget watches and jewelry in the United States, Canada, Central America and the Caribbean.

With executive offices in Lyndhurst, New Jersey, the Company operates wholly-owned subsidiaries in Canada, Hong Kong, Japan, Singapore, Switzerland and the United States.

## INDUSTRY OVERVIEW

The largest markets for watches are North America, Western Europe and the Far East. While exact worldwide wholesale sales volumes are difficult to quantify, the Company estimates from data obtained from the Federation of the Swiss Watch Industry that worldwide wholesale sales of finished watches were over \$13 billion in 1996. Watches are produced predominantly in Switzerland, Hong Kong and Japan. According to the

Federation of the Swiss Watch Industry, Switzerland, Hong Kong and Japan accounted for approximately 68%, 17% and 5%, respectively, of worldwide finished watch exports based on value in 1996. Among all the major watch exporting countries, Swiss watches have the highest average unit value.

The Company divides the watch market into five principal categories as set forth in the following table:

MARKET CATEGORY -----	SUGGESTED RETAIL PRICE RANGE -----	PRIMARY CATEGORY OF MOVADO GROUP, INC. BRANDS -----
Exclusive	\$10,000 and over	Corum
Luxury	\$1,000 to \$9,999	Concord and Vizio
Premium Branded	\$500 to \$999	Movado and Coach
Moderate Branded	\$100 to \$499	ESQ and Coach
Mass Market	less than \$100	--

The Company competes in the Exclusive category as the exclusive distributor of Corum watches in the United States, Canada and the Caribbean. The Company's Concord watches compete primarily in the Luxury category of the market, although certain Concord watches compete in the Exclusive and Premium Branded categories. The Company's Vizio watches compete in the Luxury category of the market. The Company's Movado watches compete primarily in the Premium Branded category of the market, although certain Movado watches compete in the Exclusive, Luxury and Moderate Branded categories. The Company's Coach brand competes in both the Premium Branded and Moderate Branded categories. The ESQ line competes in the Moderate Branded category of the market. The Company does not participate in the Mass Market category.

#### Exclusive Watches

Exclusive watches are usually made of precious metals, including 18 karat gold or platinum, and may be set with precious gems, including diamonds, emeralds, rubies and sapphires. These watches are primarily mechanical or quartz-analog watches. Mechanical watches keep time with intricate mechanical movements consisting of an arrangement of wheels, jewels and winding and regulating mechanisms. Quartz-analog watches have quartz movements in which time is precisely calibrated to the regular frequency of the vibration of quartz crystal. Exclusive watches are manufactured almost entirely in Switzerland. In addition to the Company's Corum watches and certain Movado and Concord watches, well-known brand names of Exclusive watches include Audemars Piguet, Patek Philippe, Piaget and Vacheron Constantin.

#### Luxury Watches

Luxury watches are either quartz-analog watches or mechanical watches. These watches typically are made with either 14 or 18 karat gold, stainless steel or a combination of gold and stainless steel, and are occasionally set with precious gems. Luxury watches are primarily manufactured in Switzerland. In addition to a majority of the Company's Concord, Vizio and certain Movado watches, well-known brand names of Luxury watches include Baume & Mercier, Breitling, Cartier, Ebel, Omega, Rolex and TAG Heuer.

#### Premium Branded Watches

The majority of Premium Branded watches are quartz-analog watches. These watches typically are made with gold finish, stainless steel or a combination of gold finish and stainless steel. Premium Branded watches are

manufactured primarily in Switzerland, although some are manufactured in the Far East. In addition to a majority of the Company's Movado watches, Coach watches and certain Concord watches, well-known brand names of Premium Branded watches include Gucci, Rado and Raymond Weil.

#### Moderate Branded Watches

Most Moderate Branded watches are quartz-analog watches. Moderate Branded watches are manufactured primarily in the Far East and Switzerland. These watches typically are made with gold finish, stainless steel, brass or a combination of gold finish and stainless steel. In addition to the Company's ESQ and Coach brands, well-known brand names of watches in the Moderate Branded category include Anne Klein, Bulova, Gucci, Guess, Seiko and Wittnauer.

#### Mass Market Watches

Mass Market watches typically consist of digital and quartz-analog watches that are made with stainless steel, brass or plastic. Digital watches, unlike quartz-analog watches, have no moving parts. Instead, time is kept by electronic microchips and is displayed as discrete Arabic digits illuminated on the watch face by light emitting diodes (LEDs) or liquid crystal displays (LCDs). Mass Market watches are manufactured primarily in the Far East. Movado Group, Inc. does not manufacture or distribute Mass Market watches. Well-known brands of Mass Market watches include Casio, Citizen, Fossil, Pulsar, Seiko, Swatch and Timex.

#### PRODUCTS

The Company currently markets five distinctive brands of watches: Movado, Concord, ESQ, Coach and Corum, which compete in the Exclusive, Luxury, Premium Branded and Moderate Branded categories. The Company designs and manufactures Movado and Concord watches primarily in Switzerland, as well as in the United States, for sale throughout the world. ESQ watches are manufactured to the Company's specifications by independent contractors located in the Far East and are presently sold primarily in the United States, Canada and the Caribbean. Coach watches are assembled in Switzerland by independent suppliers. In addition, Movado Group, Inc. is the exclusive distributor of Swiss-manufactured Corum watches in the United States, Canada and the Caribbean. Corum watches are manufactured in Switzerland by Corum Swiss. Until the end of fiscal 1999, the Company distributed Piaget watches. On February 22, 1999 the Company sold its Piaget distribution rights, together with substantially all the assets comprising its Piaget business to VLG.

#### Movado

Founded in 1881 in La Chaux-de-Fonds, Switzerland, the Movado brand today includes a line of watches based on the design of the world famous Movado Museum watch and a number of other watch collections with more traditional dial designs. The design for the Movado Museum watch was the first watch design chosen by the Museum of Modern Art for its permanent collection. It has since been honored by 10 other museums throughout the world. All Movado watches have Swiss movements, and are made with 14 or 18 karat gold, 18 karat gold finish, stainless steel or a combination of 18 karat gold finish and stainless steel. The majority of Movado watches have suggested retail prices between approximately \$195 and \$4,000.

#### Concord

Concord was founded in 1908 in Bienne, Switzerland. All Concord watches have Swiss movements, either quartz or mechanical. Concord watches are made with 18 karat gold, stainless steel or a combination of 18 karat gold and stainless steel, except for Concord Royal Gold watches, most of which are made with 14

karat gold. The majority of Concord watches have suggested retail prices between approximately \$1,000 and \$15,000.

#### Coach

During fiscal 1999, the Company introduced Coach watches under an exclusive license with Coach, a division of Sara Lee Corp. All Coach watches contain Swiss movements and are made with stainless steel, gold finish or a combination of stainless steel and gold finish, with leather straps, stainless steel bracelets or gold finish bracelets. The suggested retail pricing ranges from \$195 to \$795.

#### ESQ

ESQ was launched in the second half of fiscal 1993. All ESQ watches contain Swiss movements and are made with stainless steel, at least 18 karat gold finish or a combination of stainless steel and at least 18 karat gold finish, with leather straps, stainless steel bracelets or at least 18 karat gold finish bracelets. The ESQ brand consists of sport and fashion watches with suggested retail prices from approximately \$125 to \$495 with features and styles comparable to more expensive watches.

#### Corum

Corum watches are manufactured by Corum Ries, Bannwart et Cie ("Corum Swiss"). Corum Swiss is a family owned company founded in 1955 in La Chaux-de-Fonds, Switzerland. Corum's watch designs are typically unique and distinctive. Corum's most recognized watches are the Gold Coin and Admiral's Cup. The majority of Corum watches have suggested retail prices between approximately \$3,000 and \$30,000.

#### Other Products and Services

During fiscal 1999, sales of other products and services totaled approximately \$32.1 million, or approximately 11.5% of net sales. These sales include revenues from the Company's service and watch repair operations, which historically have represented a source of consistent revenues with profit margins comparable to those generated from sales of the Company's watches. Other products and services include sales derived from the Company's 24 retail stores.

#### WARRANTY AND REPAIR

The Company has service facilities around the world in 10 Company-owned service facilities and approximately 135 authorized independent service centers. The Company conducts training sessions for and distributes technical information and updates to repair personnel in order to maintain consistency and quality at its service facilities and authorized independent service centers. The Company's products are covered by limited warranties against defects in materials and workmanship for periods ranging from one to three years from the date of purchase for movements and up to five years for Movado watch casings and bracelets. Products that are returned under warranty to the Company are generally serviced by the Company's employees at its service facilities.

#### ADVERTISING

Advertising is important to the successful marketing of the Company's watches. Movado Group, Inc. has maintained its own in-house advertising department since 1972 and devotes significant resources to advertising. Advertising expenditures totaled approximately 19.4%, 20.9% and 18.0% of net sales in fiscal 1999, 1998 and 1997, respectively. Advertising is developed individually for each of the Company's watch brands and is directed primarily to the ultimate consumer rather than to trade customers. The Company

develops advertising for each of its brands by targeting consumers with particular demographic characteristics appropriate to the image and price range of the brand. Advertisements are placed predominately in magazines and other print media, but are also created for television campaigns, catalogues and promotional materials.

## SALES AND DISTRIBUTION

### Overview

The Company sells Movado and Concord watches throughout the world. ESQ watches are presently sold in North America and the Caribbean. The Company presently sells Coach watches in the United States, the Caribbean, Japan, Hong Kong and the Pacific rim. The Company is the exclusive distributor for Corum watches in the United States, Canada and the Caribbean. All five brands are sold to trade customers by the Company's sales personnel, who typically specialize in one particular brand. The Company also sells Movado and Concord watches outside the United States, Canada, Central America and the Caribbean and Coach watches outside the United States through independent international distributors. In fiscal 1999 and 1998, one trade customer accounted for 10% and 12% of the Company's net sales, respectively. In addition to its sales to trade customers and independent distributors, a portion of the Company's net sales are made directly to consumers in the United States through the Company's 23 retail stores.

The Company conducts its business primarily in two operating segments: "Wholesale" and "Other". Other includes the Company's retail and service center operations. The Company divides its business into two major geographic segments: "Domestic" which includes the results of the Company's United States and Canadian operations and "International" which includes the results of all other Company operations. The Company's international operations are principally conducted in Europe.

### Domestic

Movado Group, Inc. operates in the United States through its North American Watch Company division and in Canada through a Canadian subsidiary. The Company sells its products in the domestic market primarily through department stores, such as Macy's, Neiman-Marcus and Saks Fifth Avenue, jewelry store chains, such as Zales, Helzberg and Sterling, and independent jewelers. Movado, Concord, Coach and ESQ watches are sold through each of these retail channels and Corum watches are sold primarily to independent jewelers. Sales to trade customers in the United States and Canada are made directly by the Company's sales force of approximately 125 employees. A majority of the sales force is compensated solely on the basis of commissions, which are determined as a percentage of sales.

### International

The Company sells Movado, Concord and Coach watches internationally through its own sales force of approximately 20 employees operating from the Company's sales and distribution offices in Hong Kong, Singapore, and Switzerland, and also through a network of approximately 80 independent distributors operating in numerous countries around the world. A majority of the Company's arrangements with its international distributors are long-term, generally require certain minimum purchases and restrict the distributor from selling competitive products.

### Retail Distribution

In addition to its sales to trade customers and independent distributors, the Company sells Movado watches as well as Movado jewelry, table top accessories and other line extensions in the Company operated Movado Boutiques located in Rockefeller Center, The Westchester Mall and Roosevelt Field Mall in New York, The

Mall at Short Hills in New Jersey and scheduled for opening in the summer of 1999, at the Venetian in Las Vegas, Nevada. The Company also operates 19 outlet stores located in Cabazon, St. Helena and Solvang, California; Destin, Orlando, Ellenton and St. Augustine, Florida; Dawsonville, Georgia; Tuscola, Illinois; Michigan City, Indiana; Kittery, Maine; Lee, Massachusetts; Lancaster and Tannersville, Pennsylvania; Hilton Head and Myrtle Beach, South Carolina; San Marcos, Texas; Manchester, Vermont; and Williamsburg, Virginia. These outlet stores sell discontinued and sample merchandise and factory seconds, providing the Company with an organized and efficient method of reducing its inventory without competing directly with trade customers.

#### BACKLOG

At March 31, 1999, the Company had unfilled customer orders of approximately \$28.7 million, compared to approximately \$31.8 million at March 31, 1998 (based on currency exchange rates in effect on March 31, 1999). The Company believes that substantially all such orders are firm and will be filled during the Company's current fiscal year. The Company's backlog is affected by a variety of factors, including seasonality and the scheduling of the manufacture and shipment of products. Accordingly, a period-to-period comparison of backlog is not necessarily meaningful and may not be indicative of eventual shipments.

#### SOURCES AND AVAILABILITY OF SUPPLIES

Movado and Concord watches are generally assembled at the Company's manufacturing facility in Bienne, Switzerland with some off-site assembly performed principally by independent Swiss watch makers. Movado and Concord watches are assembled using Swiss movements and other components obtained from third-party suppliers. The Movado Gold and Concord Royal Gold collections are assembled by the Company at its facilities in Lyndhurst, New Jersey using Swiss movements as well as bracelets and cases obtained from third-party suppliers. Coach watches are assembled in Switzerland by independent assemblers using Swiss movements and other components obtained from third-party suppliers in Switzerland and elsewhere. ESQ watches are manufactured by independent contractors in the Far East using Swiss movements and other components purchased from third-party suppliers principally located in the Far East.

A majority of the watch movements used in the manufacture of Movado, Concord and ESQ watches are purchased from two suppliers. The Company obtains other watch components for all of its manufactured brands, including movements, cases, crystals, dials, bracelets and straps, from a number of other suppliers. Precious stones used in the Company's watches are purchased from various suppliers and are set in the United States, Canada and Switzerland. Movado Group, Inc. does not have long-term supply contracts with any of its component parts suppliers.

The Company purchases Corum watches from Corum Swiss under a long-term distribution agreement expiring December 31, 2009. Under the terms of the Company's distribution agreement with Corum Swiss ("Corum Distribution Agreement"), Corum Swiss undertakes to sell watches to the Company at the lowest prices at which the watches are then being offered for sale to others, and to use reasonable efforts to comply with all delivery dates specified by the Company.

#### COMPETITION

The markets for each of the Company's watch brands are highly competitive. With the exception of Swatch Group Inc. (formerly known as SMH), a large Swiss-based competitor, no single company competes with the Company across all of its brands. Certain companies, however, compete with Movado Group, Inc. with respect to one or more of its watch brands. Certain of these companies have, and other companies that may

enter the Company's markets in the future may have, substantially greater financial, distribution, marketing and advertising resources than the Company. The Company's future success will depend, to a significant degree, upon its ability to compete effectively with regard to, among other things, the style, quality, price, advertising, marketing and distribution of its watch brands.

#### TRADEMARKS AND LICENSING AGREEMENTS

Movado Group, Inc. owns the trademarks MOVADO(R), CONCORD(R), VIZIO(R) and related trademarks for watches in the United States and in numerous other countries. The Company licenses ESQUIRE(R), ESQ(R) and related trademarks on an exclusive basis for use in connection with the manufacture, distribution, advertising and sale of watches pursuant to an agreement with the Hearst Corporation ("Hearst License Agreement"). The current term of the Hearst License Agreement expires December 31, 2000, and the agreement is renewable at the Company's option through December 31, 2018. The Company licenses the trademark COACH(R) and related trademarks on an exclusive basis for use in connection with the manufacture, distribution, advertising and sale of watches pursuant to an agreement with Coach, a division of Sara Lee Corporation ("Coach License Agreement"). Subject to meeting certain performance goals, the Coach License Agreement expires 10 years after the Company's initial sales of Coach watches to retail outlets not operated by Coach.

The Company owned the trademark PIAGET(R) for watches and jewelry and a number of related trademarks for watches in the United States. In connection with the sale of the Piaget business to VLG, the Company assigned the trademarks to S.A. Ancienne Fabrique Georges Piaget et Cie.

The Company has the exclusive right to use the trademark CORUM(R) and a number of related trademarks for watches in the United States in connection with its advertising and sale of Corum watches pursuant to the Corum Distribution Agreement.

The Company actively seeks to protect and enforce its trademarks by working with industry associations, anti-counterfeiting organizations, private investigators and law enforcement authorities, monitoring the enforcement of certain exclusion orders received from Customs and, when necessary, suing infringers of its trademarks. Consequently, the Company is involved from time to time in litigation or other proceedings to determine the enforceability, scope and validity of these rights. With respect to the trademarks MOVADO(R) and CONCORD(R) and certain other related trademarks, the Company has received exclusion orders that prohibit the importation of counterfeit goods or goods bearing confusingly similar trademarks into the United States. In accordance with Customs regulations, these exclusion orders, however, cannot cover the importation of gray-market Movado or Concord watches because the Company is the manufacturer of such watches. All of the Company's exclusion orders are renewable.

#### EMPLOYEES

As of January 31, 1999, the Company has approximately 850 full-time employees in its domestic and international operations. No employee of the Company is represented by a labor union or is subject to a collective bargaining agreement. The Company has never experienced a work stoppage due to labor difficulties and believes that its employee relations are good.

#### FINANCIAL INFORMATION ABOUT OPERATING SEGMENTS, SEASONALITY, FOREIGN AND DOMESTIC OPERATIONS

The Company divides its business into two major geographic segments: "Domestic", which includes the results of the Company's United States and Canadian operations, and "International", which includes the results of all other Company operations. The Company's international operations are principally conducted in Europe. The Company's international assets are substantially located in Europe. Other international operations constituted less than 10% of consolidated total assets for all periods presented.



The Company's sales in the United States and Canada are traditionally greater during the Christmas and holiday season and are significantly more seasonal than its international sales. Consequently, the Company's net sales historically have been higher during the second half of its fiscal year. The second half of each year accounted for approximately 60.2%, 61.2% and 62.0% of the Company's net sales for the fiscal years ending January 31, 1999, 1998 and 1997, respectively. The amount of net sales and operating income generated during the second half of each fiscal year depends upon the general level of retail sales during the Christmas and holiday season, as well as economic conditions and other factors beyond the Company's control. The Company does not expect any significant change in the seasonality of its domestic business in the foreseeable future. International sales tend to be less seasonal, particularly those derived from the Middle and Far Eastern markets.

The Company conducts its business primarily in two operating segments: "Wholesale" and "Other". The Company's wholesale segment includes the designing, manufacturing and distribution of quality watches. Other includes the Company's retail and service center operations. See Note 11 to the consolidated financial statements for financial information regarding segment data.

## Item 2. Properties

The Company leases various facilities in the United States, Canada, Switzerland and the Far East for its corporate, manufacturing, distribution and sales operations. The Company's leased facilities are as follows:

LOCATION - - - - -	FUNCTION - - - - -	SQUARE FOOTAGE - - - - -	LEASE EXPIRATION - - - - -
Lyndhurst, New Jersey	Executive offices, watch assembly and distribution	93,000	May 2002
Bienne, Switzerland	Corporate functions, watch sales, distribution, assembly and repair	52,000	January 2007
Markham, Canada	Office and distribution	11,200	June 2007
Hackensack, New Jersey	Warehouse	6,600	July 1999
New York, New York	Watch repair and Public Relations Office	4,900	April 2008
Hong Kong	Watch sales, distribution and repair	4,100	June 2001
Los Angeles, California	Watch repair	3,000	December 2002
Miami, Florida	Watch repair	2,600	October 2001
Grenchen, Switzerland	Watch sales	2,600	March 2000
Toronto, Canada	Office	1,600	June 2000
Japan	Watch sales	1,500	January 2000
Singapore	Watch sales, distribution and repair	1,100	August 2001

The Company leases retail space averaging 1,300 square feet per store with leases expiring from November 2000 to January 2006 for the operation of the Company's 19 outlet stores. The Company also leases retail space for the operation each of its four Boutiques averaging 1,700 square feet per store with leases expiring from January 2005 to August 2008. The Company also leases retail space for the operation of the newest Boutique in The Venetian in Las Vegas, Nevada to open in the Summer of 1999. The new location has approximately 2,300 square feet and the lease will expire April 2006.

The Company is currently exploring available alternatives in connection with the presently scheduled expiration in May 2002 of its Lyndhurst, New Jersey lease.

The Company also owns approximately 2,400 square feet of office space in Hanau, Germany, which it previously used for sales, distribution and watch repair functions. The Company believes that its existing facilities are adequate for its current operations and to handle reasonably foreseeable sales growth.

## Item 3. Legal Proceedings

The Company is involved in certain legal proceedings arising in the normal course of its business. The Company believes that none of these proceedings, either individually or in the aggregate, will have a material adverse effect on the Company's operating results, liquidity or its financial position.

## Item 4. Submission of Matters to a Vote of Security Holders

No matters were submitted to a vote of shareholders of the Company in the fourth quarter of fiscal 1999.

## PART II

## Item 5. Market for Registrant's Common Stock and Related Shareholder Matters

As of March 18, 1999, there were 55 holders of record of the Class A Common Stock and, the Company estimates, approximately 1,200 beneficial owners of the Common Stock represented by 541 holders of record. The Common Stock is traded on the Nasdaq National Market under the symbol "MOVA". The quarterly high and low closing prices for the fiscal years ended January 31, 1999 and 1998 were as follows:

QUARTER ENDED	1999		1998	
	LOW	HIGH	LOW	HIGH
	-----	-----	-----	-----
April 30	\$21.00	\$30.44	\$11.72	\$13.59
July 31	\$24.00	\$30.25	\$13.32	\$19.48
October 31	\$15.13	\$24.75	\$19.38	\$23.50
January 31	\$17.63	\$26.63	\$17.75	\$24.00

The Class A Common Stock is not publicly traded and is subject to certain restrictions on transfer as provided under the Company's Amended Restated Certificate of Incorporation and consequently, there is currently no established public trading market for these shares.

During each fiscal year ended January 31, 1999 and 1998, the Board of Directors approved four \$0.02 per share quarterly cash dividends to shareholders of record of the Common Stock and Class A Common Stock. The declaration and payment of future dividends, if any, will be at the sole discretion of the Board of Directors and will depend upon the Company's profitability, financial condition, capital and surplus requirements, future prospects, terms of indebtedness and other factors deemed relevant by the Board of Directors. See Note 4 to the Consolidated Financial Statements regarding contractual restrictions on the Company's ability to pay dividends.

## Item 6. Selected Financial Data

The selected financial data presented below has been derived from the Consolidated Financial Statements. This information should be read in conjunction with, and is qualified in its entirety by, the Consolidated Financial Statements and "Management's Discussion and Analysis of Financial Condition and Results of Operations" contained in Item 7 of this report (in thousands except per share amounts).

	Fiscal Year Ended January 31,				
	1999	1998	1997	1996	1995
	----	----	----	----	----
STATEMENT OF INCOME DATA:					
Net sales	\$ 277,836	\$ 237,005	\$ 215,107	\$ 185,867	\$ 160,853
Cost of sales	111,766	97,456	95,031	83,502	75,871
Selling, general and administrative	133,395	113,593	99,657	84,315	69,243
Total expenses	245,161	211,049	194,688	167,817	145,114
Operating income	32,675	25,956	20,419	18,050	15,739
Net interest expense	5,437	5,383	4,874	4,450	4,307
Income before income taxes	27,238	20,573	15,545	13,600	11,432
Provision for (benefit from) income taxes	6,265	4,731	3,853	3,876	(2,512)
Net income	\$ 20,973	\$ 15,842	\$ 11,692	\$ 9,724	\$ 13,944
Net income per share-Basic	\$ 1.63	\$ 1.35	\$ 1.04	\$ 0.86	\$ 1.24
Net income per share-Diluted	\$ 1.58	\$ 1.29	\$ 1.02	\$ 0.86	\$ 1.24
Basic shares outstanding	12,842	11,736	11,273	11,263	11,250
Diluted shares outstanding	13,256	12,236	11,489	11,327	11,251
Cash dividends declared per share	\$ 0.080	\$ 0.080	\$ 0.064	\$ 0.053	\$ 0.043
BALANCE SHEET DATA (END OF PERIOD):					
Working capital	\$ 194,852	\$ 157,103	\$ 126,690	\$ 132,679	\$ 121,357
Total assets	296,375	249,069	208,443	200,380	186,949
Long-term debt	55,000	35,000	40,000	40,000	40,000
Shareholders' equity	166,426	145,533	103,870	104,841	92,930

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward Looking Statements

Statements included under Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, in this annual report on Form 10-K, as well as statements in future filings by the Company with the Securities and Exchange Commission ("SEC"), in the Company's press releases and oral statements made by or with the approval of an authorized executive officer of the Company, which are not historical in nature, are intended to be, and are hereby identified as, "FORWARD LOOKING STATEMENTS" for purposes of the safe harbor provided by Section 21E of the Securities Exchange Act of 1934. The Company cautions readers that FORWARD LOOKING STATEMENTS, include without limitation, those relating to the Company's future business prospects, revenues, working capital, liquidity, capital needs, plans for future operations, effective tax rates, margins, interest costs, and income, as well as assumptions relating to the foregoing. FORWARD LOOKING STATEMENTS are subject to certain risks and uncertainties, some of which cannot be predicted or quantified. Actual results and future events could differ materially from those indicated in the FORWARD LOOKING STATEMENTS, due to several important factors herein identified, among others, and other risks and factors identified from time to time in the Company's reports filed with the SEC including, without limitation, the following: general economic and business conditions which may impact disposable income of consumers, competitive products and pricing, ability to enforce intellectual property rights, seasonality, availability of alternative sources of supply in the case of loss of any significant supplier, the Company's dependence on key officers, ability to enforce intellectual property rights, continued availability to the Company of financing and credit on favorable terms and success of hedging strategies with respect to currency exchange rate fluctuations.

GENERAL

Net Sales. Among the more significant factors that influence annual sales are general economic conditions in the Company's domestic and international markets, new product introductions, the level of advertising expenditures, the effectiveness of marketing and distribution programs and product pricing decisions.

Reported sales are also affected by foreign exchange rates, primarily the U.S. dollar/Swiss franc rate, because significant portions of the Company's international sales are billed in Swiss francs and translated to U.S. dollars at average exchange rates for financial reporting purposes.

The Company's business is very seasonal. There are two major selling seasons in the Company's North American markets: the Spring season, which includes school graduations and several holidays, and, most importantly, the Christmas and holiday season. Major selling seasons in certain international markets center around significant local holidays that occur in late Winter or early Spring, however, because these markets are a less significant portion of the Company's business, their impact is far less than that of the selling seasons in North America.

The Company is continuing its efforts to expand sales in key international markets. These efforts have included: the recruitment of a number of key personnel with management level sales and marketing responsibilities, the addition and replacement of selected independent distributors, an increase in the number of sales representatives, retargeted and increased advertising and coordinated marketing programs designed to build brand awareness and consumer demand for the Company's watches at point-of-sale.

Gross Margins. The Company's overall gross margins are primarily affected by four major factors: sales mix, product pricing strategy, component and labor costs and the U.S. dollar/Swiss franc exchange rate. The Company's gross margins on its manufactured brands are higher than those on its distributed brands and;

therefore, any shift in overall sales mix toward the Company's manufactured brands will generally have a favorable impact on margins. In addition, margins on sales of a particular brand vary from model to model and, therefore, changes in the model sales mix within a brand will impact margins.

All of the Company's brands compete with a number of other brands on the basis of not only styling but also wholesale and retail price. The Company's ability to improve margins through price increases is, therefore, to some extent constrained by competitor actions. The overall level of liquidation sales of discontinued models in a particular fiscal year can also impact the Company's gross margins.

Manufacturing costs of the Company's Movado and Concord brands consist primarily of component costs, Company and subcontractor assembly costs and unit overhead costs.

The Company seeks to control and reduce component and subcontractor labor costs through a combination of negotiations with existing suppliers and alternative sourcing. Overall wage and salary costs at the Company's manufacturing operations in Switzerland are a function of production levels and local inflation. These costs have remained fairly stable over the three previous fiscal years.

Since a substantial amount of the Company's product costs are incurred in Swiss francs, fluctuations in the U.S. dollar/Swiss franc exchange rate can impact the Company's production costs and, therefore, its gross margins. The Company, therefore, hedges its Swiss franc purchases using a combination of forward contracts, purchased currency options and spot purchases. The Company's hedging program has, in the recent past, been reasonably successful in stabilizing product costs despite exchange rate fluctuations.

Operating Expenses. The Company's operating expenses consist primarily of advertising, selling, distribution and general and administrative expenses. Annual advertising expenditures are based principally on overall strategic considerations relative to maintaining or increasing market share in markets that management considers to be crucial to the Company's continued success as well as on general economic conditions in the various marketplaces around the world in which the Company sells its products.

Selling expenses consist primarily of sales commissions, sales force travel costs and operating costs incurred in connection with the Company's retail business. Sales commissions vary proportionally with overall sales levels. Retail operating expenses consist primarily of salaries and store rent.

Distribution expenses consist primarily of salaries of distribution staff, the cost of part-time help to meet seasonal needs, and shipping costs and supplies.

General and administrative expenses consist primarily of salaries, employee benefit plan costs, office rent, management information systems costs and various other corporate expenses such as insurance, legal, internal audit and credit and collection costs.

Operating expenses over the last three fiscal years reflect the effect of the implementation of the Company's growth strategy. The more significant expenses associated with this strategy included: advertising and marketing expenses designed to increase market share for the Corum, Concord and Movado brands; advertising and marketing costs for the continuing expansion of the Company's ESQ line; additions to the Company's sales force; salaries and rents associated with additional outlet stores; and the addition of staff to support distribution, inventory management and customer service requirements coincident with growth of the Company's business.

RESULTS OF OPERATIONS FOR THE FISCAL YEARS ENDED JANUARY 31, 1999, 1998 AND 1997

Net Sales. Comparative net sales by product class were as follows:

	1999 ----	1998 ----	1997 ----
	(IN THOUSANDS)		
Concord, Movado, Coach and ESQ:			
Domestic	\$180,909	\$153,835	\$138,810
International	50,940	40,028	30,185
Piaget and Corum	13,934	17,045	22,386
Other	32,053	26,097	23,726
	-----	-----	-----
	\$277,836	\$237,005	\$215,107
	=====	=====	=====

Net sales increased 17.2% for the year ended January 31, 1999. The increase in net sales for fiscal 1999 was predominately due to growth in the Company's established manufactured brands (Concord, Movado and ESQ) and expansion of the Company's retail network, which consists of 19 outlet stores and four Movado Boutiques and the Piaget Boutique partially offset by reductions in the Company's distributed brands, due in part to the announced sale of the Piaget brand in December 1998 (see Note 14 to the consolidated financial statements). In addition, the Company introduced the Coach watch brand, its fourth manufactured brand, during the first quarter of fiscal 1999 which contributed significantly to sales growth. Domestic sales increases were predominantly due to the introduction of the Coach watch line and growth in Concord, Movado and ESQ brand sales offset somewhat by reductions in sales of the Piaget and Corum brands. Growth in the international business was predominantly due to growth of Movado in the Far East, Middle East and the Caribbean.

Net sales increased 10.2% in fiscal 1998. The increase resulted primarily from growth in sales in the U.S. and unit sales gains in the Company's international business. Sales increases in the U.S. were primarily in the Movado and Concord brands. These increases were partially offset by sales declines in the Company's ESQ, Piaget and Corum brands. ESQ sales declined in fiscal 1998 in comparison to fiscal 1997 principally because of the significant expansion of the brand's retail network, which occurred during fiscal 1997. Piaget sales declines were due primarily to planned reductions in the distribution channels for the brand. The increase in the Company's international business was due predominantly to sales increases of the Concord and Movado brands in the Middle East, Far East and Caribbean offset somewhat by the negative impact of a change in translation rates.

Gross Margins. The gross margin for fiscal 1999 was 59.8% as compared to 58.9% for fiscal 1998. The increase in margin was predominately due to a favorable sales mix, particularly an increase in the proportion of sales of Concord, Movado, Coach and ESQ to our other brands. The Company's gross margin also benefited slightly from increases in the U.S. dollar against the Swiss franc.

The Company's gross margin increased from 55.8% to 58.9% in fiscal 1998, principally as a result of sales mix, particularly an increase in the proportion of Concord, Movado and ESQ sales to net sales. The Company's gross margin also benefited by increases in the U.S. dollar against the Swiss franc.

Operating Expenses. Operating expenses for fiscal 1999 were \$133.4 million or 48.0% of net sales as compared to \$113.6 million or 47.9% of net sales in fiscal 1998. The increase in operating expenses was largely the result of planned increases in both advertising and selling costs in the United States which were necessary to launch the Coach brand and to develop and introduce new product line extensions within the Movado brand through the Movado Boutiques. In addition, increases in general and administrative costs were due to personnel increases which were necessary for the support of our Movado Boutiques as well as cost increases for information systems and employee benefit programs.

Operating expenses increased 14.0% in fiscal 1998 to 47.9% of net sales from 46.3% of net sales in fiscal 1997. The increase in fiscal 1998 operating expenses occurred primarily in the advertising, selling and general and administrative expense categories. Distribution costs declined as a percentage of net sales.

The increase in advertising and marketing expenditures in fiscal 1998 which occurred primarily in the U.S., was planned, and related to the Company's ongoing efforts to build identity and image for its brands. Fiscal 1998 advertising and marketing costs were affected by higher levels of media spending for Concord, Movado and, in particular, ESQ in the U.S and increased marketing and promotional activities in the U.S. for all of the Company's brands. The growth in consolidated advertising costs included increased media spending in certain international markets, primarily the Far East and Middle East and certain European markets. Fiscal 1998 general and administrative expenses included increased employee benefit costs and rents due to the expansion of office space necessitated by the Company's growth and head count increases.

Interest Expense. Net interest expense for fiscal 1999, 1998 and 1997 was \$5.4 million, \$5.4 million and \$4.9 million, respectively, and consisted primarily of interest on the Company's 6.56% Senior Notes, 6.90% Series A Senior Notes, revolving lines of credit under the July 1997 Restated Credit Agreement, as amended, and borrowings against working capital lines.

Income Taxes. The Company's income tax provision amounted to \$6.3 million, \$4.7 million, and \$3.9 million for fiscal 1999, 1998 and 1997, respectively, or 23.0% of pretax income for fiscal 1999 and 1998 and, 24.8% for fiscal 1997. A portion of the Company's consolidated operations are located in non-U.S. jurisdictions, and, therefore, the Company's effective rate differs from U.S. statutory rates. The majority of the Company's non-U.S. operations are located in jurisdictions with statutory rates below U.S. rates. The Company believes that the future effective tax rate will range from 20% to 30%; however, there can be no assurance of this as it is dependent on a number of factors, including the mix of foreign to domestic earnings, local statutory tax rates and the Company's ability to utilize net operating loss carryforwards in certain jurisdictions.

#### LIQUIDITY AND CAPITAL RESOURCES

The Company's liquidity needs have been, and are expected to remain, primarily a function of its seasonal working capital requirements, which have increased due to significant growth in domestic sales over the two previous years. The Company's business is not capital intensive and liquidity needs for capital investments have not been significant in relation to the Company's overall financing requirements.

The Company has met its liquidity needs primarily through funds from operations and bank borrowings with domestic and Swiss banks. The Company's future requirements for capital will relate not only to working capital requirements for the expected continued growth of its existing brands, domestically and internationally, but also to funding new product lines. In addition, the Company made a \$5 million sinking fund payment on February 1, 1999 and is required to make another on January 31, 2000 in connection with its 6.56% Senior Notes which were issued in the original principal amount of \$40 million.

The Company's revolving credit and working capital lines with its domestic bank group provide for a three year \$90.0 million unsecured revolving line of credit, pursuant to an Amended and Restated Credit Agreement, dated as of July 23, 1997, among the Company, the Chase Manhattan Bank, as agent, Fleet Bank N.A., as co-agent, and other banks signatory thereto, ("Restated Bank Credit Agreement"), and \$31.6 million of uncommitted working capital lines of credit. At January 31, 1999, the Company had \$5.0 million in outstanding balances under the Restated Bank Credit Agreement, which is included in Long-term debt.



On November 30, 1998, the Company entered into a Note Purchase and Private Shelf Agreement which allows for the issuance up to two years after the date of the agreement of Senior promissory notes in the aggregate principal amount of up to \$50 million with maturities up to 12 years from their date of issuance. On December 1, 1998, the Company brought down \$25 million of 6.90% Series A Senior Notes maturing on October 30, 2010 which are subject to annual prepayments of \$5.0 million commencing October 31, 2006.

In March 1998, the Company's Board of Directors authorized the repurchase of up to 400,000 shares of the Company's Common Stock. As of January 31, 1999, the Company had purchased 142,200 shares at an aggregate cost of \$2.9 million. In March 1999, the Board approved a revised stock repurchase program for the repurchase of shares of the Company's Common Stock up to an aggregate repurchase price of \$10.0 million, in addition to the shares previously purchased.

The Company's debt-to-total capitalization ratio was 28.8% at January 31, 1999, as compared to 23.6% at January 31, 1998. The increase in the debt to total capitalization was due to the Company borrowing \$25.0 million of 6.90% Series A Senior Notes.

The Company's net working capital, consisting primarily of trade receivables and inventories, amounted to \$194.9 million and \$157.1 million at January 31, 1999 and January 31, 1998, respectively. Accounts receivable at January 31, 1999 were \$109.1 million as compared to \$92.4 million at January 31, 1998. The increase in receivables was primarily the result of growth in the Company's business and the addition of the Coach brand, which has been offset by Piaget receivables classified as assets held for sale. Inventories at January 31, 1999 were \$104.0 million as compared to \$98.2 million at January 31, 1998. The increase in inventories from January 31, 1999 to January 31, 1998 reflected the expansion of the Company's product line, in particular the introduction of the Coach brand and the opening of the Movado Boutiques which has been offset by Piaget inventory classified as assets held for sale.

The Company's capital expenditures for the year ended January 31, 1999 were approximately \$11.7 million compared to \$7.6 million for the year ended January 31, 1998. Expenditures in fiscal 1999 were primarily related to planned expenditures in the Company's information systems, including retail information systems, expansion of the Company's Movado boutiques and further expansion of the Company's network of outlet stores. The Company's capital expenditures for the year ended January 31, 1998 were approximately \$7.6 million compared to \$6.6 million for the year ended January 31, 1997. Expenditures in fiscal 1998 were primarily related to improvements in the Company's management and sales management information systems and costs incurred in connection with the expansion of domestic distribution operations. The Company expects that capital expenditures in the future will approximate the average of fiscal 1999 and 1998 levels.

#### RECENTLY ISSUED ACCOUNTING STANDARDS

The Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133 "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133) in June 1998. SFAS 133 requires all derivatives be recorded on the balance sheet at fair value and establishes new accounting practices for hedge instruments. SFAS 133 is required for the fiscal years beginning after June 15, 1999. Management of the Company is currently analyzing the effect SFAS 133 will have on the Company's statement of position and results of operations.

#### MARKET RISKS

The Company's primary market risk exposure relates to foreign currency exchange risk (see Note 5 to the consolidated financial statements). The majority of the Company's purchases are denominated in Swiss francs. The Company reduces its exposure to the Swiss franc exchange rate risk through a hedging program.

Under the hedging program, the Company purchases various financial instruments, predominantly forward and option contracts. Gains and losses on financial instruments resulting from this hedging activity are offset by the effects of the currency movements on respective underlying hedged transactions. If the Company did not engage in a hedging program, any change in the Swiss franc to local currency would have an equal effect on the entities' cost of sales. As of January 31, 1999, the Company's hedging portfolio consisted of various Swiss Franc forward contracts and Swiss franc option contracts. The forward contracts have various maturity dates through June 17, 1999 with an average forward rate of 1.4352 Swiss franc per dollar. The Company has \$55.0 million of option contracts with a maturity date of May 24, 2000. The option contracts have an average strike price of 1.4239. As of January 31, 1999 the carrying value of the options amounted to approximately \$2.3 million, which represents the unamortized premium of the option and a fair market value of approximately \$2.8 million.

In addition, the Company has certain debt obligations with variable interest rates, which are based on market interest. The Company does not hedge these interest rate risks. The Company also has certain debt obligations with fixed interest rates. The difference between the market based interest rates at the balance sheet date and the fixed rates was minimal.

#### EURO CONVERSION

On January 1, 1999, 11 of the 15 member countries of the European Union established permanent, fixed conversion rates between their existing currencies and the European Union's common currency called the "euro".

The transition period for the introduction of the euro is scheduled to phase in over a period ending January 1, 2002, with the existing currency being completely removed from circulation on July 1, 2002. The Company has been preparing for the use of the euro. The timing of the Company's phasing out all uses of the existing currencies will comply with applicable legal requirements and also will be scheduled to facilitate optimal coordination with the plans of our vendors.

The Company does not currently have significant transactions denominated in euro related currencies. This is not expected to change in the foreseeable future. Therefore, the Company believes the introduction of the euro and the phasing out of the other currencies will not have a material impact on the Company's consolidated financial statements.

#### YEAR 2000

##### General

Many older computer software programs and other equipment with embedded chips or processors (collectively "systems") refer to years in terms of their last two digits only. Such systems may incorrectly interpret the year 2000 to mean the year 1900. If not corrected, those systems could cause date related transaction failures.

##### Project

The Company initiated a project in 1997 (the "Project") to improve and standardize data and computer technology. The Project is designed to replace all obsolete hardware and software with systems that are Year 2000 compliant and in addition, to replace most business software systems. The project calls for the replacement or upgrade of all PCs, servers, network components, desktop software, core business software which support manufacturing, distribution, sales, accounting, after sales service, retail point of sale, and electronic data interchange (EDI). The new global technical network infrastructure (hardware, software, and communication technology) has been implemented in all U.S. locations, Switzerland and Canada. The remaining technical network infrastructure for the Far East was implemented in February 1999. A new retail point-of-sale and merchandise system that is Year 2000 compliant was implemented in fiscal 1999 for all store

and headquarters locations. As part of the project, new client/server core business applications software (BPCS 6.0 which is designed to be Year 2000 compliant) supporting manufacturing, distribution, sales, accounting and after sales service was implemented in the U.S. in March 1999. The Company has been working with System Software Associates, Inc. ("SSA") to complete such implementation and testing as well as implementation and testing of the same BPCS 6.0 applications software at the Company's Canadian, Far East and Swiss facilities. Such implementation is expected to be completed in Switzerland during the Summer of 1999 and in Canada and the Far East by the end of the calendar year. Existing business applications software systems operating in Canada and the Far East, however, have been made Year 2000 compliant in any event by the implementation of upgrades, which were completed in February 1999. Minor program and procedural changes were previously implemented to support fiscal year 2000 processing for our existing Swiss business systems. The Company has tested the BPCS 6.0 applications software by reviewing the database and program definitions to confirm that the date formats are four digit year specific. After completion of the quarter end processing related to the end of the first quarter of fiscal 2000, the Company plans to conduct further testing by simulating the date change to January 1, 2000. The Company has developed a contingency plan with the goal of insuring that the Company's Swiss business systems are Year 2000 compliant in the event implementation of the BPCS 6.0 core business applications software is not completed before the end of calendar year 1999. This plan calls for the implementation of certain upgrades and the remediation of applications software that is not Year 2000 compliant. As a result of the Project and its contingency planning, the Company expects that it will be Year 2000 compliant, on a global basis, by the end of calendar year 1999.

By the use of questionnaires, the Company is monitoring the Year 2000 system status of customers and vendors involved with electronic interchange of data with our systems. This monitoring will continue throughout 1999. Non-electronic data exchange contingency approaches including reliance on communications by fax will be used, if required, with those customers or vendors which fail to reach Year 2000 system compliance by January 1, 2000.

#### Costs

Costs associated with systems replacement and modification to become Year 2000 compliant under the contingency plan (outside of the Project) are expected to be approximately \$400,000 and will be funded through the Company's working capital lines and other credit facilities. The estimated total cost of the Project is approximately \$11.0 million. The total amount expended on the Project through January 31, 1999 was approximately \$7.1 million which has been capitalized as a long-term asset. This estimate assumes that the Company will not incur significant Year 2000 related costs due to the failure of customers, vendors and other third parties to be Year 2000 compliant.

#### Risks

The failure to correct a material Year 2000 problem could result in an interruption in, or failure of, certain normal business activities or operations. Such failures could materially and adversely affect the Company's result of operations, liquidity and financial condition. Due to the general uncertainty inherent in the Year 2000 problem, resulting in part from the uncertainty of the Year 2000 readiness of third party suppliers and customers, the Company is unable to determine at this time whether the consequences of Year 2000 failures will have a material impact on the Company's results of operations, liquidity or financial condition. The Project is expected to significantly reduce the Company's level of uncertainty about the Year 2000 problem. The Company believes that, with the implementation of new business systems and completion of the Project as scheduled, and the Company's contingency plan, if necessary, the possibility of significant interruptions of normal operations should be reduced. No major information technology projects have been deferred as a result of the Project.

On December 22, 1998, the Company entered into an agreement with VLG North America, Inc. ("VLG") for the sale to VLG of substantially all of the assets, properties and rights related to the Piaget business. The transaction was completed on February 22, 1999 at a sale price of approximately \$30.0 million. The Company will report a pretax gain, representing the excess of the sale price over the net book value of the assets sold at January 31, 1999, during the first quarter of fiscal 2000. Accordingly, the Company recorded \$22.2 million in assets held for sale at January 31, 1999.

## INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

	Schedule Number -----	Page Number -----
Report of Independent Accountants		F-1
Consolidated Statements of Income and Comprehensive Income for the fiscal years ended January 31, 1999, 1998 and 1997		F-2
Consolidated Balance Sheets at January 31, 1999 and 1998		F-3
Consolidated Statements of Cash Flows for the fiscal years ended January 31, 1999, 1998 and 1997		F-4
Consolidated Statements of Changes in Shareholders' Equity for the fiscal years ended January 31, 1999, 1998 and 1997		F-5
Notes to Consolidated Financial Statements		F-6 to F-21
Valuation and Qualifying Accounts and Reserves	II	S-1

Item 9. Changes in and Disagreements with Accountants on Accounting and  
Financial Disclosure

None.

**Item 10. Directors and Executive Officers of the Registrant**

The information required by this item is included in the Company's Proxy Statement for the 1999 annual meeting of shareholders and is incorporated herein by reference.

**Item 11. Executive Compensation**

The information required by this item is included in the Company's Proxy Statement for the 1999 annual meeting of shareholders and is incorporated herein by reference.

**Item 12. Security Ownership of Certain Beneficial Owners and Management**

The information required by this item is included in the Company's Proxy Statement for the 1999 annual meeting of shareholders and is incorporated herein by reference.

**Item 13. Certain Relationships and Related Transactions**

The information required by this item is included in the Company's Proxy Statement for the 1999 annual meeting of shareholders and is incorporated herein by reference.

## Item 14. Exhibits, Financial Statement Schedules and Reports on Form 8-K

## (a) Documents filed as part of this report

## (1) Financial Statements:

See Financial Statements Index on page 20 included in Item 8 of part II of this report.

## (2) Financial Statements Schedules:

Schedule II	Valuation and Qualifying Accounts and Reserves
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All other schedules are omitted because they are not applicable, or not required, or because the required information is included in the Consolidated Financial Statements or notes thereto.

## (3) Exhibits:

Incorporated herein by reference is a list of the Exhibits contained in the Exhibit Index on pages 25 through 30 of this report.

## (b) Reports on Form 8-K

None

## SIGNATURES

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

MOVADO GROUP, INC.  
(Registrant)

Dated: April 30, 1999

By: /s/ Gedalio Grinberg

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Gedalio Grinberg  
Chief Executive Officer and  
Chairman of the Board of Directors

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

Dated: April 30, 1999

/s/ Gedalio Grinberg

-----  
Gedalio Grinberg  
Chief Executive Officer and  
Chairman of the Board of Directors  
(Principal Executive Officer)

Dated: April 30, 1999

/s/ Efraim Grinberg

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Efraim Grinberg  
President

Dated: April 30, 1999

/s/ Michael J. Bush

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Michael J. Bush  
Executive Vice President and Chief  
Operating Officer

Dated: April 30, 1999

/s/ Kenneth J. Adams

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Kenneth J. Adams  
Senior Vice President and Chief  
Financial Officer (Chief Financial  
Officer and Principal Accounting  
Officer)

Dated: April 30, 1999

/s/ Margaret Hayes Adame

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Margaret Hayes Adame  
Director

Dated: April 30, 1999

/s/ Donald Oresman

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Donald Oresman  
Director

Dated: April 30, 1999

/s/ Leonard L. Silverstein

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Leonard L. Silverstein  
Director



Dated: April 30, 1999

/s/ Alan H. Howard

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Alan H. Howard  
Director

## EXHIBIT INDEX

EXHIBIT NUMBER -----	DESCRIPTION -----	SEQUENTIALLY NUMBERED PAGE -----
3.1	Restated By-Laws of the Registrant. Incorporated by reference to Exhibit 3.1 filed with the Registrant's registration statement on Form S-1 (Registration No. 33-666000).	
3.2	Restated Certificate of Incorporation of the Registrant as amended. Incorporated herein by reference to Exhibit 3(1) to the Registrant's Quarterly Report on Form 10-Q filed for the quarter ended October 31, 1998.	
4.1	Specimen Common Stock Certificate. Incorporated herein by reference to Exhibit 4.1 to the Registrant's Annual Report on Form 10-K for the year ended January 31, 1998.	
4.2	Note Agreement, dated as of November 9, 1993, by and between the Registrant and The Prudential Insurance Company of America. Incorporated herein by reference to Exhibit 4.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended October 31, 1993.	
10.1	Lease dated August 5, 1998 between Grand Canal Shops Mall Construction, LLC as landlord and Movado Retail Group, Inc., as tenant, for premises at Grand Canal Shops, Clark County, Nevada. Incorporated herein by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended July 31, 1998.	
10.2	Amendment Number 1 to License Agreement dated December 9, 1996 between Registrant as Licensee and Coach, a division of Sara Lee Corporation as Licensor, dated as of February 1, 1998. Incorporated herein by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended October 31, 1998.	
10.3	Amendment Number 6 to Franchise Agreement dated February 27, 1969 between Registrant as Distributor and Corum, Ries Bannwart and Co. as manufacturer, as previously amended, dated as of October 22, 1997. Incorporated herein by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended October 31, 1998.	

EXHIBIT NUMBER -----	DESCRIPTION -----	SEQUENTIALLY NUMBERED PAGE -----
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- 10.4 Franchise Agreement between Corum Watch Corporation and Corum, Ries, Bannwart & Co., dated February 27, 1969, as amended on April 16, 1979, February 22, 1980, April 20, 1982, January 1988 and February 19, 1993. Incorporated herein by reference to Exhibit 10.6 filed with the Company's Registration Statement on Form S-1 (Registration No. 33-666000).
- 10.5 Assignment Agreement, dated February 22, 1980, between Corum, Ries, Bannwart & Co. and Corum Watch Corporation. Incorporated herein by reference to Exhibit Number 10.7 filed with Company's Registration Statement on Form S-1 (Registration No. 33-666000).
- 10.6 Agreement, dated January 1, 1992, between The Hearst Corporation and the Registrant, as amended on January 17, 1992. Incorporated herein by reference to Exhibit Number 10.8 filed with Company's Registration Statement on Form S-1 (Registration No. 33-666000).
- 10.7 Letter Agreement between the Registrant and The Hearst Corporation dated October 24, 1994 executed October 25, 1995 amending License Agreement dated as of January 1, 1992, as amended. Incorporated herein by reference to Exhibit 10.1 to Registrant's Quarterly Report on Form 10-Q for the quarter ended October 31, 1995.
- 10.8 Lease Agreement between the Registrant and Meadowlands Associates, dated October 31, 1986, for office space in Lyndhurst, New Jersey, together with the Non-Disturbance and Attornment Agreement, dated March 11, 1987. Incorporated herein by reference to Exhibit Number 10.10 filed with Company's Registration Statement on Form S-1 (Registration No. 33-666000).
- 10.9 Registrant's 1996 Stock Incentive Plan amending and restating the 1993 Employee Stock Option Plan. Incorporated herein by reference to Exhibit 10.5 to Registrant's Quarterly Report on Form 10-Q for the quarter ended October 31, 1996.\*\*
- 10.10 Line of Credit Letter Agreement dated July 18, 1997 between the Registrant and Fleet Bank, N.A. Incorporated herein by reference to Exhibit 10.13 to Registrant's Annual Report on Form 10-K for the year ended January 31, 1998.

EXHIBIT NUMBER -----	DESCRIPTION -----	SEQUENTIALLY NUMBERED PAGE -----
10.11	Line of Credit Letter Agreement dated February 25, 1998 between the Registrant and Marine Midland Bank, N.A.	

Incorporated herein by reference to Exhibit 10.14 to Registrant's Annual Report on Form 10-K for the year ended January 31, 1998.

- 10.12 Letter Agreement dated May 19, 1993 between Concord Watch Company, S.A. and Bern Cantonal Bank (English translation). Incorporated herein by reference to Exhibit Number 10.15 filed with Company's Registration Statement on Form S-1 (Registration No. 33-666000).
- 10.13 Letter Agreement dated November 25, 1992 between Concord Watch Company, S.A. and Swiss Bank Corporation (English translation). Incorporated herein by reference to Exhibit Number 10.19 filed with Company's Registration Statement on Form S-1 (Registration No. 33-666000).
- 10.14 Letter Agreement dated January 25, 1991 between Concord Watch Company, S.A. and Union Bank of Switzerland (English translation). Incorporated herein by reference to Exhibit Number 10.20 filed with Company's Registration Statement on Form S-1 (Registration No. 33-666000).
- 10.15 Lease dated August 10, 1994 between Rockefeller Center Properties, as landlord and SwissAm Inc., as tenant for space at 630 Fifth Avenue, New York, New York. Incorporated herein by reference to Exhibit 10.4 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended July 31 1994.
- 10.16 First Amendment of Lease dated May 31, 1994 between Meadowlands Associates, as landlord and the Registrant, as tenant for additional space at 125 Chubb Avenue, Lyndhurst, New Jersey. Incorporated herein by reference to Exhibit 10.4 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended July 31, 1994.
- 10.17 Death and Disability Benefit Plan Agreement dated September 23, 1994 between the Registrant and Gedalio Grinberg Incorporated herein by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended October 31, 1994.\*\*

EXHIBIT NUMBER	DESCRIPTION	SEQUENTIALLY NUMBERED PAGE
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10.18	Registrant's amended and restated Deferred Compensation Plan for Executives effective January 1, 1998 .** Incorporated herein by reference to Exhibit 10.25 to the Registrant's Annual Report on Form 10-K for the year ended January 31, 1998.	
10.19	Credit Agreement dated as of January 31, 1996 among the Registrant, Chase Manhattan Bank (National Association) ("Chase"), NatWest Bank N.A. ("NatWest"), Marine Midland Bank and Chase as Agent and NatWest as Co-Agent. Incorporated herein by reference to Exhibit 10.26 to the Registrant's Annual Report on Form 10-K for the year ended January 31, 1996.	
10.20	Letter Agreement dated August 25, 1995 between the Registrant and Michael Bush together with Promissory Note dated October 25, 1995. Incorporated herein by reference to Exhibit 10.29 to the Registrant's Annual Report on Form 10-K for the year ended January 31, 1996.**	
10.21	Policy Collateral Assignment and Split Dollar Agreement dated December 5, 1995 by and between the Registrant and The Grinberg Family Trust together with Demand Note dated December 5, 1995. Incorporated herein by reference to Exhibit 10.30 to the Registrant's Annual Report on Form 10-K for the year ended January 31, 1996.**	
10.22	Lease dated April 15, 1996 between the Registrant and Belle Mead Corporation for premises at 1200 Wall Street West, Lyndhurst, New Jersey. Incorporated herein by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended April 30, 1996.	
10.23	License Agreement dated December 9, 1996 between the Registrant and Sara Lee Corporation. Incorporated herein by reference to Exhibit 10.32 to the Registrant's Annual Report on Form 10-K for the year ended January 31, 1997.	
10.24	Amendment number 1 to promissory note dated October 25, 1995 between the Registrant and Michael Bush. Incorporated herein by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended April 30, 1997.	

EXHIBIT NUMBER -----	DESCRIPTION -----	SEQUENTIALLY NUMBERED PAGE -----
10.25	Amended and Restated Credit Agreement dated as of July 23, 1997 among the Registrant, the Chase Manhattan Bank as Agent, Swingline Bank and Issuing Bank and Fleet Bank, N.A. as Co-Agent and the other Lenders signatory thereto. Incorporated herein by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended July 31, 1997.	
10.26	Amendment to Amended and Restated Credit Agreement dated as of August 5, 1997 among the Registrant, the Chase Manhattan Bank as Agent, Swingline Bank and Issuing Bank and Fleet Bank, N.A. as Co-Agent and the other Lenders signatory thereto. Incorporated herein by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended July 31, 1997.	
10.27	Consent to Sublease dated as of June 18, 1997 among the Registrant, Meadowlands Associates and Alexander and Alexander Consulting Group, Inc. ("AACG"), and Sublease Agreement entered into as of May 7, 1997 by and between the Registrant and AACG. Incorporated herein to Exhibit 10.3 to the Registrant's Quarterly Report in Form 10-Q for the quarter ended July 31, 1997.	
10.28	First Amendment to Lease dated April 8, 1998 between RCPI Trust, successor in interest to Rockefeller Center Properties ("Landlord") and Movado Retail Group, Inc., successor in interest to SwissAm Inc. ("Tenant") amending lease dated August 10, 1994 between Landlord and Tenant for space at 630 Fifth Avenue, New York, New York. Incorporated herein by reference to Exhibit 10.37 to the Registrant's Annual Report on Form 10-K for the year ended January 31, 1998.	
10.29	Line of Credit Letter Agreement dated November 10, 1997 between the Registrant and Fleet Bank, N.A. Incorporated herein by reference to Exhibit 10.38 to the Registrant's Annual Report on Form 10-K for the year ended January 31, 1998.	
10.30	Line of Credit Letter Agreement dated August 5, 1997 between the Registrant and Fleet Bank, N.A. Incorporated herein by reference to Exhibit 10.39 to the Registrant's Annual Report on Form 10-K for the year ended January 31, 1998.	
10.31	Note Purchase and Private Shelf Agreement dated as of November 30, 1998 between the Registrant and The Prudential Insurance Company of America.	

EXHIBIT NUMBER -----	DESCRIPTION -----	SEQUENTIALLY NUMBERED PAGE -----
----------------------------	----------------------	--

- 10.32 February 1999 Amendment and Waiver dated as of February 19, 1999 as to Amended and Restated Credit Agreement dated as of July 23, 1997 among the Registrant, the Chase Manhattan Bank as Agent, Swingline Bank and Issuing Bank and Fleet Bank, N.A. as Co-Agent and the other Lenders signatory thereto.
- 21.1 Subsidiaries of the Registrant.
- 23.1 Consent of PricewaterhouseCoopers LLP.
- 27 Financial Data Schedule.

\*\* Constitutes a compensatory plan or arrangement.

## REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors  
and Shareholders of Movado Group, Inc.

In our opinion, the consolidated financial statements listed in the index appearing under Item 14(a)(1) and (2) on page 22 present fairly, in all material respects, the financial position of Movado Group, Inc. and its subsidiaries at January 31, 1999 and 1998, and the results of their operations and their cash flows for each of the three years in the period ended January 31, 1999, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

PRICEWATERHOUSECOOPERS LLP  
400 Campus Drive  
Florham Park, New Jersey  
March 25, 1999



MOVADO GROUP, INC.  
CONSOLIDATED STATEMENTS OF INCOME AND  
COMPREHENSIVE INCOME  
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	FISCAL YEAR ENDED JANUARY 31,		
	1999	1998	1997
NET INCOME:			
Net sales	\$ 277,836	\$ 237,005	\$ 215,107
Costs and expenses:			
Cost of sales	111,766	97,456	95,031
Selling, general and administrative	133,395	113,593	99,657
	245,161	211,049	194,688
Operating income	32,675	25,956	20,419
Net interest expense	5,437	5,383	4,874
Income before income taxes	27,238	20,573	15,545
Provision for income taxes	6,265	4,731	3,853
Net income	\$ 20,973	\$ 15,842	\$ 11,692
Net income per share - Basic	\$ 1.63	\$ 1.35	\$ 1.04
Net income per share - Diluted	\$ 1.58	\$ 1.29	\$ 1.02
COMPREHENSIVE INCOME:			
Net income	\$ 20,973	\$ 15,842	\$ 11,692
Other comprehensive income, net of tax:			
Foreign currency translation adjustment	2,949	(3,281)	(12,194)
Comprehensive income (loss)	\$ 23,922	\$ 12,561	\$( 502)

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MOVADO GROUP, INC.  
CONSOLIDATED BALANCE SHEETS  
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS)

	JANUARY 31,	
	1999	1998
	-----	-----
<b>ASSETS</b>		
Current assets:		
Cash	\$ 5,626	\$ 10,874
Trade receivables, net	109,102	92,386
Inventories	104,027	98,183
Assets held for sale	22,187	--
Other	21,489	18,206
	-----	-----
Total current assets	262,431	219,649
Plant, property and equipment, net	22,998	18,909
Other assets	10,946	10,511
	-----	-----
	\$ 296,375	\$ 249,069
	=====	=====
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Loans payable to banks	\$ 2,200	\$ --
Current portion of long-term debt	10,000	10,000
Accounts payable	25,181	25,286
Accrued liabilities	20,020	16,920
Deferred and current taxes payable	10,179	10,340
	-----	-----
Total current liabilities	67,580	62,546
	-----	-----
Long-term debt	55,000	35,000
Deferred and noncurrent foreign income taxes	5,728	3,460
Other liabilities	1,641	2,530
Shareholders' equity:		
Preferred Stock, \$0.01 par value, 5,000,000 shares authorized; no shares issued	--	--
Common Stock, \$0.01 par value; 20,000,000 shares authorized; 9,419,781 and 9,317,007 shares issued, respectively	94	93
Class A Common Stock, \$0.01 par value, 10,000,000 shares authorized; 3,530,922 and 3,556,793 shares issued and outstanding, respectively	35	36
Capital in excess of par value	65,332	64,475
Retained earnings	106,141	86,194
Accumulated other comprehensive income	(2,188)	(5,137)
Treasury stock, 159,019 shares and 17,251 shares at cost, respectively	(2,988)	(128)
	-----	-----
Total shareholders' equity	166,426	145,533
	-----	-----
Commitments and contingencies (Note 9)		
	-----	-----
	\$ 296,375	\$ 249,069
	=====	=====

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MOVADO GROUP, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(IN THOUSANDS)

	FISCAL YEAR ENDED JANUARY 31,		
	1999	1998	1997
	----	----	----
Cash flows from operating activities:			
Net income	\$ 20,973	\$ 15,842	\$ 11,692
Adjustments to reconcile net income to net cash (used in) provided by operating activities:			
Depreciation and amortization	5,380	4,121	3,946
Deferred and noncurrent foreign income taxes	1,764	483	221
Provision for losses on accounts receivable	1,304	1,005	1,917
Changes in current assets and liabilities:			
Trade receivables	(24,693)	(18,699)	(4,096)
Inventories	(19,925)	(12,988)	(3,828)
Other current assets	(1,265)	(2,565)	(14,163)
Accounts payable	290	263	5,174
Accrued liabilities	3,352	3,841	4,301
Deferred and current taxes payable	229	3,481	(377)
Increase in other noncurrent assets	(314)	(592)	(1,285)
(Decrease) increase in other noncurrent liabilities	(29)	(307)	253
Net cash (used in) provided by operating activities	(12,934)	(6,115)	3,755
Cash flows from investing activities:			
Capital expenditures	(11,707)	(7,638)	(6,626)
Goodwill, trademarks and other intangibles	(1,835)	(1,421)	(294)
Sale of subsidiary	2,646	--	--
Net cash used in investing activities	(10,896)	(9,059)	(6,920)
Cash flows from financing activities:			
Proceeds from issuance of Common Stock, net of underwriting discounts and offering expenses	--	29,609	--
Repayment of Senior Notes	(5,000)	--	--
Proceeds from issuance of Series A Senior Notes	25,000	--	--
Net proceeds from (payment of) current bank borrowings	2,200	(7,570)	5,335
Principal payments under capital leases	(387)	(275)	(389)
Stock options exercised	627	431	212
Dividends paid	(1,026)	(939)	(720)
Purchase of treasury stock	(2,860)	--	--
Net cash provided by financing activities	18,554	21,256	4,438
Effect of exchange rate changes on cash	28	(93)	(217)
Net (decrease) increase in cash	(5,248)	5,989	1,056
Cash at beginning of year	10,874	4,885	3,829
Cash at end of year	\$ 5,626	\$ 10,874	\$ 4,885
	=====	=====	=====

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MOVADO GROUP, INC.  
 CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY  
 (IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	PREFERRED STOCK	COMMON STOCK	CLASS A COMMON STOCK	CAPITAL IN EXCESS OF PAR VALUE	RETAINED EARNINGS	ACCUMULATED OTHER COMPRE- HENSIVE INCOME	TREASURY STOCK
	-----	-----	-----	-----	-----	-----	-----
Balance, January 31, 1996	\$--	\$64	\$ 49	\$34,199	\$ 60,319	\$ 10,338	\$ (128)
Net income					11,692		
Dividends (\$0.064 per share)					(720)		
Stock options exercised, net of tax benefit				251			
Foreign currency translation adjustments						(12,194)	
Conversion of Class A Common Stock to Common Stock		1	(1)				
Balance, January 31, 1997	--	65	48	34,450	71,291	(1,856)	(128)
Net income					15,842		
Dividends (\$0.080 per share)					(939)		
Stock options exercised				431			
Proceeds from issuance of Common stock, net of Underwriting discounts and Offering expenses		15		29,594			
Foreign currency translation adjustments						(3,281)	
Conversion of Class A Common Stock to Common Stock		13	(12)				
Balance, January 31, 1998	--	93	36	64,475	86,194	(5,137)	(128)
Net income					20,973		
Dividends (\$0.080 per share)					(1,026)		
Stock options exercised, net of tax Benefit				857			
Common stock repurchased							(2,860)
Foreign currency translation adjustments						2,949	
Conversion of Class A Common Stock to Common Stock		1	(1)				
Balance, January 31, 1999	\$--	\$94	\$ 35	\$65,332	\$106,141	\$ (2,188)	\$(2,988)
	===	===	====	=====	=====	=====	=====

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

## Organization and Business

Movado Group, Inc. (the "Company") is a designer, manufacturer and distributor of quality watches with prominent brands in almost every price category comprising the watch industry. In fiscal 1999, the Company marketed six distinctive brands of watches: Movado, Concord, ESQ, Coach, Piaget and Corum, which compete in most segments of the watch market. On February 22, 1999, the Company completed the sale of substantially all its assets relating to the Piaget brand to VLG North America, Inc. ("VLG").

The Company designs and manufactures Concord and Movado watches primarily through its subsidiaries in Switzerland and the United States. ESQ watches are manufactured to the Company's specifications using Swiss movements by independent contractors located in the Far East. Coach watches are assembled in Switzerland by independent suppliers. The Company is also the exclusive distributor of Swiss-manufactured Corum watches in the United States, Canada, and the Caribbean. The Company distributes its watch brands through its United States operations as well as through sales subsidiaries in Canada, Hong Kong, Singapore and Switzerland and through a number of independent distributors located in various countries throughout the world.

In addition to its sales to trade customers and independent distributors, the Company sells Movado watches, Movado jewelry, table top accessories and other product line extensions within the Movado brand directly to consumers in its Company-operated Movado Boutiques. The Company also operates a number of Movado outlet stores throughout the United States, through which the Company sells discontinued and sample merchandise.

## Principles of consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries. Intercompany transactions and balances have been eliminated.

## Translation of foreign currency financial statements and foreign currency transactions

The financial statements of the Company's international subsidiaries have been translated into United States dollars by translating balance sheet accounts at year-end exchange rates and statement of operations accounts at average exchange rates for the year. Foreign currency transaction gains and losses are charged or credited to income as incurred. Foreign currency translation gains and losses are reflected in the equity section of the Company's consolidated balance sheet within accumulated other comprehensive income as foreign currency translation adjustments.

## Sales and trade receivables

The Company's trade customers include department stores, jewelry store chains and independent jewelers. Movado, Concord and Coach watches are also marketed through a network of independent distributors. Sales are recognized upon shipment of products to trade customers. Accounts receivable are stated net of allowances for doubtful accounts of \$2,567,000 and \$2,187,000 at January 31, 1999 and 1998, respectively. One individual trade customer accounted for 10% and 12% of the Company's consolidated net sales in fiscal 1999 and 1998, respectively. No individual trade customer accounted for 10% or more of the Company's consolidated net sales in fiscal 1997.

The Company's concentrations of credit risk arise primarily from accounts receivable related to trade customers during the peak selling seasons. The Company has significant accounts receivable balances due from major department store chains. The Company's results of operations could be materially adversely affected in the event any of these customers or a group of these customers defaulted on all or a significant portion of their obligations to the Company as a result of financial difficulties.

## Inventories

Inventories are valued at the lower of cost or market. The cost of domestic finished goods inventories is determined using the first-in, first-out (FIFO) method. The costs of finished goods inventories held by overseas subsidiaries and all component parts inventories are determined using average cost.

## Plant, property and equipment

Plant, property and equipment at January 31, at cost, consists of the following (in thousands):

	1999	1998
	----	----
Furniture and equipment	\$ 34,586	\$ 32,516
Leasehold improvements	11,096	9,558
	-----	-----
	45,682	42,074
Less: accumulated depreciation	(22,684)	(23,165)
	-----	-----
	\$ 22,998	\$ 18,909
	=====	=====

Depreciation of furniture and equipment is provided using the straight-line method based on the estimated useful lives of assets which range from three to ten years. Leasehold improvements are amortized using the straight-line method over the lesser of the term of the related lease or the estimated useful life of the leasehold improvement.

## Goodwill and other intangibles

Other intangible assets consist primarily of trademarks and are recorded at cost. Trademarks are amortized over ten years, except in the case of costs associated with the Piaget and Corum trademarks, which are amortized over the remaining terms of the Piaget and Corum distribution agreements. Goodwill is amortized over 40 years. The Company reviews the carrying value of goodwill and other intangible assets for impairment whenever events or changes have occurred that would suggest an impairment of carrying value of an asset may not be recoverable. An impairment would be recognized when expected undiscounted future operating cash flows are lower than the carrying value. At January

31, 1999 and 1998, goodwill and other intangible assets at cost were \$5,448,000 and \$6,425,000, respectively, and related accumulated amortization of goodwill and other intangibles were \$2,322,000 and \$2,696,000, respectively.

#### Advertising

The Company expenses the production costs of an advertising campaign at the commencement date of the advertising campaign. Advertising expenses for fiscal 1999, 1998 and 1997, amounted to \$53.8 million, \$49.6 million and \$38.7 million, respectively.

#### Income taxes

The Company and its domestic subsidiaries file a consolidated federal income tax return. Foreign income taxes have been provided based on the applicable tax rates in each of the foreign countries in which the Company operates. Certain Swiss income taxes are payable over several years; the portion of these taxes not payable within one year is classified as noncurrent. Noncurrent foreign income taxes included in the consolidated balance sheets at January 31, 1999 and 1998 were \$2,098,000 and \$1,139,000, respectively.

#### Earnings per share

In accordance with the provisions of SFAS No. 128, Earnings Per Share, the Company is presenting net income per share on a 'basic' and 'diluted' basis. Basic earnings per share is computed using weighted average shares outstanding during the period. Diluted earnings per share is computed using the weighted average number of shares outstanding adjusted for dilutive common stock equivalents.

The weighted average number of shares outstanding for basic earnings per share were 12,842,000, 11,736,000, and 11,273,000 for fiscal 1999, 1998 and 1997, respectively. For diluted earning per share, these amounts were increased by 414,000, 500,000 and 216,000 in fiscal 1999, 1998 and 1997, respectively, due to potentially dilutive common stock equivalents issuable under the Company's stock option plan. There were no anti-dilutive common stock equivalents in the years presented.

#### Stock-based compensation

Stock-based compensation is recognized using the intrinsic value method. For disclosure purposes, pro forma net income and earnings per share are provided as if the fair value method had been applied.

#### Use of estimates in the preparation of financial statements

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

#### Stockholders Equity

The Company's Class A Common Stock entitles the holder thereof to 10 votes per share on all matters submitted to a vote of shareholders. Each share of Common Stock is entitled to one vote per share.

In March 1998, the Company's Board of Directors authorized the repurchase of 400,000 shares of the Company's Common Stock. As of January 31, 1999, the Company has repurchased 142,200 shares at an aggregate cost of \$2.9 million. In March 1999, the Board approved a revised stock repurchase program for the repurchase of shares of the Company's Common Stock up to an aggregate repurchase price of \$10.0 million, in addition to the shares previously purchased.

#### New Accounting Standards

As of February 1, 1998, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 130, "Reporting Comprehensive Income." SFAS 130 establishes standards for the reporting and display of comprehensive income and its components in a full set of general-purpose financial statements. Under SFAS 130, foreign currency translation adjustments, which had been reported separately in shareholders' equity prior to adoption, are included in other comprehensive income. No provision has been made for taxes on foreign subsidiaries' undistributed earnings, because it is management's intention to permanently reinvest the earnings of foreign subsidiaries within the business of those companies. Amounts in prior year financial statements have been reclassified to conform to SFAS 130.

Additionally, in fiscal 1999, the Company adopted SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information." This pronouncement establishes standards for the reporting of financial information about a Company's operating segments. It also establishes standards for related disclosures about products and services, geographic areas and major customers. SFAS No. 131 was effective January 31, 1999 and has been adopted for all periods presented.

These statements affect only financial statement presentation and disclosure. Adoption of the new Standards did not have an impact on the Company's consolidated financial position or results of operations.

The Financial Accounting Standards Board issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133) in June 1998, which establishes accounting and reporting standards for derivative instruments. SFAS 133 which is effective for the first quarter of fiscal 2001, requires all derivatives to be recorded on the balance sheet at fair value and establishes new accounting practices for hedge instruments. Management of the Company is currently analyzing the effect, if any, SFAS 133 will have on the Company's consolidated financial position and results of operations.

#### NOTE 2 - INVENTORIES

Inventories consist of the following (in thousands):

	JANUARY 31,	
	----- 1999	----- 1998
	----	----
Finished goods	\$ 64,438	\$ 61,960
Work-in-process and component parts	39,589	36,223
	-----	-----
	\$104,027	\$ 98,183
	=====	=====

#### NOTE 3 - BANK CREDIT ARRANGEMENTS AND LINES OF CREDIT

In order to meet the increase in working capital requirements, the Company's revolving credit and working capital lines with its domestic bank group were amended in July 1997 to provide for a three-year \$90.0 million unsecured revolving line of credit, pursuant to the Restated Bank Credit Agreement, and to provide for \$28.3 million and \$31.6 million of uncommitted working capital lines of credit at January 31, 1999 and 1998, respectively. These new facilities replaced a \$20.0 million revolving line of credit and \$35.0 million domestic working capital lines of credit and certain of the Company's Swiss working capital lines. At January 31, 1999 and January 31, 1998, the



Company had \$5 million outstanding under the Restated Bank Credit Agreement. The Restated Bank Credit Agreement provides for various rate options including the federal funds rate plus a fixed rate, the prime rate or a fixed rate plus the LIBOR rate. The Company pays a facility fee on the unused portion of the credit facility. The agreement also contains certain financial covenants based on fixed coverage ratios, leverage ratios and restrictions which limit the Company on the sale, transfer or distribution of corporate assets, including dividends and limit the amount of additional debt outstanding to \$20 million. The Company was in compliance with these restrictions and covenants at January 31, 1999. The amount of \$5.0 million outstanding at January 31, 1999 and 1998 is included in Long-term debt. The domestic unused line of credit was \$111.1 million and \$116.6 million at January 31, 1999 and 1998, respectively.

The Company's Swiss subsidiaries maintain secured and unsecured lines of credit with Swiss banks, a majority of which have an unspecified duration. Available credit under these lines totaled 8,000,000 Swiss francs and 12,870,000 Swiss francs, with dollar equivalents of approximately \$5,633,000 and \$8,708,000 at January 31, 1999 and 1998, respectively. One subsidiary's credit line contains a covenant requiring maintenance of retained earnings above a specified minimum level. This subsidiary was in compliance with this covenant at January 31, 1999 and 1998. There are no other restrictions on transfers in the form of dividends, loans or advances to the Company by its foreign subsidiaries.

Outstanding borrowings against the Company's aggregate demand lines of credit were \$2,200,000 at January 31, 1999. There were no borrowings under these credit lines at January 31, 1998. Aggregate maximum and average monthly outstanding borrowings against the Company's lines of credit and related weighted average interest rates during fiscal 1999, 1998 and 1997 were as follows (in thousands):

	FISCAL YEAR ENDED JANUARY 31,		
	1999	1998	1997
	----	----	----
Maximum borrowings	\$70,900	\$72,560	\$56,143
Average monthly borrowings	\$41,229	\$41,564	\$34,302
Weighted average interest rate	6.9%	6.4%	5.9%

Weighted average interest rates were computed based on average month-end outstanding borrowings and applicable average month-end interest rates.

#### NOTE 4 - LONG-TERM DEBT

The components of long term debt as of January 31, were as follows (in thousands):

	1999	1998
	----	----
Senior Notes	\$35,000	\$40,000
Series A Senior Notes	25,000	--
Revolving Credit Line	5,000	5,000
	-----	-----

	\$65,000	\$45,000
Less current portion	10,000	10,000
	-----	-----
Long-term debt	\$55,000	\$35,000
	=====	=====

Senior Notes due January 31, 2005 (the "Senior Notes") were issued in a private placement completed in fiscal 1994 and bear interest at 6.56% per annum, payable semiannually on July 31 and January 31, and are subject to annual payments of \$5.0 million commencing January 31, 1998 (or next business day). Accordingly, such amounts have been classified as a current liability in fiscal 1999 and 1998. The Company has the option to prepay amounts due to holders of the Senior Notes at 100% of the principal plus a "make-whole" premium and accrued interest.

The Series A Senior Notes ("Series A Senior Notes") were issued on December 1, 1998 under a Note Purchase and Private Shelf Agreement and bear interest at 6.90% per annum. Interest is payable semi-annually on April 30 and October 30 and mature on October 30, 2010 and are subject to annual payments of \$5.0 million commencing October 31, 2006. The Note Purchase and Private Shelf Agreement also provides for the issuance, up to two years after the date thereof, of senior promissory notes in the aggregate principal amount of up to an additional \$25 million with maturities up to 12 years from their date of issuance.

The agreements governing the Senior Notes and Series A Senior Notes contain certain restrictions and covenants which generally require the maintenance of a minimum net worth, limit the amount of additional secured debt the Company can incur and limit the sale, transfer or distribution of corporate assets including dividends. The Company was in compliance with these restrictions and covenants at January 31, 1999.

Included in Long-term debt at January 31, 1999 and 1998 was \$5.0 million related to the Company's revolving credit agreement as described in Note 3.

#### NOTE 5 - FOREIGN CURRENCY MANAGEMENT

A substantial portion of the Company's watches and watch components are sourced from affiliated and nonaffiliated suppliers in Switzerland. A significant strengthening of the Swiss franc against currencies of other countries in which the Company conducts sales activities increases the Company's product cost. This may adversely impact gross margins to the extent the Company is unsuccessful in hedging against changes in the currency exchange rates or higher product costs cannot be recovered through price increases in local markets. Significant fluctuations in the Swiss franc - U.S. dollar exchange rate can also have a material impact on the U.S. dollar value of the net assets of the Company's wholly-owned Swiss subsidiaries.

The Company hedges against foreign currency exposure using forward exchange contracts, purchased foreign currency options and open market purchases to cover identifiable inventory purchase commitments and occasionally equity invested in its international subsidiaries. Due to production lead times, the Company hedges identified inventory purchase commitments generally over a period of up to eighteen months.

The Company has established strict counterparty credit guidelines and only enters into foreign currency transactions with financial institutions of investment grade or better. At January 31, 1999 and 1998, the

Company had foreign currency trading lines totaling \$165,000,000 with various banks. To minimize the concentration of credit risk, the Company enters into hedging transactions with each of these banks. As a result, the Company considers the risk of counterparty default to be minimal.

The following table presents the aggregate contract amounts and fair values, based on dealer quoted prices, of the Company's financial instruments outstanding at January 31, 1999 and 1998. Foreign currency forward contracts included below mature within one year. Currency Option Contracts at January 31, 1999 and 1998 generally mature after one year. All financial instruments included below were held for hedging purposes only. Contract amounts (in thousands) consist primarily of U.S. dollar - Swiss franc contracts.

	AS OF JANUARY 31,			
	1999		1998	
	CONTRACT AMOUNTS	FAIR VALUES	CONTRACT AMOUNTS	FAIR VALUES
Foreign Currency Forward Contracts	\$11,399	\$11,511	\$ 9,036	\$ 9,187
Currency Option Contracts	\$38,625	\$ 2,829	\$39,486	\$ 576

The contract amounts of these foreign currency forward amounts and purchased options do not necessarily represent amounts exchanged by the parties and, therefore, are not a direct measure of the exposure of the Company through its use of these financial instruments. The amounts exchanged are calculated on the basis of the contract amounts and the other terms of the financial instruments, which relate to exchange rates. As of January 31, 1999 and 1998, the receivable from banks recorded in current assets associated with closed contract positions was \$1,547,000 and \$1,000, respectively.

The estimated fair values of these foreign currency forward amounts and purchased options used to hedge the Company's risks will fluctuate over time. These fair value amounts should not be viewed in isolation, but rather in relation to the fair values of the underlying hedged transactions and investments and the Company's overall exposure to fluctuations in foreign exchange rates.

Gains and losses from and premiums paid for forward or option transactions that hedge inventory purchase commitments are included in the carrying cost of inventory and are recognized in cost of sales upon sale of the inventory. Net deferred charges from hedging amounted to \$807,000 and \$375,000 at January 31, 1999 and 1998, respectively, and were included in other current assets on the accompanying balance sheet.

#### NOTE 6 - FAIR VALUE OF OTHER FINANCIAL INSTRUMENTS

The estimated fair value of the Company's Senior Notes and Series A Senior Notes at January 31, 1999 approximated the carrying value of the notes. The difference between market-based interest rates at the balance sheet date and the 6.56% and 6.90% fixed rates of the notes was minimal. The fair value of the Company's other monetary assets and liabilities approximate carrying value due to the relatively short-term nature of these items.

#### NOTE 7 - INCOME TAXES

The provision for income taxes for the fiscal years ended January 31, 1999, 1998 and 1997 consists of the following components (in thousands):

	1999	1998	1997
	----	----	----
Current:			
U.S. Federal	\$ 1,500	\$ 725	\$ 1,667
U.S. State and Local	444	192	477
Non-U.S.	1,888	1,542	860
	-----	-----	-----
	3,832	2,459	3,004
	-----	-----	-----
Noncurrent:			
U.S. Federal	--	--	--
U.S. State and Local	--	--	--
Non-U.S.	1,924	1,680	845
	-----	-----	-----
	1,924	1,680	845
	-----	-----	-----
Deferred:			
U.S. Federal	(750)	--	--
U.S. State and Local	--	--	--
Non-U.S.	1,259	592	4
	-----	-----	-----
	509	592	4
	-----	-----	-----
Provision for income taxes	\$ 6,265	\$ 4,731	\$ 3,853
	=====	=====	=====

Deferred income taxes reflect the tax effect of temporary differences between the amount of assets and liabilities recognized for financial reporting purposes and such amounts recognized for tax purposes. Deferred income taxes have been classified as current or noncurrent on the consolidated balance sheets based on the underlying temporary differences and the expected due dates of taxes payable upon reversal. Significant components of the Company's deferred income tax assets and liabilities for the fiscal year, ended January 31, 1999 and 1998 consist of the following (in thousands):

	1999 DEFERRED TAX		1998 DEFERRED TAX	
	ASSETS	LIABILITIES	ASSETS	LIABILITIES
	-----	-----	-----	-----
Operating loss carryforwards	\$ 2,400	\$ --	\$ 2,092	\$ --
Rent accrual	417	--	542	--
Inventory reserve	1,038	6,218	813	5,516
Receivable allowance	816	1,370	643	565
Depreciation/amortization	1,191	--	1,043	--
Other	948	22	637	271
	-----	-----	-----	-----
	6,810	7,610	5,770	6,352
Valuation allowance	(2,660)	--	(2,370)	--
	-----	-----	-----	-----
Total	\$ 4,150	\$ 7,610	\$ 3,400	\$ 6,352
	=====	=====	=====	=====

As of January 31, 1999, the Company had foreign net operating loss carryforwards of approximately \$5.5 million, which are available to offset taxable income in future years. As of January 31, 1999, the Company continued to maintain a 100% valuation allowance with respect to the tax benefit of foreign net operating loss carryforwards and other foreign tax assets. Since the Company's tax assets relate primarily to its former sales office in Germany, which is currently operated by an independent distributor, the Company's assessment is that the tax assets will not likely be

utilized in the foreseeable future. Management is continuing to evaluate the appropriate level of allowance based on future operating results and changes in circumstances.

The provision for income taxes differs from the amount determined by applying the U.S. federal statutory rate as follows (in thousands):

	FISCAL YEAR ENDED JANUARY 31,		
	1999	1998	1997
	----	----	----
Provision for income taxes at the U.S. statutory rate	\$ 9,533	\$ 7,200	\$ 5,441
Realization of capital and operating loss carryforwards	--	(88)	--
Lower effective foreign income tax rate	(3,685)	(2,582)	(2,369)
Tax provided on repatriated earnings of foreign subsidiaries	252	262	308
State and local taxes, net of federal benefit	134	127	315
Other	31	(188)	158
	-----	-----	-----
	\$ 6,265	\$ 4,731	\$ 3,853
	=====	=====	=====

No provision has been made for taxes on foreign subsidiaries' undistributed earnings of approximately \$120,000,000 at January 31, 1999, as those earnings are considered to be reinvested for an indefinite period. As such, no additional taxes have been provided for on these earnings.

## NOTE 8 - OTHER ASSETS

In fiscal 1996, the Company entered into an agreement with a trust which owns an insurance policy issued on the lives of the Company's Chairman and Chief Executive Officer and his spouse. Under that agreement the trust has assigned the insurance policy to the Company as collateral to secure repayment by the trust of interest-free loans to be made by the Company in amounts sufficient for the trust to pay the premiums on said insurance policy (\$740,000 per annum). Under the agreement, the trust will repay the loans from the proceeds of the policy. The Company had loaned approximately \$2,361,000 and \$1,620,000 under this agreement at January 31, 1999 and 1998, respectively.

## NOTE 9 - LEASES, COMMITMENTS AND CONTINGENCIES

Rent expense for equipment and distribution, factory and office facilities held under operating leases was approximately \$5,470,000, \$4,680,000 and \$4,270,000 in fiscal 1999, 1998 and 1997, respectively. Minimum annual rentals at January 31, 1999 under noncancelable operating leases which do not include escalations that will be based on increases in real estate taxes and operating costs are as follows:

YEAR ENDING JANUARY 31, (IN THOUSANDS):	
2000	\$5,680
2001	5,257
2002	4,443
2003	3,027
2004	2,380
2005 and thereafter	6,339
	-----
	\$27,126
	=====

The Company has entered into capital leases to finance the cost of enhancing its management information systems in the United States and Switzerland. The gross value of computer equipment recorded under capital leases was \$3,848,000 as of January 31, 1999 and 1998. Accumulated depreciation of computer equipment recorded under capital leases was \$3,436,000 and \$2,884,000 as of January 31, 1999 and 1998, respectively.

Future minimum lease payments for equipment under capital leases at January 31, 1999 are as follows:

YEAR ENDING JANUARY 31, (IN THOUSANDS):	
2000	\$ 71
	----
Total minimum lease obligations	71
Less interest	(2)
	----
Present value of minimum lease obligations	69
Less current portion	(69)
	----
Net amount due after one year	\$ -
	=====

Due to the nature of its business as a luxury consumer goods distributor, the Company is exposed to various commercial losses. The Company believes it is adequately insured against such losses.

## NOTE 10 - EMPLOYEE BENEFIT PLANS

The Company maintains an Employee Savings Plan under Section 401(k) of the Internal Revenue Code. Company contributions and expenses of administering the Employee Savings Plan amounted to \$430,000, \$143,000 and \$127,000 in fiscal 1999, 1998 and 1997, respectively.

Effective June 1, 1995, the Company adopted a defined contribution supplemental executive retirement plan ("SERP"). The SERP provides eligible executives with supplemental pension benefits in addition to amounts received under the Company's other retirement plan. The Company makes a matching contribution which vests equally over five years. During fiscal 1999, 1998 and 1997, the Company recorded expenses related to the SERP of approximately \$338,000, \$190,000 and \$138,000, respectively, which includes costs related to phantom shares.

During fiscal 1999, the Company adopted a Stock Bonus Plan for all employees not in the SERP. Under the terms of this stock bonus plan, the Company contributes a discretionary amount to the trust established under the plan. Each plan participant vests after five years in 100% of their respective pro-rata portion of such contribution. For fiscal 1999, the Company recorded an expense of \$209,000 related to this plan.

On September 23, 1994, the Company entered into a Death and Disability Benefit Plan agreement with the Company's Chairman and Chief Executive Officer. Under the terms of the agreement, in the event of the Chairman's death or disability, the Company is required to make an annual benefit payment of approximately \$300,000 to his spouse for the lesser of ten years or her remaining lifetime. Neither the agreement nor the benefits payable thereunder are assignable and no benefits are payable to the estates or heirs of the Chairman or his spouse. Results of operations include an actuarially determined charge related to this plan of approximately \$101,000, \$92,000 and \$85,000 for fiscal 1999, 1998 and 1997, respectively.

Effective concurrently with the consummation of the Company's public offering in the fourth quarter of fiscal 1994, the Board of Directors and the shareholders of the Company approved the adoption of the Movado Group, Inc. 1993 Employee Stock Option Plan (the "Employee Stock Option Plan") for the benefit of certain officers, directors and key employees of the Company. The Employee Stock Option Plan was amended in fiscal 1997 and restated as the Movado Group, Inc. 1996 Stock Incentive Plan (the "Plan"). Under the Plan, the Compensation Committee of the Board of Directors, which is comprised of the Company's four outside directors, has the authority to grant incentive stock options and nonqualified stock options to purchase, as well as stock appreciation rights and stock awards, up to 1,500,000 shares of Common Stock. Options granted to participants under the Plan become exercisable in equal installments on the first through fifth anniversaries of the date of grant and remain exercisable until the tenth anniversary of the date of grant. The option price may not be less than the fair market value of the stock at the time the options are granted.

Transactions in stock options under the Plan since fiscal 1996 are summarized as follows:

	OUTSTANDING OPTIONS	OPTION PRICE PER SHARE
January 31, 1996	578,063	\$ 7.43
Options granted	429,375	10.98
Options exercised	(36,750)	7.47
Options forfeited	(14,813)	7.47
	-----	
January 31, 1997	955,875	9.02
Options granted	227,964	13.49
Options exercised	(51,250)	8.43
Options forfeited	(6,189)	9.69
	-----	
January 31, 1998	1,126,400	9.91
Options granted	282,749	25.53
Options exercised	(63,250)	9.02
Options forfeited	(62,289)	13.39
	-----	
January 31, 1999	1,283,610	\$13.23
	=====	

Options exercisable at January 31, 1999, 1998 and 1997 were 538,216, 373,684 and 260,850, respectively.

The weighted-average fair value of each option grant estimated on the date of grant using the Black-Scholes option-pricing model is \$13.34, \$6.53 and \$3.47 per share in fiscal 1999, 1998 and 1997, respectively. The following weighted-average assumptions were used for grants in fiscal 1999, 1998 and 1997: dividend yield of 0.3% for fiscal 1999, 0.4% for fiscal 1998 and 2.0% for fiscal 1997; expected volatility of 45% for fiscal 1999, 38% for fiscal 1998 and 26% for fiscal 1997, risk-free interest rates of 4.7% for fiscal 1999, and 5.6% for fiscal 1998 and 1997, and expected lives of seven years for fiscal 1999, 1998 and 1997.

The Company applies APB Opinion 25 and related interpretations in accounting for its plans. Accordingly, no compensation cost has been recognized for the Plan. Had compensation cost for the Company's fiscal 1999, 1998 and 1997 grants for stock-based compensation plans been determined based on the fair value at the grant dates and recognized ratably over the vesting period, the Company's net income and net income per share for fiscal 1999, 1998 and 1997 would approximate the pro forma amounts below (in thousands except per share data):

	1999		1998		1997	
	AS REPORTED	PRO FORMA	AS REPORTED	PRO FORMA	AS REPORTED	PRO FORMA
Net Income	\$20,973	\$19,856	\$15,842	\$15,306	\$11,692	\$11,392
Net Income per share-Basic	\$ 1.63	\$ 1.55	\$ 1.35	\$ 1.30	\$ 1.04	\$ 1.01
Net Income per share-Diluted	\$ 1.58	\$ 1.50	\$ 1.29	\$ 1.25	\$ 1.02	\$ 0.99

The pro forma impact takes into account options granted since February 1, 1995 and is likely to increase in future years as additional options are granted and amortized ratably over the vesting period.



The following table summarizes outstanding and excisable stock options as of January 31, 1999:

RANGE OF EXERCISE PRICES	NUMBER OUTSTANDING	WEIGHTED-AVERAGE REMAINING CONTRACTUAL LIFE (YEARS)	WEIGHTED-AVERAGE EXERCISE PRICE	NUMBER EXERCISABLE	WEIGHTED-AVERAGE EXERCISE PRICE
\$5.00 - \$9.99	724,026	6.2	\$ 8.41	463,024	\$ 8.02
\$10.00 - \$14.99	265,934	8.0	\$13.14	69,792	\$13.16
\$15.00 - \$19.99	42,250	9.4	\$16.06	1,650	\$16.33
\$20.00 - \$24.99	31,250	9.1	\$23.37	1,250	\$22.87
\$25.00 - \$29.75	220,150	9.1	\$27.24	2,500	\$26.50
\$5.00 - \$29.75	1,283,610	7.2	\$13.23	538,216	\$ 8.83

#### NOTE 11 - SEGMENT INFORMATION

The Company adopted SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information," which requires reporting certain financial information according to the "management approach." This approach requires reporting information regarding operating segments on the basis used internally by management to evaluate segment performance. SFAS 131 also requires disclosures about products and services, geographic areas and major customers.

The Company divides its business into two major geographic segments: "Domestic", which includes the results of the Company's United States and Canadian operations, and "International", which includes the results of all other Company operations. The Company's international operations are principally conducted in Europe. The Company's international assets are substantially located in Europe. Other international operations constituted less than 10% of consolidated total assets for all periods presented.

The Company conducts its business primarily in two operating segments: "Wholesale" and "Other". The Company's wholesale segment includes the designing, manufacturing and distribution of quality watches. Other includes the Company's retail and service center operations. The accounting policies of the segments are the same as those described in "Significant Accounting Policies". The Company evaluates segment performance based on operating profit.

## OPERATING SEGMENT DATA AS OF JANUARY 31 (IN THOUSANDS):

	NET SALES			OPERATING PROFIT		
	1999	1998	1997	1999	1998	1997
Wholesale	\$245,783	\$210,908	\$191,381	\$ 34,631	\$24,277	\$ 20,178
Other	32,053	26,097	23,726	(1,597)	1,963	623
Elimination(1)				(359)	(284)	(382)
Consolidated total	\$277,836	\$237,005	\$215,107	\$ 32,675	\$25,956	\$ 20,419

	SEGMENT ASSETS		
	1999	1998	1997
Wholesale	\$287,079	\$237,382	\$202,267
Other	3,670	813	1,291
Corporate(2)	5,626	10,874	4,885
Consolidated total	\$296,375	\$249,069	\$208,443

## GEOGRAPHIC SEGMENT DATA (IN THOUSANDS):

	NET SALES			LONG-LIVED ASSETS		
	1999	1998	1997	1999	1998	1997
Domestic	\$245,865	\$196,064	\$177,039	\$17,222	\$13,324	\$10,280
International	199,060	152,997	123,806	5,776	5,585	4,786
Elimination(3)	(167,089)	(112,056)	(85,738)			
Consolidated total	\$277,836	\$237,005	\$215,107	\$22,998	\$18,909	\$15,066

	INCOME BEFORE INCOME TAXES		
	1999	1998	1997
Domestic	\$982	\$1,796	\$3,102
International	26,615	19,061	12,825
Elimination(1)	(359)	(284)	(382)
Consolidated total	\$27,238	\$20,573	\$15,545

(1) Elimination of inter-segment management fees.

(2) Corporate assets include cash.

(3) Elimination of intercompany sales between domestic and international units.

## NOTE 12 - QUARTERLY FINANCIAL DATA (UNAUDITED)

The following table presents unaudited selected interim operating results of the Company for fiscal 1999 and 1998 (in thousands, except per share amounts):

	QUARTER ENDED			
	APR 30	JUL 31	OCT 31	JAN 31
-----				
1999				
Net sales	\$ 41,650	\$68,934	\$97,455	\$69,797
Gross profit	\$ 24,714	\$39,565	\$57,488	\$44,303
Net income	\$ 148	\$ 3,386	\$12,007	\$ 5,432
PER SHARE:				
Net income:				
Basic	\$ 0.01	\$ 0.26	\$ 0.94	\$ 0.42
Diluted	\$ 0.01	\$ 0.25	\$ 0.91	\$ 0.41
1998				
Net sales	\$ 34,918	\$56,994	\$84,536	\$60,557
Gross profit	\$ 19,901	\$32,226	\$49,098	\$38,324
Net (loss) income	\$ (260)	\$ 2,355	\$ 9,308	\$ 4,439
PER SHARE:				
Net (loss) income:				
Basic	\$ (0.02)	\$ 0.21	\$ 0.81	\$ 0.35
Diluted	\$ (0.02)	\$ 0.20	\$ 0.77	\$ 0.34

As each quarter is calculated as a discrete period, the sum of the four quarters may not equal the calculated full year amount. This is in accordance with prescribed reporting requirements.

## NOTE 13 - SUPPLEMENTAL CASH FLOW INFORMATION

The following is provided as supplemental information to the consolidated statements of cash flows (in thousands):

	FISCAL YEAR ENDED JANUARY 31,		
	1999	1998	1997
-----			
Cash paid (received) during the year for:			
Interest	\$5,274	\$ 4,580	\$5,141
Income taxes	\$4,585	\$ (26)	\$4,321
Non cash investing and financial activities:			
Equipment acquired under capital lease	\$--	\$--	\$ 217

## NOTE 14 - SUBSEQUENT EVENT

On December 22, 1998, the Company entered into an agreement with VLG North America, Inc. ("VLG") for the sale to VLG of substantially all of the assets, properties and rights related to the Piaget business. The transaction was completed on February 22, 1999 at a sale price of approximately \$30.0 million. The Company will report a pretax gain, representing the excess of the sale price over the net book value of the assets sold at January 31, 1999, during the first quarter of fiscal 2000. Accordingly, the Company recorded \$22.2 million in assets held for sale at January 31, 1999.

## SCHEDULE II

## MOVADO GROUP, INC.

VALUATION AND QUALIFYING ACCOUNTS AND RESERVES  
(IN THOUSANDS)

DESCRIPTION	BALANCE AT BEGINNING OF YEAR	PROVISION CHARGED TO OPERATIONS	CURRENCY REVALUATION	NET WRITE-OFFS	BALANCE AT END OF YEAR
Year ended January 31, 1999:					
Allowance for doubtful accounts	\$2,187	\$1,304	\$ 7	\$ (931)	\$2,567
Year ended January 31, 1998:					
Allowance for doubtful accounts	\$3,876	\$1,005	\$ (38)	\$(2,656)	\$2,187
Year ended January 31, 1997:					
Allowance for doubtful accounts	\$3,323	\$1,917	\$(109)	\$(1,255)	\$3,876

	BALANCE AT BEGINNING OF YEAR	PROVISION (BENEFIT) CHARGED	ADJUSTMENTS	BALANCE AT END OF YEAR
Year ended January 31, 1999:				
Deferred tax assets valuation allowance	\$2,370	\$ 290	\$0	\$2,660
Year ended January 31, 1998:				
Deferred tax assets valuation allowance	\$2,580	\$(210)	\$0	\$2,370
Year ended January 31, 1997:				
Deferred tax assets valuation allowance	\$2,439	\$ 141	\$0	\$2,580

abc

S-1

MOVADO GROUP, INC.

NOTE PURCHASE AND PRIVATE SHELF AGREEMENT

\$25,000,000

6.90% Series A Senior Notes Due 2010

\$25,000,000

Private Shelf Facility

Dated as of November 30, 1998

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(not part of agreement)

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Schedule 6J -- Transactions with Affiliates

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Schedule 8F -- Liens on Properties

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Exhibit A-1	--	Form of Series A Note
Exhibit A-2	--	Form of Shelf Note
Exhibit B	--	Form of Request for Purchase
Exhibit C	--	Form of Confirmation of Acceptance
Exhibit D	--	Form of Guarantee
Exhibit E-1(A)	--	Form of Opinion of Company Counsel, Series A Note Closing
Exhibit E-1(B)	--	Form of Opinion of Paul, Weiss, Rifkind, Wharton & Garrison, Series A Note Closing
Exhibit E-2(A)	--	Form of Opinion of Company Counsel, Shelf Note Closing
Exhibit E-2(B)	--	Form of Opinion of Paul, Weiss, Rifkind, Wharton & Garrison, Shelf Note Closing

MOVADO GROUP, INC.  
125 CHUBB AVENUE  
LYNDHURST, NJ 07071

As of November 30, 1998

The Prudential Insurance Company of America (herein called "PRUDENTIAL") Each Prudential Affiliate (as hereinafter defined) which becomes bound by certain provisions of this Agreement as hereinafter provided (together with Prudential, the "PURCHASERS")

c/o Prudential Capital Group  
One Gateway Center, 11th Floor  
Newark, NJ 07102-5311

Ladies and Gentlemen:

The undersigned, Movado Group, Inc., a New York corporation (herein called the "COMPANY"), hereby agrees with you as follows:

1. AUTHORIZATION OF ISSUE OF SERIES A NOTES.

1A. AUTHORIZATION OF ISSUE OF SERIES A NOTES. The Company will authorize the issue and sale of its senior promissory notes (the "Series A Notes") in the aggregate principal amount of \$25,000,000, to be dated the date of issue thereof, to mature October 30, 2010, to bear interest on the unpaid balance thereof from the date thereof until the principal thereof shall have become due and payable at the rate of 6.90% per annum and on overdue principal, Yield-Maintenance Amount and interest at the rate specified therein, and to be substantially in the form of Exhibit A-1 attached hereto. The terms "SERIES A NOTE" or "SERIES A NOTES" as used herein shall include each Series A Note delivered pursuant to any provision of this Agreement and each Series A Note delivered in substitution or exchange for any such Series A Note pursuant to any such provision.

1B. AUTHORIZATION OF ISSUE OF SHELF NOTES. The Company will authorize the issue of its additional senior promissory notes (the "SHELF NOTES") in the aggregate principal amount of \$25,000,000, to be dated the date of issue thereof, to mature, in the case of each Shelf Note so issued, no more than 12 years after the date of original issuance thereof, to have an average life, in the case of each Shelf Note so issued, of no more than 10 years after the date of original issuance thereof, to bear interest on the unpaid balance thereof from the date thereof at the rate per annum, and to have such other particular terms, as shall be set forth, in the case of each Shelf Note so issued, in the Confirmation of Acceptance with respect to such Shelf Note delivered pursuant to paragraph 2B(6), and to be substantially in the form of Exhibit A-2 attached hereto. The terms "SHELF NOTE" and "SHELF NOTES" as used herein shall include each Shelf Note delivered pursuant to any provision of this Agreement and each Shelf Note delivered in substitution or exchange for any such Shelf Note pursuant to any such provision. The terms

"NOTE" and "NOTES" as used herein shall include each Series A Note and each Shelf Note delivered pursuant to any provision of this Agreement and each Note delivered in substitution or exchange for any such Note pursuant to any such provision. Notes which have (i) the same final maturity, (ii) the same principal prepayment dates, (iii) the same principal prepayment amounts (as a percentage of the original principal amount of each Note), (iv) the same interest rate, (v) the same interest payment periods and (vi) the same date of issuance (which, in the case of a Note issued in exchange for another Note, shall be deemed for these purposes the date on which such Note's ultimate predecessor Note was issued), are herein called a "SERIES" of Notes.

## 2. PURCHASE AND SALE OF NOTES.

2A. PURCHASE AND SALE OF SERIES A NOTES. Subject to the terms and conditions herein set forth, the Company hereby agrees to sell to Prudential, and Prudential agrees to purchase from the Company, Series A Notes in the aggregate principal amount of \$25,000,000 at 100% of such principal amount. On November 30, 1998 or on any date prior to December 2, 1998 upon which the Company and Prudential may agree (herein called the "SERIES A CLOSING DAY"), the Company will deliver to Prudential, at the offices of Paul, Weiss, Rifkind, Wharton & Garrison, 1285 Avenue of the Americas, New York, New York, one or more Series A Notes registered in Prudential's name (or the name of its nominee), evidencing the Series A Notes to be purchased by Prudential, in the denomination or denominations specified with respect to Prudential in the Purchaser Schedule against payment of the purchase price therefor by wire transfer of immediately available funds for credit to the Company's account number 0381130798 at The Chase Manhattan Bank, ABA Routing Number 021 000 021.

## 2B. PURCHASE AND SALE OF SHELF NOTES.

2B(1). FACILITY. Prudential is willing to consider, in its sole discretion and within limits which may be authorized for purchase by Prudential and Prudential Affiliates from time to time, the purchase of Shelf Notes pursuant to this Agreement. The willingness of Prudential to consider such purchase of Shelf Notes is herein called the "FACILITY". At any time, the aggregate principal amount of Shelf Notes stated in paragraph 1B, minus the aggregate principal amount of Shelf Notes purchased and sold pursuant to this Agreement prior to such time, minus the aggregate principal amount of Accepted Notes (as hereinafter defined) which have not yet been purchased and sold hereunder prior to such time, is herein called the "AVAILABLE FACILITY AMOUNT" at such time. NOTWITHSTANDING THE WILLINGNESS OF PRUDENTIAL TO CONSIDER PURCHASES OF SHELF NOTES, THIS AGREEMENT IS ENTERED INTO ON THE EXPRESS UNDERSTANDING THAT NEITHER PRUDENTIAL NOR ANY PRUDENTIAL AFFILIATE SHALL BE OBLIGATED TO MAKE OR ACCEPT OFFERS TO PURCHASE SHELF NOTES, OR TO QUOTE RATES, SPREADS OR OTHER TERMS WITH RESPECT TO SPECIFIC PURCHASES OF SHELF NOTES, AND THE FACILITY SHALL IN NO WAY BE CONSTRUED AS A COMMITMENT BY PRUDENTIAL OR ANY PRUDENTIAL AFFILIATE. NOTWITHSTANDING THE WILLINGNESS OF THE COMPANY TO CONSIDER SALES OF SHELF NOTES, THIS AGREEMENT IS ENTERED INTO ON THE EXPRESS UNDERSTANDING THAT THE COMPANY SHALL NOT BE OBLIGATED TO MAKE OFFERS TO SELL SHELF NOTES, OR TO REQUEST RATES, SPREADS OR OTHER TERMS WITH RESPECT TO SPECIFIC SALES OF SHELF NOTES, AND THE FACILITY SHALL IN NO WAY BE CONSTRUED AS A COMMITMENT BY THE COMPANY.

2B(2). ISSUANCE PERIOD. Shelf Notes may be issued and sold pursuant to this Agreement until the earlier of (i) the second anniversary of the date of this Agreement (or if such anniversary is not a Business Day, the Business Day next preceding such anniversary) and (ii) the thirtieth day after Prudential shall have given to the Company, or the Company shall have given to Prudential, a written notice stating that it elects to terminate the issuance and sale of Shelf Notes pursuant to this Agreement (or if such thirtieth day is not a Business Day, the Business Day next preceding such thirtieth day). The period during which Shelf Notes may be issued and sold pursuant to this Agreement is herein called the "ISSUANCE PERIOD".

2B(3). PERIODIC SPREAD INFORMATION. Not later than 9:30 A.M. (New York City local time) on a Business Day during the Issuance Period if there is an Available Facility Amount on such Business Day, the Company may request by telecopier or telephone, and Prudential will, to the extent reasonably practicable, provide to the Company on such Business Day (or, if such request is received after 9:30 A.M. (New York City local time) on such Business Day, on the following Business Day), information (by telecopier or telephone followed by telecopier notice, if requested by the Company) with respect to various spreads at which Prudential or Prudential Affiliates might be interested in purchasing Shelf Notes of different average lives; provided, however, that the Company may not make such requests more frequently than once in every five Business Days or such other period as shall be mutually agreed to by the Company and Prudential. The amount and content of information so provided shall be in the sole discretion of Prudential but it is the intent of Prudential to provide information which will be of use to the Company in determining whether to initiate procedures for use of the Facility. Information so provided shall not constitute an offer to purchase Shelf Notes, and neither Prudential nor any Prudential Affiliate shall be obligated to purchase Shelf Notes at the spreads specified. Information so provided shall be representative of potential interest only for the period commencing on the day such information is provided and ending on the earlier of the fifth Business Day after such day and the first day after such day on which further spread information is provided. Prudential may suspend or terminate providing information pursuant to this paragraph 2B(3) for any reason, including its determination that the credit quality of the Company has declined since the date of this Agreement and shall be required to provide written notice to the Company as soon as practicable of its decision to suspend or terminate providing information to the Company.

2B(4). REQUEST FOR PURCHASE. The Company may from time to time during the Issuance Period make requests for purchases of Shelf Notes (each such request being herein called a "REQUEST FOR PURCHASE"). Each Request for Purchase shall be made to Prudential by telecopier or overnight delivery service, and shall (i) specify the aggregate principal amount of Shelf Notes covered thereby, which shall not be less than \$5,000,000 and not be greater than the Available Facility Amount at the time such Request for Purchase is made, (ii) specify the principal amounts, final maturities, principal prepayment dates and amounts and interest payment periods (quarterly or semi-annual in arrears) of the Shelf Notes covered thereby, (iii) specify the use of proceeds of such Shelf Notes, (iv) specify the proposed day for the closing of the purchase and sale of such Shelf Notes, which shall be a Business Day during the Issuance Period not less than 10 days and not more than 25 days after the making of such Request for Purchase, (v) specify the number of the account and the name and address of the depository institution to which the purchase prices of such Shelf Notes are to be transferred on the Closing Day for such purchase and sale, (vi) certify that the representations and warranties contained in paragraph 8 are true on and as of the date of such Request for Purchase and that there exists on the date of such Request for Purchase no Event of Default or Default and (vii) be substantially in the form of

Exhibit B attached hereto. Each Request for Purchase shall be in writing and shall be deemed made when received by Prudential.

2B(5). RATE QUOTES. Not later than five Business Days after the Company shall have given Prudential a Request for Purchase pursuant to paragraph 2B(4), Prudential may, but shall be under no obligation to, provide to the Company by telephone or telecopier with oral confirmation of receipt by the Company, in each case between 9:30 A.M. and 1:30 P.M. New York City local time (or such later time as Prudential may elect) interest rate quotes for the several principal amounts, maturities, principal prepayment schedules, and interest payment periods of Shelf Notes specified in such Request for Purchase. Each quote shall represent the interest rate per annum payable on the outstanding principal balance of such Shelf Notes at which Prudential or a Prudential Affiliate would be willing to purchase such Shelf Notes at 100% of the principal amount thereof.

2B(6). ACCEPTANCE. Within 30 minutes after Prudential shall have provided any interest rate quotes pursuant to paragraph 2B(5) or such shorter period as Prudential may specify to the Company (such period herein called the "ACCEPTANCE WINDOW"), the Company may, subject to paragraph 2B(7), elect to accept such interest rate quotes as to not less than \$5,000,000 aggregate principal amount of the Shelf Notes specified in the related Request for Purchase. Such election shall be made by an Authorized Officer of the Company notifying Prudential by telecopier or telephone followed by telecopier notice, if requested by the Company within the Acceptance Window that the Company elects to accept such interest rate quotes, specifying the Shelf Notes (each such Shelf Note being herein called an "ACCEPTED NOTE") as to which such acceptance (herein called an "ACCEPTANCE") relates. The day the Company notifies an Acceptance with respect to any Accepted Notes is herein called the "ACCEPTANCE DAY" for such Accepted Notes. Any interest rate quotes as to which Prudential does not receive an Acceptance within the Acceptance Window shall expire, and no purchase or sale of Shelf Notes hereunder shall be made based on such expired interest rate quotes. Subject to paragraph 2B(6) and the other terms and conditions hereof, the Company agrees to sell to Prudential or a Prudential Affiliate, and Prudential agrees to purchase, or to cause the purchase by a Prudential Affiliate of, the Accepted Notes at 100% of the principal amount of such Notes. As soon as practicable following the Acceptance Day, the Company, Prudential and each Prudential Affiliate which is to purchase any such Accepted Notes will execute a confirmation of such Acceptance substantially in the form of Exhibit C attached hereto (herein called a "CONFIRMATION OF ACCEPTANCE"). If the Company should fail to execute and return to Prudential within three Business Days following receipt thereof a Confirmation of Acceptance with respect to any Accepted Notes, Prudential may at its election at any time prior to its receipt thereof cancel the closing with respect to such Accepted Notes by so notifying the Company in writing.

2B(7). MARKET DISRUPTION. Notwithstanding the provisions of paragraph 2B(6), if Prudential shall have provided interest rate quotes pursuant to paragraph 2B(5) and thereafter prior to the time an Acceptance with respect to such quotes shall have been notified to Prudential in accordance with paragraph 2B(6) the domestic market for U.S. Treasury securities or derivatives shall have closed or there shall have occurred a general suspension, material limitation, or significant disruption of trading in securities generally on the New York Stock Exchange or in the domestic market for U.S. Treasury securities or derivatives, then such interest rate quotes shall expire, and no purchase or sale of Shelf Notes hereunder shall be made based on such expired interest rate quotes. If the Company thereafter notifies Prudential of the Acceptance of any such interest rate quotes, such Acceptance shall be ineffective for all purposes

of this Agreement, and Prudential shall promptly notify the Company in writing that the provisions of this paragraph 2B(7) are applicable with respect to such Acceptance.

2B(8). FACILITY CLOSINGS. Not later than 11:30 A.M. (New York City local time) on the Closing Day for any Accepted Notes, the Company will deliver to each Purchaser listed in the Confirmation of Acceptance relating thereto at the offices of the Prudential Capital Group, One Gateway Center, 11th Floor, Newark, NJ 07102-5311, the Accepted Notes to be purchased by such Purchaser in the form of one or more Notes in authorized denominations as such Purchaser may request for each Series of Accepted Notes to be purchased on the Closing Day, dated the Closing Day and registered in such Purchaser's name (or in the name of its nominee), against payment of the purchase price thereof by transfer of immediately available funds for credit to the Company's account specified in the Request for Purchase of such Notes. If the Company fails to tender to any Purchaser the Accepted Notes to be purchased by such Purchaser on the scheduled Closing Day for such Accepted Notes as provided above in this paragraph 2B(8), or any of the conditions specified in paragraph 3 shall not have been fulfilled by the time required on such scheduled Closing Day, the Company shall, prior to 1:00 P.M., New York City local time, on such scheduled Closing Day notify Prudential (which notification shall be deemed received by each Purchaser) in writing whether (i) such closing is to be rescheduled (such rescheduled date to be a Business Day during the Issuance Period not less than one Business Day and not more than 10 Business Days after such scheduled Closing Day (the "RESCHEDULED CLOSING DAY")) and certify to Prudential (which certification shall be for the benefit of each Purchaser) that the Company reasonably believes that it will be able to comply with the conditions set forth in paragraph 3 on such Rescheduled Closing Day and that the Company will pay the Delayed Delivery Fee in accordance with paragraph 2B(9)(iii) or (ii) such closing is to be canceled. In the event that the Company shall fail to give such notice referred to in the preceding sentence, Prudential (on behalf of each Purchaser) may at its election, at any time after 1:00 P.M., New York City local time, on such scheduled Closing Day, notify the Company in writing that such closing is to be canceled. Notwithstanding anything to the contrary appearing in this Agreement, the Company may elect to reschedule a closing with respect to any given Accepted Notes on not more than one occasion, unless Prudential shall have otherwise consented in writing.

2B(9). FEES.

2B(9)(i). FACILITY FEE. At the time of the execution and delivery of this Agreement by the Company and Prudential, the Company will pay to Prudential in immediately available funds a fee (herein called the "FACILITY FEE") in the amount of \$15,000.

2B(9)(ii). ISSUANCE FEE. The Company will pay to Prudential in immediately available funds a fee (herein called the "ISSUANCE FEE") on each Closing Day (other than the Series A Closing Day) in an amount equal to 0.15% of the aggregate principal amount of Notes sold on such Closing Day.

2B(9)(iii). DELAYED DELIVERY FEE. If the closing of the purchase and sale of any Accepted Note is delayed for any reason beyond the original Closing Day for such Accepted Note, the Company will pay to Prudential (a) on the Cancellation Date or actual closing date of such purchase and sale and (b) if earlier, the next Business Day following 90 days after the Acceptance Day for such Accepted Note and on each Business Day following 90 days after the prior payment hereunder, a fee (herein called the "DELAYED DELIVERY FEE") calculated as follows:

where "BEY" means Bond Equivalent Yield, i.e., the bond equivalent yield per annum of such Accepted Note, "MMY" means Money Market Yield, i.e., the yield per annum on a commercial paper investment of the highest quality selected by Prudential on the date Prudential receives notice of the delay in the closing for such Accepted Note having a maturity date or dates the same as, or closest to, the Rescheduled Closing Day or Rescheduled Closing Days (a new alternative investment being selected by Prudential each time such closing is delayed); "DTS" means Days to Settlement, i.e., the number of actual days elapsed from and including the original Closing Day with respect to such Accepted Note (in the case of the first such payment with respect to such Accepted Note) or from and including the date of the next preceding payment (in the case of any subsequent delayed delivery fee payment with respect to such Accepted Note) to but excluding the date of such payment; and "PA" means Principal Amount, i.e., the principal amount of the Accepted Note for which such calculation is being made. In no case shall the Delayed Delivery Fee be less than zero. Nothing contained herein shall obligate any Purchaser to purchase any Accepted Note on any day other than the Closing Day for such Accepted Note, as the same may be rescheduled from time to time in compliance with paragraph 2B(8).

2B(9)(iv). CANCELLATION FEE. If the Company at any time notifies Prudential in writing that the Company is canceling the closing of the purchase and sale of any Accepted Note, or if Prudential notifies the Company in writing under the circumstances set forth in the last sentence of paragraph 2B(6) or the penultimate sentence of paragraph 2B(8) that the closing of the purchase and sale of such Accepted Note is to be canceled, or if the closing of the purchase and sale of such Accepted Note is not consummated on or prior to the last day of the Issuance Period (the date of any such notification, or the last day of the Issuance Period, as the case may be, being herein called the "CANCELLATION DATE"), the Company will pay the Purchasers in immediately available funds an amount (the "CANCELLATION FEE") calculated as follows:

PI X PA

where "PI" means Price Increase, i.e., the quotient (expressed in decimals) obtained by dividing (a) the excess of the ask price (as determined by Prudential) of the Hedge Treasury Note(s) on the Cancellation Date over the bid price (as determined by Prudential) of the Hedge Treasury Notes(s) on the Acceptance Day for such Accepted Note by (b) such bid price; and "PA" has the meaning ascribed to it in paragraph 2B(9)(iii). The foregoing bid and ask prices shall be as reported by Bridge Telerate (or, if such data for any reason ceases to be available through Bridge Telerate, any publicly available source of similar market data). Each price shall be based on a U.S. Treasury security having a par value of \$100.00 and shall be rounded to the second decimal place. In no case shall the Cancellation Fee be less than zero.

3. CONDITIONS OF CLOSING. The obligation of any Purchaser to purchase and pay for any Notes is subject to the satisfaction, on or before the Closing Day for such Notes, of the following conditions:

3A. CERTAIN DOCUMENTS. Such Purchaser shall have received the following, each dated the date of the applicable Closing Day:

- (i) The Note(s) to be purchased by such Purchaser.



(ii) Certified copies of the resolutions of the Board of Directors of the Company authorizing the execution and delivery of this Agreement and the issuance of the Notes, and of all documents evidencing other necessary corporate action and governmental approvals, if any, with respect to this Agreement and the Notes.

(iii) A certificate of the Secretary or an Assistant Secretary and one other officer of the Company certifying the names and true signatures of the officers of the Company authorized to sign this Agreement and the Notes and the other documents to be delivered hereunder.

(iv) Certified copies of the Certificate of Incorporation and By-laws of the Company.

(v) A favorable opinion of Timothy F. Micho, Esq., General Counsel of the Company and Paul, Weiss, Rifkind, Wharton & Garrison, special counsel to the Company (or such other counsel designated by the Company and acceptable to the Purchaser(s)) satisfactory to such Purchaser and substantially in the form of Exhibits E-1(A) and (B) (in the case of the Series A Notes) or Exhibits E-2(A) and (B) (in the case of any Shelf Notes) attached hereto and as to such other matters as such Purchaser may reasonably request. The Company hereby directs each such counsel to deliver such opinion, agrees that the issuance and sale of any Notes will constitute a reconfirmation of such direction, and understands and agrees that each Purchaser receiving such an opinion will and is hereby authorized to rely on such opinion.

(vi) A good standing certificate for the Company from the Secretary of State of New York dated of a recent date and such other evidence of the status of the Company as such Purchaser may reasonably request.

(vii) Certified copies of Requests for Information or Copies (Form UCC-11) or equivalent reports listing all effective financing statements which name the Company or any Subsidiary (under its present name and previous names) as debtor and which are filed in the offices of the Secretaries of State of New York, New Jersey and Florida, together with copies of such financing statements.

(viii) Additional documents or certificates with respect to legal matters or corporate or other proceedings related to the transactions contemplated hereby as may be reasonably requested by such Purchaser.

3B. REPRESENTATIONS AND WARRANTIES; NO DEFAULT. The representations and warranties contained in this Agreement and those otherwise made in writing by or on behalf of the Company in connection with the transactions contemplated by this Agreement shall be true on and as of such Closing Day; there shall exist on such Closing Day no Event of Default or Default; the Company shall have performed or complied with all matters required to be performed or complied with by it hereunder; there shall have been no material adverse change in the business, financial condition or operations of the Company and its Subsidiaries, taken as a whole, since January 31, 1998; and the Company shall have delivered to such Purchaser an Officer's Certificate, dated such Closing Day, to each such effect.

3C. PURCHASE PERMITTED BY APPLICABLE LAWS. The purchase of and payment for the Notes to be purchased by such Purchaser on such Closing Day on the terms and conditions herein provided (including the use of the proceeds of such Notes by the Company) shall not violate any applicable law or governmental regulation (including, without limitation, Section 5 of the Securities Act or Regulation T, U or X of the Board of Governors of the Federal Reserve System) and shall not subject such Purchaser to any tax (other than income taxes payable on the receipt of income), penalty, liability or, in the reasonable judgment of such Purchaser, other onerous condition under or pursuant to any applicable law or governmental regulation.

3D. APPROVALS AND CONSENTS. The Company shall have duly received all material authorizations, consents, approvals, licenses, franchises, permits and certificates by or of all United States federal, state and local governmental authorities and any third parties necessary in connection with the transactions contemplated hereby, including any consents required under the Credit Agreement, and all thereof shall be in full force and effect on such Closing Day. Any consents from the shareholders of the Company required to be obtained in connection with the transactions contemplated herein shall have been obtained. The Company shall have delivered an Officer's Certificate to such Purchaser, dated such Closing Day, to such effect.

3E. PAYMENT OF FEES. The Company shall have paid to Prudential any fees due it pursuant to or in connection with this Agreement, including any Facility Fee due pursuant to paragraph 2B(9)(i), any Issuance Fee due pursuant to paragraph 2B(9)(ii) and any Delayed Delivery Fee due pursuant to paragraph 2B(9)(iii).

3F. INSURANCE CERTIFICATE. On the Series A Closing Day, the Company shall have delivered to Prudential the Officer's Certificate required by paragraph 5E.

have delivered to Prudential the following:

3G. SUBSIDIARY GUARANTEE. On the Series A Closing Day, the Company shall have delivered to Prudential the following:

(i) A Guarantee, substantially in the form of Exhibit D, duly authorized and executed by its Subsidiary, SwissAm, Inc. ("SWISSAM"),

(ii) A certified copy of the resolutions of the Board of Directors of SwissAm, authorizing the execution, delivery and performance of the Guarantee and of all documents evidencing other necessary corporate action and government approval, if any,

(iii) A certified copy of the Certificate of Incorporation and By-Laws of SwissAm,

(iv) A certificate of the Secretary or an Assistant Secretary and one other officer of SwissAm, certifying the names and true signatures of the officers of SwissAm authorized to sign the Guarantee, and

(v) A favorable opinion of counsel to SwissAm, satisfactory to Prudential and substantially in the form of paragraphs 3 and 6 of Exhibit E-1(A).

4. PREPAYMENTS. The Series A Notes and any Shelf Notes shall be subject to the required prepayments specified in paragraphs 4A and 4B and the optional prepayments permitted by paragraph 4C. The Series A Notes and any Shelf Notes may also be acquired or required to be purchased under the circumstances set forth in paragraphs 4F and 4G. Any prepayment made by the Company pursuant to any other provision of this paragraph 4 shall not reduce or otherwise affect its obligation to make any required prepayment as specified in paragraph 4A or 4B.

4A. REQUIRED PREPAYMENTS OF SERIES A NOTES. Until the Series A Notes shall be paid in full, the Company shall apply to the prepayment of the Series A Notes, without Yield-Maintenance Amount, the sum of \$5,000,000 on October 30, in each of the years 2006 to 2009 inclusive, and such principal amounts of the Series A Notes, together with interest thereon to the prepayment dates, shall become due on such prepayment dates. The remaining unpaid principal amount of the Series A Notes shall become due on the stated maturity date of the Series A Notes.

4B. REQUIRED PREPAYMENTS OF SHELF NOTES. Each Series of Shelf Notes shall be subject to required prepayment, if any, set forth in the Notes of such Series.

4C. OPTIONAL PREPAYMENT. The Notes of each Series shall be subject to prepayment, in whole or from time to time in part (in an amount of at least \$1,000,000 and any larger integral multiples of \$100,000), at the option of the Company, at 100% of the principal amount so prepaid plus interest accrued thereon to the prepayment date and the Yield-Maintenance Amount, if any, with respect to each such Note; provided, however, that if any such prepayment is made with Disposition Proceeds as contemplated by subparagraph (iii) of the second paragraph of the definition of "DESIGNATED APPLICATIONS", such prepayment shall be made at par plus interest accrued thereon to the prepayment date.

4D. NOTICE OF OPTIONAL PREPAYMENT. The Company shall give the holder of each Note to be prepaid irrevocable written notice of such prepayment not less than 10 Business Days prior to the prepayment date, specifying such prepayment date, the aggregate principal amount of the Notes, and of the Notes held by such holder, to be prepaid on such date and stating that such prepayment is to be made pursuant to paragraph 4C. Notice of prepayment having been given as aforesaid, the principal amount of the Notes specified in such notice, together with interest thereon to the prepayment date and together with the Yield-Maintenance Amount, if any, herein provided, shall become due and payable on such prepayment date. The Company shall, on or before the day on which it gives written notice of any prepayment pursuant to paragraph 4C, give telephonic notice or notice by facsimile machine of the principal amount of the Notes to be prepaid and the prepayment date to each holder of Notes which shall have designated a recipient of such notices in the Purchaser Schedule attached hereto or the applicable Confirmation of Acceptance or by notice in writing to the Company.

4E. APPLICATION OF PREPAYMENTS. Upon any partial prepayment of Notes of any Series pursuant to paragraphs 4A, 4B or 4C, the principal amount to be prepaid shall be applied pro rata to all outstanding Notes of such Series (including for the purpose of this paragraph 4E only, all Notes prepaid or otherwise retired or purchased or otherwise acquired by the Company or any of its Subsidiaries or Affiliates other than by prepayment pursuant to paragraph 4A, 4B or 4C) according to the respective unpaid principal amounts thereof.

4F. RETIREMENT OF NOTES. The Company shall not, and shall not permit any of its Subsidiaries or Affiliates to, prepay or otherwise retire in whole or in part prior to their stated final maturity (other than by prepayment pursuant to paragraph 4A, 4B or 4C by purchase pursuant to paragraph 4G or upon acceleration of such final maturity pursuant to paragraph 7A), or purchase or otherwise acquire, directly or indirectly, Notes of any Series held by any holder unless the Company or such Subsidiary or Affiliate shall have offered to prepay or otherwise retire or purchase or otherwise acquire, as the case may be, the same proportion of the aggregate principal amount of Notes of such Series held by each other holder of Notes of such Series at the time outstanding upon the same terms and conditions.

4G. PURCHASES OF NOTES BY THE COMPANY. (a) At any time after the occurrence of a Purchase Event and prior to the expiration of the later of (x) 90 days after receipt of an Event Notice (as defined below) relating thereto and (y) 15 days after receipt of an Other Holder Notice (as defined below), any holder of a Note may deliver a notice (a "PURCHASE NOTICE") to the Company (x) stating that it is electing to exercise its right to require the purchase by the Company pursuant to this paragraph 4G of any or all of the Notes then held by it (which shall not exceed the Retirement Fraction applicable to such holder's Notes) and (y) specifying the period (which shall be at least 10 Business Days) during which such purchase shall occur (which period shall commence not earlier than 15 Business Days after the date on which such holder shall have delivered such Purchase Notice to the Company), and in any such event the Company, on a date in such period specified by the Company (which shall be the first Business Day therein if the Company shall not specify another date), shall purchase the Note or Notes then held by such holder in the amount specified in such Purchase Notice (which shall not exceed the Retirement Fraction applicable to such holder's Notes), without recourse, representation or warranty (other than a statement as to the holder's full right, title and interest free of any Lien or adverse claim in such Note or Notes and the holder's authority to sell such Note or Notes), and such holder shall sell such Note or Notes to the Company at a price, payable in immediately available funds by wire transfer to the accounts specified in paragraph 11A or to such other account in the United States as may be specified in such notice, in an amount equal to the then outstanding principal amount thereof, together with interest accrued on such principal amount to the date of purchase. In the event the Company shall be in receipt of a Purchase Notice from more than one holder of Notes, without having effectuated the purchase of Notes required by any such Purchase Notice, specifying purchase periods with an overlapping day or days, it shall purchase the Notes relating to such Purchase Notices simultaneously on the earliest overlapping date specified in such Purchase Notices.

(b) Promptly, and in any event within 5 Business Days following its receipt thereof and at least 5 Business Days prior to the date on which the Company intends to purchase any Notes pursuant to subparagraph (a) above (the "PURCHASE DATE") pursuant thereto, the Company will deliver to each holder of a Note a copy of each Purchase Notice received by it pursuant to subparagraph (a) of this paragraph 4G (an "OTHER HOLDER NOTICE").

(c) The Company covenants that it will deliver to each holder of a Note promptly, and in any event within 5 Business Days following the occurrence thereof, a notice of the occurrence of a Purchase Event, together with a statement of the date of occurrence of such Purchase Event and a reasonably detailed description of the facts and circumstances underlying such occurrence known to it, and which specifies the applicable Retirement Fraction and states that the Company is obligated, upon receipt of a Purchase Notice described in

subparagraph (a) of this paragraph 4G, to purchase Notes pursuant to subparagraph (a) of this paragraph 4G (an "EVENT NOTICE").

4H. CANCELLATION OF NOTES. Any Notes acquired pursuant to paragraph 4F or purchased pursuant to paragraph 4G or prepaid pursuant to paragraphs 4A, 4B or 4C, or otherwise acquired by or on behalf of the Company or a Subsidiary, shall be canceled and shall not be reissued and shall not be deemed to be outstanding for any purpose of this Agreement. Any Note held by any Affiliate of the Company shall not be deemed outstanding for the purpose of determining the aggregate principal amount of Notes outstanding for purposes of determining whether or not any specified percentage of holders of outstanding Notes have given any consent or taken any other action hereunder.

5. AFFIRMATIVE COVENANTS.

5A. FINANCIAL STATEMENTS. The Company covenants that it will deliver to each holder of any Note in duplicate:

(i) as soon as practicable and in any event within 75 days after the end of each quarterly period (other than the last quarterly period) in each fiscal year, consolidated statements of operations and consolidated statements of changes in shareholders' equity and cash flows of (a) the Company and its Restricted Subsidiaries, and (b) the Company and its Unrestricted Subsidiaries for such quarterly period and, in the case of the second and third quarterly periods, for the period from the beginning of the current fiscal year to the end of such quarterly period, and a consolidated balance sheet of (a) the Company and its Restricted Subsidiaries, and (b) the Company and its Unrestricted Subsidiaries as at the end of such quarterly period, setting forth in each case in comparative form figures for the corresponding period in the preceding fiscal year, all in reasonable detail and satisfactory in form to the Required Holder(s) (the detail and form reflected in the quarterly financial statements identified in paragraph 8B being deemed satisfactory as to consolidated statements) and certified by an authorized financial officer of the Company, subject to changes resulting from year-end adjustments;

(ii) as soon as practicable and in any event within 120 days after the end of each fiscal year, consolidated and consolidating statements of operations and consolidated statements of changes in shareholders' equity and cash flows of the Company and its Subsidiaries for such year, and a consolidated and consolidating balance sheet of the Company and its Subsidiaries as at the end of such year, setting forth in each case in comparative form corresponding consolidated figures from the preceding annual audit, all in reasonable detail and satisfactory in form to the Required Holder(s) (the detail and form reflected in the annual financial statements identified in paragraph 8B(i) being deemed satisfactory as to consolidated statements) and, as to the consolidated statements, reported on by independent public accountants of recognized national standing selected by the Company whose report shall be without limitation as to the scope of the audit and satisfactory in substance to the Required Holder(s) (the substance set forth in the reports accompanying the aforesaid annual financial statements being deemed satisfactory) and, as to the

consolidating statements, certified by an authorized financial officer of the Company;

(iii) promptly upon transmission thereof, (a) copies of all such financial statements, proxy statements, notices and reports as it shall send to its public shareholders, (b) copies of all registration statements (without exhibits) and all reports which it publicly files with the Securities and Exchange Commission (or any governmental body or agency succeeding to the functions of the Securities and Exchange Commission) (including, without limitation, reports on Form 10-K and Form 10-Q not later than the date on which the same are required to be filed) and (c) copies of all press releases;

(iv) promptly upon receipt thereof and if such holder is a Significant Holder, a copy of each other report submitted to the Company or any Subsidiary by independent accountants in connection with any annual, interim or special audit made by them of the books of the Company or any Subsidiary which constitutes a "significant subsidiary" within the meaning of Regulation S-X of the Securities and Exchange Commission (including management letters submitted to the board of directors of the Company or any such Subsidiary); and

(v) with reasonable promptness and if such holder is a Significant Holder, such other information with respect to the business, finances and affairs of the Company and its Subsidiaries as such Significant Holder may reasonably request.

Together with each delivery of financial statements required by clauses (i) and (ii) above, the Company will deliver to each holder of any Notes an Officer's Certificate (a) demonstrating (with computations in reasonable detail) compliance by the Company and its Subsidiaries with the provisions of paragraphs 6A, 6B, 6C, 6D, 6F and 6I, (b) specifying the circumstances of any designation of Restricted Subsidiaries pursuant to paragraph 6K within the preceding fiscal quarter, (c) containing a list of all reports, certificates and other informational materials then being furnished to its lenders under any credit agreement or loan agreement, (d) stating that there exists no Event of Default or Default, or, if any Event of Default or Default exists, specifying the nature and period of existence thereof and what action the Company has taken or proposes to take with respect thereto and (e) if any of the Subsidiaries included in such statements shall not be Restricted Subsidiaries, specifying the adjustments which are necessary to permit the holders of the Notes to confirm the foregoing calculations. Together with each delivery of financial statements required by clause (ii) above, the Company will deliver to each record holder of any Note (x) the Officer's Certificate required pursuant to paragraph 5E, and (y) a certificate of the accountants referred to in said clause (ii) above stating that, in making the audit necessary for their report on such financial statements, they have obtained no knowledge of any Event of Default or Default, or, if they have obtained knowledge of any Event of Default or Default, specifying the nature and period of existence thereof. Such accountants, however, shall not be liable to anyone by reason of their failure to obtain knowledge of any Event of Default or Default, which Event of Default or Default would not normally be disclosed or discovered in the course of an audit conducted in accordance with generally accepted auditing standards. The Company also covenants that promptly after any Responsible Officer obtains actual knowledge that any existing state of facts or circumstances constitutes an Event of Default or Default (and in any event within 5 Business Days of obtaining such knowledge), it

will deliver to each holder of any Note an Officer's Certificate specifying the nature and period of existence thereof and what action the Company has taken or proposes to take with respect thereto.

5B. INFORMATION REQUIRED BY RULE 144A. The Company covenants that it will, upon the request of the holder of any Note, provide such holder, and any qualified institutional buyer permitted to purchase any Note under the terms of this Agreement designated by such holder, such financial and other information as such holder may reasonably determine to be necessary in order to permit compliance with the information requirements of Rule 144A under the Securities Act in connection with the resale of Notes, except at such times as the Company is subject to the reporting requirements of section 13 or 15(d) of the Exchange Act. For the purpose of this paragraph 5B, the term "qualified institutional buyer" shall have the meaning specified in Rule 144A under the Securities Act.

5C. INSPECTION OF PROPERTY; BOOKS AND RECORDS. The Company covenants that it will permit any Person designated in writing by any Significant Holder, at the Company's expense while an Event of Default is continuing and otherwise at such Significant Holder's expense, to visit and inspect any of the properties of the Company and its Restricted Subsidiaries, to examine the corporate books and financial records of the Company and its Restricted Subsidiaries and make copies thereof or extracts therefrom and to discuss the affairs, finances and accounts of any of such corporations with the principal officers thereof or with its independent public accountants (and by this provision the Company hereby agrees that it will make such officers available for any such discussion and authorizes such accountants to discuss such matters with such Person), all at such reasonable times, upon reasonable notice, and as often as such Significant Holder may reasonably request. The Company will maintain or cause to be maintained the books of record and account of the Company and its Subsidiaries in good order in accordance with sound business and financial practice and its financial statements (including those required to be delivered pursuant to paragraph 5A) prepared in accordance with generally accepted accounting principles.

5D. MAINTENANCE OF PROPERTIES. The Company will maintain or cause to be maintained in good repair, working order and condition all properties used in or necessary for the operation of the business of the Company and its Restricted Subsidiaries (ordinary wear and tear excepted) and from time to time will make or cause to be made all reasonable repairs, renewals and replacements thereof, all to the extent material to the business and operations of the Company and its Restricted Subsidiaries taken as a whole. The Company will procure and maintain in full force and effect all franchises, certificates, licenses, permits and other authorizations from governmental political subdivisions or regulatory authorities and all patents, trademarks, service marks, trade names, copyrights, licenses and other rights, in each case that are necessary in any material respect for the ownership, maintenance and operation of the business and operations of the Company and its Restricted Subsidiaries taken as a whole.

5E. MAINTENANCE OF INSURANCE. The Company covenants that it and each of its Restricted Subsidiaries will maintain with financially sound and reputable insurers insurance against fire, explosion, hazards insured against by extended coverage and liability for other hazards and risks, and insurance against liability to Persons and for property damage, all to the extent and in the manner as is customarily maintained by other companies of established reputation operating comparable or similar businesses, and, on the Closing Date and together

with each delivery of financial statements under clause (ii) of paragraph 5A, it will deliver an Officer's Certificate setting forth a summary schedule of such insurance in effect.

5F. COMPLIANCE WITH ENVIRONMENTAL LAWS. The Company will, and will cause each of its Subsidiaries and each of its Affiliates that are controlled by the Company or its Subsidiaries to, comply with, or operate pursuant to valid waivers of, applicable Environmental Laws and Environmental Permits, including, without limitation, to the extent required by applicable Environmental Laws or Environmental Permits, conducting, on a timely basis, periodic tests and monitoring for contamination of ground water, surface water, air and land and for biological toxicity and completing proper, thorough and effective clean-up, removal, remediation and/or restoration, except to the extent that failure so to comply with any Environmental Law or Environmental Permit does not have a material adverse effect on the business, financial condition or operations of the Company and its Restricted Subsidiaries, taken as a whole, and, except that, with respect to any testing, monitoring, clean-up, removal, remediation or other such action required pursuant to such law or permits, neither the Company nor any of its Subsidiaries or Affiliates shall be required to perform any such action if the applicability or validity thereof is being contested in good faith by appropriate proceedings and adequate reserves have been established in accordance with generally accepted accounting principles.

5G. ERISA NOTICES. The Company covenants that it shall deliver to each Significant Holder, promptly upon the Company or its Subsidiaries or any of their respective ERISA Affiliates:

(i) giving or being required to give notice to the PBGC of any "reportable event" (as defined in section 4043 of ERISA) with respect to any Plan which might constitute grounds for a termination of such Plan under Title IV of ERISA by the PBGC, or becoming aware that any plan administrator of any Plan has given or is required to give notice of any such "reportable event", a copy of the notice of such reportable event given or which should have been given to the PBGC;

(ii) receiving notice of the Company's or an ERISA Affiliate's complete or partial withdrawal from a Multiemployer Plan under Title IV of ERISA, or notice that any Multiemployer Plan is in reorganization, is insolvent or has been terminated, a copy of such notice;

(iii) receiving notice from the PBGC under Title IV of ERISA of its intent to terminate, impose liability (other than for premiums under section 4007 of ERISA) in respect of, or appoint a trustee to administer any Plan, a copy of such notice;

(iv) applying for a waiver of the minimum funding standard under section 412 of the Code, a copy of such application;

(v) giving notice to the PBGC of intent to terminate any Plan under section 4041(c) of ERISA, a copy of such notice and other information filed with the PBGC;

(vi) giving notice to the PBGC of withdrawal from any Plan pursuant to section 4063 of ERISA, a copy of such notice; or



(vii) failing to make any required payment or required contribution to any Plan or Multiemployer Plan or making any amendment to any Plan which has resulted in the posting of a bond or other security, a certificate of the chief financial officer or the chief accounting officer of the Company setting forth details as to such occurrence and the action, if any, which the Company is required to take.

5H. PAYMENT OF TAXES AND CLAIMS. The Company will pay or discharge, or cause to be paid or discharged, before the same shall become delinquent (a) all taxes, assessments and governmental charges (including claims of the IRS and the PBGC and claims made at the insistence of the PBGC) levied or imposed upon it or any ERISA Affiliate or any Code Affiliate or upon its or their income, profits or property, (b) all lawful claims for labor, materials and supplies, which, if unpaid, might by law become a Lien upon its or its Subsidiaries, properties, and (c) all required installments under section 412(m) of the Code and all other required payments under section 412 of the Code with respect to any Plan maintained by the Company or any ERISA Affiliate; provided, however, that, in the case of clause (a) and (b) above, the Company shall not be required to pay or discharge or cause to be paid or discharged any such tax, assessment, charge or claim, the applicability or validity of which is being contested in good faith by appropriate proceedings and for which adequate reserves have been established in accordance with generally accepted accounting principles.

5I. CORPORATE EXISTENCE, ETC. Subject to the provisions of paragraph 6F, the Company will at all times preserve and keep in full force and effect its and its Restricted Subsidiaries, corporate existence, and will qualify, and cause each of its Restricted Subsidiaries to qualify, to do business in any jurisdiction where the failure to do so would have a material adverse effect on the business, financial condition or operations of the Company and its Restricted Subsidiaries taken as a whole.

5J. COMPLIANCE WITH LAWS, ETC. The Company will comply and cause its Subsidiaries to comply with the requirements of all applicable laws, rules, regulations and judicial or administrative orders and judgments of any court or governmental authority (including those relating to environmental protection, employee benefits and welfare and employee safety), the noncompliance with which would materially adversely affect the business, financial condition or operations of the Company and its Restricted Subsidiaries taken as a whole.

5K. COVENANT TO SECURE NOTES EQUALLY.

5K(1). The Company covenants that if it or any Restricted Subsidiary shall create or assume any Lien upon any of its property or assets, whether now owned or hereafter acquired, other than Liens permitted by the provisions of paragraph 6B (unless prior written consent to the creation or assumption thereof shall have been obtained pursuant to paragraph 11C), it will make or cause to be made effective provision satisfactory in form and substance to the Required Holder(s) (including, without limitation, opinions of counsel relating thereto) whereby the Notes will be secured by such Lien equally and ratably with any and all other Debt thereby secured so long as any such other Debt shall be so secured. Securing the Notes as provided in this paragraph 5K(1) shall not permit the existence of any Lien not permitted by paragraph 6B.

5K(2). The Company covenants that if at any time after the date of this Agreement any Restricted Subsidiary guarantees or provides collateral in any manner for any Indebtedness of the Company under the Credit Agreement, it will simultaneously cause such Restricted Subsidiary to guarantee or provide such collateral for the Notes equally and ratably with all Indebtedness guaranteed or secured by such Restricted Subsidiary for so long as such Indebtedness is guaranteed and pursuant to a guarantee substantially in the form of Exhibit D hereto, together with an opinion of counsel substantially in the form of paragraphs 3 and 6 of Exhibit E-1(A) hereto. Upon the execution and delivery of such guarantee, such Restricted Subsidiary shall become a Subsidiary Guarantor.

5L. COVENANT TO MAINTAIN BUSINESS. The Company covenants that the Company and its Restricted Subsidiaries taken as a whole will engage primarily in the Core Business.

#### 6. NEGATIVE COVENANTS.

6A. MAINTENANCE OF CONSOLIDATED NET WORTH. The Company covenants that it will not at the end of any fiscal quarter permit Consolidated Net Worth to be less than the sum of (i) \$115,000,000 and (ii) the Incremental Net Worth Amount. As of any date of determination the "INCREMENTAL NET WORTH AMOUNT" shall be an amount equal to the sum of 25% of Consolidated Net Income for all fiscal years of the Company preceding or ending on such date of determination (beginning with the fiscal year which began on February 1, 1998) in which Consolidated Net Income is a positive number, but excluding Consolidated Net Income for the first 6 months of the fiscal year ending February 1, 1999.

6B. LIMITATIONS ON LIENS. The Company covenants that neither it nor any of its Restricted Subsidiaries will create, assume or suffer to exist any Lien upon any of its Property or assets (including, without limitation, any capital stock of a Restricted Subsidiary owned by the Company or any Subsidiary), whether now owned or hereafter acquired and whether or not provision is made for equally and ratably securing the Notes as provided in paragraph 5K; provided, however, that the foregoing restriction and limitation shall not apply to the following Liens:

(i) Liens for taxes, assessments or governmental charges or levies not yet delinquent or which are being contested in good faith by appropriate proceedings for which adequate reserves have been established in accordance with, and as permitted by, paragraph 5H;

(ii) Liens imposed by law, such as carriers', landlords', warehousemen's and mechanics' liens and other similar liens arising in the ordinary course of business which secure payment of obligations not more than 60 days past due or which are being contested in good faith by appropriate proceedings as permitted by paragraph 5H; Liens (other than ERISA Liens) arising out of pledges or deposits under worker's compensation laws, unemployment insurance, old age pensions, or other social security or retirement benefits, or similar legislation; servitudes, easements, rights-of-way, restrictions, minor defects or irregularities in title and such other encumbrances or charges against real property as are of a nature generally existing with respect to properties of a similar character and which do not in any material way affect the

marketability of the same or interfere in any material way with the use thereof in the business of the Company or its Restricted Subsidiaries; and other Liens incidental to the conduct of the Company's or any Restricted Subsidiary's business, or the ownership of the Company's or its Restricted Subsidiaries' Property, provided, that, in each case, such Liens (a) are not incurred in connection with the borrowing of money or the obtaining of advances or credit (other than vendors, liens in respect of current accounts payable not overdue and extended in the ordinary course of business) or the payment of a deferred purchase price and (b) do not in the aggregate materially detract from the value of the Property of the Company and its Restricted Subsidiaries taken as a whole, or materially impair the use thereof in the operation of the business of the Company and its Restricted Subsidiaries taken as a whole;

(iii) Liens on property or assets of a Restricted Subsidiary to secure obligations of such Restricted Subsidiary to the Company or to a Wholly-owned Restricted Subsidiary;

(iv) subject to compliance with paragraph 6D, (a) Capitalized Leases and (b) Liens (other than Liens permitted by clause (iii) above) on Property existing at the time of acquisition or placed on Property being acquired or constructed to secure the purchase price or cost thereof or Debt incurred to finance such purchase or construction, provided, that (w) in the case of any Lien on Property existing at the time of acquisition, such Lien was not created in contemplation of such acquisition, (x) the principal amount of the Debt secured by such Lien shall not exceed the lesser of (1) the cost of the Property subject thereto or (2) the fair market value of such Property, (y) such Lien is confined to the Property so acquired or constructed and (z) no Default or Event of Default shall exist or result therefrom;

(v) Capitalized Leases and Liens existing on the date of this Agreement securing Debt or securing certain other obligations as described in Schedule 6B; and

(vi) other Liens (including any renewal or extension of any Lien permitted under the preceding clauses (iv) and (v) if such Lien is not extended to other Property), provided, that, after incurrence of the Debt secured by such Lien, (y) Adjusted Priority Debt shall not exceed 20% of Consolidated Total Capitalization and (z) no Default or Event of Default shall exist or result therefrom.

6C. LIMITATIONS ON DEBT. The Company covenants that it will not, and will not permit any of its Restricted Subsidiaries to, create, incur, assume or otherwise become or be liable with respect to any Debt (collectively referred to herein as an "incurrence" or "to incur" such Debt, all Debt of a Person existing at the time it shall become a Restricted Subsidiary being deemed incurred as of that time and all Debt owing by the Company or any Restricted Subsidiary to any other Restricted Subsidiary being deemed to be incurred at the time such "other Restricted Subsidiary" shall cease to be a Restricted Subsidiary as defined herein), except:

(i) Debt represented by the Notes and the 1993 Notes;

(ii) Debt of any Restricted Subsidiary owing to the Company or to a Restricted Subsidiary;

(iii) Current Debt of the Company or a Restricted Subsidiary (subject to the limitations of paragraph 6D), provided no such Current Debt shall be permitted to exist on any day after the date hereof unless either

(A) there shall have been a period of at least 30 consecutive days in the preceding period of 15 consecutive calendar months (a "CURRENT DEBT COMPUTATION PERIOD") when the aggregate amount of Consolidated Current Debt outstanding on such date shall not have exceeded \$20,000,000 at any time during such Current Debt Computation Period (a "CLEAN DOWN PERIOD"), or

(B) the aggregate amount of Consolidated Funded Debt and Excess Current Debt shall not exceed 55% of the sum of Consolidated Total Capitalization and Excess Current Debt; and

(iv) other Funded Debt of the Company or a Restricted Subsidiary (subject to the limitations of paragraph 6D) if at the time of incurrence thereof and after giving effect thereto and to the application of the proceeds thereof the aggregate amount of Consolidated Funded Debt and Excess Current Debt shall not exceed the sum of 55% of Consolidated Total Capitalization and Excess Current Debt.

6D. LIMITATIONS ON PRIORITY DEBT. The Company covenants that it will not permit, at any time, Priority Debt to exceed 20% of Consolidated Total Capitalization.

6E. MERGER, CONSOLIDATION, SALE OR TRANSFER OF ASSETS. The Company covenants that it will not, and will not permit any of its Restricted Subsidiaries to, be a party to any merger, amalgamation, consolidation, reorganization, reconstruction or arrangement with any other Person or sell, lease or transfer or otherwise dispose of all or substantially all of its assets to any Person, except that:

(i) subject to the provisions of clause (iv) below, as applicable, any Subsidiary may merge or consolidate with the Company or any one or more Wholly-owned Restricted Subsidiaries;

(ii) subject to the provisions of clause (iv) below, as applicable, any Restricted Subsidiary or the Company may sell, lease, transfer or otherwise dispose of any of its assets to the Company or to any Wholly-owned Restricted Subsidiary, whether by dissolution, liquidation or otherwise;

(iii) any Restricted Subsidiary may merge or consolidate with, or sell, lease, transfer or otherwise dispose of all or substantially all of its assets to, any other Person subject to the provisions of paragraph 6F and paragraph 6G; and

(iv) the Company may merge or consolidate or amalgamate with any other corporation, or enter into a plan of arrangement, or sell, transfer, or otherwise dispose of all or substantially all of its assets, provided that the

Company shall be the continuing or surviving corporation, or the continuing, surviving or acquiring corporation shall be a corporation organized under the laws of any State of the United States, the District of Columbia or Canada or a province thereof or, subject to written consent by each holder of a Note that is subject to limitations on foreign investments, under the laws of another foreign jurisdiction or any local governmental authority which shall expressly assume in writing (in an instrument satisfactory in form and substance to the Required Holder(s)) all of the obligations of the Company under this Agreement and the Notes;

provided, that at the time of such merger, consolidation, sale, transfer or disposition and after giving effect thereto there shall exist no Default or Event of Default; and provided, further, that in the case of the transactions described in clause (iv) above, (a) the Company or the continuing, surviving or acquiring corporation, as the case may be, could incur an additional \$1 of Funded Debt pursuant to the provisions of paragraph 6C(iv), (b) if such continuing, surviving or acquiring corporation is a corporation organized under the laws of Canada, the United Kingdom, Switzerland or any local governmental authority of any of the aforesaid jurisdictions, provision satisfactory to the Required Holder(s) shall be made in respect of any tax issues arising out of such transaction, and (c) the Company shall have delivered to the holders of the Notes an opinion of counsel satisfactory to the Required Holder(s) and an Officer's Certificate each to the effect that the foregoing provisions have been complied with.

6F. SALES OF ASSETS. The Company covenants that it will not, and will not permit any of its Restricted Subsidiaries to, Dispose of its Property (including, without limitation, subject to compliance with paragraphs 6G and 6I as applicable, shares of capital stock of a Restricted Subsidiary and Property Disposed of pursuant to a Sale and Lease-back Transaction) except:

- (i) sales of inventory in the ordinary course of business;
- (ii) if no Default or Event of Default exists following such Disposition
  - (a) Dispositions from any Restricted Subsidiary to the Company or any other Restricted Subsidiary; and
  - (b) Dispositions of Property with an Asset Percentage Value, when combined with the Asset Percentage Value of any other Property Disposed pursuant to this clause (b) during the preceding four consecutive fiscal quarters of the Company, of not more than 10% and for consideration representing the fair market value of such Property at the time of such Disposition, provided, that, any such Disposition or portion thereof shall be excluded from the aforesaid Asset Percentage Value test if either (x) the Disposition Proceeds arising from such Disposition are applied immediately after receipt thereof to one or more of the Designated Applications, or (y) an amount equal to the Disposition Proceeds shall be available to the Company from binding commitments (subject to no conditions which the Company is unable to meet) from responsible financial institutions pending application within a period of not more than 180 days to one or more of the Designated Applications; and

provided, further that to the extent that the entire Disposition Proceeds in respect of any Disposition are applied only partially to the foregoing purposes, such Disposition shall be disregarded for purposes of determining such Asset Percentage Value to the extent of such application; and

(iii) any transaction involving the Company described in and permitted pursuant to the provisions of paragraph 6E.

6G. DISPOSITION OF SUBSIDIARY STOCK. The Company covenants that it will not, and will not permit any of its Restricted Subsidiaries to, issue, sell or otherwise dispose of, or part with control of, any shares of capital stock of any class of any Restricted Subsidiary, except to the Company or a wholly-owned Restricted Subsidiary (other than director's qualifying shares required by law), and except that, subject in all events to the provisions of paragraph 6F, all shares of capital stock of any Restricted Subsidiary at the time owned by the Company and all Restricted Subsidiaries may be sold as an entirety for a consideration which represents the fair value (as determined in good faith by the Board of Directors) at the time of sale of the shares of capital stock so sold, provided that at the time of such sale, such Restricted Subsidiary shall not own, directly or indirectly, any shares of capital stock of any other Restricted Subsidiary (unless all of the shares of stock of such other Restricted Subsidiary owned, directly or indirectly, by the Company and all Restricted Subsidiaries are simultaneously being sold as permitted by this paragraph 6G).

6H. LIMITATION ON RESTRICTIONS ON SUBSIDIARY DIVIDENDS AND OTHER DISTRIBUTIONS. The Company shall not permit any of its Restricted Subsidiaries, directly or indirectly, to create or otherwise cause or suffer to exist or become effective any encumbrance or restriction on the ability of any of such Restricted Subsidiaries (in any way which is material to the Company and its Restricted Subsidiaries considered as a whole) to (i) pay dividends or make any other distributions on its capital stock or any other interest or participation in its profits owned by the Company or any of its Restricted Subsidiaries, or pay any Debt owed by any of the Company's Restricted Subsidiaries to the Company or to any other Restricted Subsidiary, (ii) make loans or advances to the Company or to any other Restricted Subsidiary or (iii) transfer any of its properties or assets to the Company or to any other Restricted Subsidiary, except for such encumbrances or restrictions existing under or by reason of applicable law, this Agreement, and those encumbrances or restrictions identified in Schedule 6H.

6I. SALE AND LEASE-BACK TRANSACTIONS. The Company covenants that it will not, and will not permit any of its Restricted Subsidiaries to, enter into any Sale and Lease-Back Transaction with respect to any Property of the Company or any Restricted Subsidiary ("SUBJECT PROPERTY"), whether such Subject Property is now owned or hereafter acquired, unless no Default or Event of Default is then existing, the Disposition Proceeds are received in cash and

(i) if the lease resulting from such Sale and Lease-back Transaction is not a Capitalized Lease, such Disposition is permitted under the terms of paragraph 6F, or

(ii) if the lease resulting from such Sale and Lease-back Transaction is a Capitalized Lease, the terms of paragraphs 6C and 6D (substituting solely for purposes of this clause (ii) the term "Adjusted Priority Debt" for "Priority Debt" in paragraph 6D) are satisfied.

6J. TRANSACTIONS WITH AFFILIATES. Other than between or among the Company and its Wholly-owned Restricted Subsidiaries, the Company covenants that it will not, and will not permit any Restricted Subsidiary to, directly or indirectly,

(i) Dispose of any Property to any Affiliate,

(ii) merge or consolidate with, or purchase, acquire or lease any Property from any Affiliate, or

(iii) otherwise deal with, in the ordinary course of business or otherwise, any Affiliate, except (1) any Affiliate who is a natural person may serve as an employee or director of the Company or any Restricted Subsidiary and receive reasonable compensation for his or her services in such capacity, (2) in transactions (other than those identified in clause (iii) above) which are pursuant to the reasonable requirements of the Company's Core Business and which are on no less favorable terms to the Company or such Restricted Subsidiary than would be the case with a similar transaction with an unaffiliated Person negotiated at arm's length and (3) those transactions described in Schedule 6J.

6K. SUBSIDIARIES. The Company may designate any Unrestricted Subsidiary as a Restricted Subsidiary by furnishing to each holder of a Note an Officer's Certificate as provided in paragraph 5A; provided that no such designation shall be made if, after giving effect thereto, a Default or Event of Default shall exist and the Company could not incur an additional \$1 of Funded Debt pursuant to the provisions of paragraph 6C(iv). No Unrestricted Subsidiary shall own any shares of capital stock of any Restricted Subsidiary. All Investments, Debt, Liens, Guarantees and other obligations which any Unrestricted Subsidiary (the "SUBJECT SUBSIDIARY") may have, or be liable for, shall be deemed made or incurred immediately after the time the Subject Subsidiary shall become a Restricted Subsidiary of the Company. Dispositions by the Company or a Restricted Subsidiary of any Debt of the Company or of any other Restricted Subsidiary to any Person other than the Company or a Restricted Subsidiary shall be deemed an incurrence of such Debt at the date of disposition thereof.

## 7. DEFAULTS; REMEDIES.

7A. EVENTS OF DEFAULT. If any of the following events shall occur and be continuing for any reason whatsoever (and whether such occurrence shall be voluntary or involuntary or come about or be effected by operation of law or otherwise):

(i) the Company defaults (x) in the payment of any principal of or Yield-Maintenance Amount in respect of any Note when the same shall become due, either by the terms thereof or otherwise as herein provided, or (y) in the performance of its obligation to purchase any Note as provided in paragraph 4G; or

(ii) the Company defaults in the payment of any interest on any Note for a period of 5 Business Days after the same shall become due; or

(iii) the Company or any Restricted Subsidiary defaults (whether as primary obligor or as guarantor or as surety) in any payment of principal of or interest on any other Debt Obligation for money borrowed, any Capitalized Lease Obligation, any Debt Obligation under a conditional sale or other title retention agreement, any Debt Obligation issued or assumed as full or partial payment for property whether or not secured by a purchase money mortgage, or any Debt Obligation under notes payable or drafts accepted representing extensions of credit (any of the foregoing being herein called a "PAYMENT DEFAULT") beyond any period of grace provided with respect thereto; or the Company or any Restricted Subsidiary fails to perform or observe any other agreement, term or condition contained in any agreement under which any such Debt Obligation is created (or if any other event thereunder or under any such agreement shall occur and be continuing) and the effect of such failure or other event is to cause, or to permit the holder or holders of such Debt Obligation (or a trustee on behalf of such holder or holders) at such time to cause, such Debt Obligation to become due (or to be purchased by the Company or any Restricted Subsidiary) prior to any stated maturity; provided, that the aggregate amount of all Debt Obligations as to which such a Payment Default shall occur and be continuing or such a failure or other event causing or permitting acceleration (or repurchase by the Company or any Restricted Subsidiary) shall occur and be continuing exceeds \$5,000,000 (or the equivalent amount in any foreign currency); or

(iv) any representation or warranty made by the Company herein or by the Company or any of its officers in any writing furnished in connection with or pursuant to this Agreement shall be false in any material respect on the date as of which made; or

(v) the Company fails to perform or observe any agreement contained in the last sentence of paragraph 5A, in paragraph 5I with respect to the Company's corporate existence or in paragraph 6 and, in the case of paragraph 6, if such failure is capable of remedy within 30 days, such failure shall continue unremedied for a period of 30 days after the earlier of (x) notice thereof from the holder of any Note and (y) the date any Responsible Officer obtains actual knowledge thereof; or

(vi) the Company fails to perform or observe any other agreement, term or condition contained herein, and any such failure described in this clause (vi) shall continue unremedied for a period of 30 days after the earlier of (x) notice thereof from the holder of any Note and (y) the date any Responsible Officer obtains actual knowledge thereof; or

(vii) the Company or any Significant Subsidiary Group makes a general assignment for the benefit of creditors or admits in writing its inability to pay its debts as such debts become due or ceases or threatens to cease carrying on its business permanently; or



(viii) any decree or order for relief in respect of the Company or any Significant Subsidiary Group is entered under any bankruptcy, reorganization, compromise, arrangement, insolvency, readjustment of debt, composition, dissolution, winding up or liquidation or other similar law, whether now or hereafter in effect (herein called the "BANKRUPTCY LAW"), of any jurisdiction; or

(ix) the Company or any member of a Significant Subsidiary Group petitions or applies to any tribunal for, or consents to, the appointment of, or taking possession by, a trustee, receiver, custodian, liquidator or similar official of the Company or any Significant Subsidiary Group, or of any substantial part of the assets of the Company or any Significant Subsidiary Group, or commences a voluntary case under the Bankruptcy Law of the United States or any proceedings (other than proceedings for the voluntary liquidation and dissolution of a Subsidiary) relating to the Company or any Significant Subsidiary Group under the Bankruptcy Law of any other jurisdiction or takes any corporate action to authorize any of the actions described in this clause (ix); or

(x) any such petition or application is filed, or any such proceedings are commenced, against the Company or any Significant Subsidiary Group and the Company or any Subsidiary by any act indicates its or their approval thereof, consent thereto or acquiescence therein, or an order, judgment or decree is entered appointing any such trustee, receiver, custodian, liquidator or similar official, or approving the petition in any such proceedings, and such order, judgment or decree remains unstayed and in effect for more than 30 days; or

(xi) any order, judgment or decree is entered in any proceedings against the Company decreeing the dissolution of the Company and such order, judgment or decree remains unstayed and in effect for more than 60 days; or an encumbrancer takes possession of, or a receiver or receiver manager is appointed over, all or substantially all of the assets and the revenues of the Company; or

(xii) any order, judgment or decree is entered in any proceedings against the Company or any Restricted Subsidiary decreeing a split-up of the Company or such Restricted Subsidiary which requires the divestiture of assets representing a substantial part, or the divestiture of the stock of a Restricted Subsidiary whose assets represent a substantial part, of the consolidated assets of the Company and its Restricted Subsidiaries (determined in accordance with generally accepted accounting principles) or which requires the divestiture of assets, or stock of a Restricted Subsidiary, which shall have contributed a substantial part of the Consolidated Net Income of the Company and its Restricted Subsidiaries (determined in accordance with generally accepted accounting principles) for any of the three fiscal years then most recently ended, and such order, judgment or decree remains unstayed and in effect for more than 90 days; or

(xiii) a final judgment or judgments for the payment of money aggregating in excess of \$1,500,000 (or the equivalent amount in any foreign

currency) are rendered against one or more of the Company and its Restricted Subsidiaries and which judgments are not, within 90 days after entry thereof, bonded, discharged or stayed pending appeal, or are not discharged within 90 days after the expiration of any such stay; or

(xiv) any "reportable event" as such term is defined in section 4043 of ERISA occurs in connection with any Plan or trust created thereunder for which the thirty day notice requirement has not been waived under applicable regulations, or any event occurs requiring the Company or any ERISA Affiliate to provide security to a Plan under section 401(a)(29) of the Code; any "prohibited transaction" occurs, as such term is defined in section 4975 of the Code or in section 406 of ERISA, in connection with any Plan or any trust created thereunder; any notice of intent to terminate a Plan or Plans is filed under section 4041(c) of ERISA by the Company or any ERISA Affiliate, any Plan administrator or any combination of the foregoing; any proceedings are instituted by the PBGC to terminate or to cause a trustee to be appointed to administer any Plan; any partial or complete withdrawal is made by the Company or an ERISA Affiliate from any Multiemployer Plan; any proceedings are instituted by a fiduciary of any Plan against the Company or any Code Affiliate to enforce section 515 of ERISA and such proceeding shall not have been dismissed within 30 days thereafter; the Company or a Code Affiliate fails to make a required installment under section 412(m) of the Code or to pay any amount to the PBGC or to a Plan under Title IV of ERISA on or before the due date; any application is filed by the Company or a Code Affiliate for a waiver of the minimum funding standard under section 412 of the Code or section 302 of ERISA; or any "reorganization" (as defined in section 418 of the Code or Title IV ERISA) of any Plan which is a Multiemployer Plan occurs; and each such instance individually, or any two or more such instances in the aggregate, would result in liability of the Company or any Code Affiliate or ERISA Affiliate to the IRS, the PBGC or a Plan in an aggregate amount exceeding \$1,000,000; or

(xv) any Subsidiary Guaranty shall at any time after its execution and delivery and for any reason cease to be in full force and effect or shall be declared null and void, or the validity or enforceability thereof shall be contested by any Subsidiary Guarantor or any Subsidiary Guarantor shall deny it has any further liability or obligation under its Subsidiary Guaranty or shall fail to perform its obligations thereunder;

then (a) if such event is an Event of Default specified in clauses (viii), (ix) or (x) of this paragraph 7A with respect to the Company, all of the Notes at the time outstanding shall automatically become immediately due and payable at the principal amount thereof together with interest accrued thereon without presentment, demand, protest or notice of any kind, all of which are hereby waived by the Company and (b) if such event is any other Event of Default, the Required Holder(s) of the Notes of any Series may, at its or their option and in addition to any right, power or remedy permitted by law or equity, by notice in writing to the Company, declare all of the Notes of such Series to be, and all of the Notes of such Series shall thereupon be and become, immediately due and payable at the principal amount thereof, together with interest accrued thereon and together with the Yield-Maintenance Amount, if any, with respect to each Note of such Series, without presentment, demand, protest or other notice of any kind,

all of which are hereby waived by the Company; provided, that the Yield Maintenance Amount, if any, with respect to each Note shall be due and payable upon any such declaration only if (x) such event is an Event of Default specified in any of clauses (i) to (vi), inclusive, or clauses (xi) to (xiv), inclusive, of this paragraph 7A, (y) the holder or holders referred to in clause (b) of this paragraph 7A shall have given to the Company, at least 10 Business Days before such declaration, written notice stating its or their intention so to declare such Notes to be immediately due and payable and identifying one or more such Events of Default whose occurrence on or before the date of such notice permits such declaration and (z) one or more of the Events of Default so identified shall be continuing at the time of such declaration.

7B. RESCISSION OF ACCELERATION. At any time after any or all of the Notes of any Series shall have been declared immediately due and payable pursuant to paragraph 7A, the Required Holder(s) of the Notes of such Series may, by notice in writing to the Company, rescind and annul such declaration and its consequences if (i) the Company shall have paid all overdue interest on the Notes of such Series, the principal of and Yield-Maintenance Amount, if any, payable with respect to any Notes of such Series which have become due otherwise than by reason of such declaration, and interest on such overdue interest and overdue principal and Yield-Maintenance Amount at the rate specified in the Notes of such Series, (ii) the Company shall not have paid any amounts which have become due solely by reason of such declaration, (iii) all Events of Default and Defaults, other than non-payment of amounts which have become due solely by reason of such declaration, shall have been cured or waived pursuant to paragraph 11C, and (iv) no judgment or decree shall have been entered for the payment of any amounts due as a consequence of such declaration. No such rescission or annulment shall extend to or affect any subsequent Event of Default or Default or impair any right arising therefrom.

7C. NOTICE OF ACCELERATION OR RESCISSION. Whenever any Note of any Series shall be declared immediately due and payable pursuant to paragraph 7A or any such declaration shall be rescinded and annulled pursuant to paragraph 7B, the Company shall forthwith give written notice thereof to the holder of each Note of such Series at the time outstanding.

7D. OTHER REMEDIES. If any Event of Default or Default shall occur and be continuing, the holder of any Note may proceed to protect and enforce its rights under this Agreement and such Note by exercising such remedies as are available to such holder in respect thereof under applicable law, either by suit in equity or by action at law, or both, whether for specific performance of any covenant or other agreement contained in this Agreement or in aid of the exercise of any power granted in this Agreement. No remedy conferred in this Agreement upon the holder of any Note is intended to be exclusive of any other remedy, and each and every such remedy shall be cumulative and shall be in addition to every other remedy conferred herein or now or hereafter existing at law or in equity or by statute or otherwise.

8. REPRESENTATIONS, COVENANTS AND WARRANTIES. The Company represents, covenants and warrants as follows:

8A. ORGANIZATION; AUTHORITY; ENFORCEABILITY. Each of the Company and its Subsidiaries is a corporation duly organized, validly existing and in good standing under the laws of its jurisdiction of incorporation and has all requisite corporate power and authority to

own and operate its properties and to carry on its business and, in the case of the Company, to enter into and perform all of its obligations under this Agreement and the Notes and to issue and sell the Notes and, in the case of each Subsidiary Guarantor, to enter into and perform all of its obligations under its Subsidiary Guarantee. Each of the Company and its Subsidiaries is duly licensed or qualified to do business as a foreign corporation in each state where the failure to be so licensed or qualified would have a material adverse effect on the business, financial condition or operations of the Company and its Subsidiaries taken as a whole and has all corporate power, licenses, franchises and other governmental authorizations and approvals necessary to carry on its present business, with respect to which the failure to possess would have a material adverse effect on the business, financial condition or operations of the Company and its Subsidiaries taken as a whole. Schedule 8A includes a correct list as to each of the Company's Subsidiaries on the date hereof (i) its name, (ii) the jurisdiction of its incorporation, (iii) its capital stock issued and outstanding and the holders by percentage of that stock and (v) whether it is a Domestic or Foreign Subsidiary. This Agreement and each Subsidiary Guarantee are, and the Notes when issued and delivered hereunder will be, legal, valid, binding and enforceable obligations of the Company or such Subsidiary Guarantor, as the case may be, except to the extent that such 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 (regardless of whether enforcement is sought in equity or at law).

8B. BUSINESS; FINANCIAL STATEMENTS. The Company has furnished each Purchaser of any Notes with the audited consolidated and consolidating balance sheets of the Company and Subsidiaries at January 31, 1997 and 1998 and the related consolidated and consolidating statements of income and cash flows and changes in shareholders' equity for each of the years in the three year period ended January 31, 1998, all reported on by Price Waterhouse LLP or its successor, PriceWaterhouseCooper; and the unaudited consolidated balance sheets of the Company and Subsidiaries at July 31, 1998 and the related consolidated and consolidating statements of income and cash flows and changes in shareholders' equity for the six months ended July 31, 1998 and 1997. The financial statements referred to in this subparagraph (i) are herein collectively referred to as the "HISTORICAL FINANCIAL STATEMENTS."

The Historical Financial Statements (including any related schedules and/or notes) are true and correct in all material respects (subject, as to interim statements, to changes resulting from audits and year-end adjustments) and fairly present the consolidated financial position and the consolidated results of the operations and consolidated cash flows of the corporations described therein at the dates and for the periods shown, all in conformity with generally accepted accounting principles applied on a consistent basis (except as otherwise stated therein or in the notes thereto stated) throughout the periods involved. None of the Company and its Subsidiaries has any contingent liabilities, liabilities for taxes, unusual forward or long-term commitments or unrealized or anticipated losses from any unfavorable commitments which are substantial and material in amount in relation to the consolidated financial condition of the Company, except as referred to or reflected or provided for in the Historical Financial Statements. Since January 31, 1998, (i) there has been no change in the assets, liabilities or condition (financial or otherwise) of the Company or any of its Subsidiaries, other than changes which have not been, either in any case or in the aggregate, materially adverse to the Company and its Subsidiaries taken as a whole and (ii) neither the business, operations, affairs nor any of the Properties or assets of the Company or any of its Subsidiaries have been affected by any occurrence or development (whether or not insured against) which

has been, either in any case or in the aggregate, materially adverse to the Company and its Subsidiaries taken as a whole.

8C. ACTIONS PENDING. There is no action or proceeding pending or (to the best knowledge of the Company) threatened or (to the best knowledge of the Company) investigation pending or threatened which questions the validity or legality of or seeks damages in connection with this Agreement or any Subsidiary Guarantee or any action taken or to be taken pursuant to this Agreement or any Subsidiary Guarantee, and, except as set forth in Schedule 8C, there is no action or proceeding pending or (to the best knowledge of the Company) threatened or (to the best knowledge of the Company) investigation pending or threatened which could reasonably be expected to result in any material adverse change in the business, financial condition or operations of the Company and its Subsidiaries taken as a whole.

8D. OUTSTANDING DEBT. Neither the Company nor any of its Subsidiaries has outstanding any Debt except as permitted by paragraphs 6C and 6D. Schedule 8D correctly describes all secured and unsecured Debt of the Company and its Subsidiaries outstanding, or for which the Company or any of its Subsidiaries have commitments, on the date of this Agreement, and identifies the collateral, if any, securing such Debt. There exists no default or temporary waiver of default under the provisions of any instrument evidencing such Debt or of any agreement relating thereto.

8E. CONFLICTING AGREEMENTS AND OTHER MATTERS. Neither the Company nor its Subsidiaries is a party to any contract or agreement or subject to any charter or other corporate restriction which materially and adversely affects the business, operations or financial condition of the Company and its Subsidiaries taken as a whole. Neither the execution nor delivery of this Agreement, each Subsidiary Guarantee or the Notes hereunder, nor the offering, issuance and sale of the Notes hereunder, nor fulfillment or any compliance with the terms and provisions hereof and thereof will conflict with, or result in a breach of the terms, conditions or provisions of, or constitute a default under, or result in any violation of, or result in the creation of any Lien upon any of the properties or assets of the Company or any of its Subsidiaries pursuant to, the charter or by-laws of the Company or any of its Subsidiaries, as the case may be, any agreement (including any agreement with shareholders), instrument, order, judgment, decree or arbitrator's award, or any statute, law, rule or regulation, to which the Company or any of its Subsidiaries or their respective properties is subject. The Company is not a party to, or otherwise subject to, any contract or agreement (including its charter) which limits the amounts of, or otherwise imposes restrictions on the incurring of, indebtedness of the type to be evidenced by the Notes except as set forth in the agreements listed in Schedule 8E, and the Company has received all consents necessary with respect to such agreements in connection with the consummation of the transactions contemplated hereby.

8F. TITLE TO PROPERTIES. The Company has and each of its Subsidiaries has (all to the extent material to the Company and its Subsidiaries taken as a whole) good and marketable title to its respective real properties (other than properties which it leases) and good title (or leasehold rights) to all of its other respective material properties and assets, including the properties and assets reflected in the consolidated balance sheet as at January 31, 1998 referred to in paragraph 8B (other than properties and assets disposed of in the ordinary course of business or as set forth in Schedule 8F), subject to no Lien of any kind except Liens not prohibited by paragraph 6B. All leases necessary in any material respect for the conduct of the

respective businesses of the Company and its Subsidiaries are valid and subsisting and are in full force and effect.

8G. PATENTS, LICENSES, FRANCHISES, ETC. The Company and its Subsidiaries possess all franchises, certificates, licenses, permits and other authorizations from governmental political subdivisions or regulatory authorities and, all patents, trademarks, service marks, trade names, copyrights, licenses and other rights, free from burdensome restrictions, that are necessary in any material respect for the ownership, maintenance and operation of the properties and assets, as presently conducted, of the Company and its Subsidiaries taken as a whole and neither the Company nor any of its Subsidiaries is in violation of any thereof in any material respect. No event has occurred which permits, or after notice or lapse of time (except expiration of the stated term thereof), or both, would permit, the revocation or termination of any such franchise, license, authorization or other right so as to affect adversely in any material respect the business, financial condition or operations of the Company and its Subsidiaries taken as a whole. All such franchises, permits, licenses and other authorizations have been validly issued or granted to the Company or a Subsidiary, and each such franchise, permit, license or other authorization is valid and subsisting, in each case to the extent necessary in any material respect for the conduct of the respective businesses of the Company and its Subsidiaries taken as a whole. The Company and its Subsidiaries are operating their respective businesses in material compliance with the terms and conditions of such franchises, permits, licenses and other authorizations and are in material compliance with all applicable statutes, laws, rules and regulations, all to the extent material to the business of the Company and its Subsidiaries taken as a whole.

8H. TAXES. The Company has and each of its Subsidiaries has filed all federal, state and other income tax returns (and to the best of the Company's knowledge all other tax returns) which are required to be filed, and each has paid all income taxes (and to the best of its knowledge all other material taxes) as shown on such returns and on all assessments received by it to the extent that such taxes have become due, except such taxes as are being contested in good faith by appropriate proceedings for which adequate reserves have been established in accordance with generally accepted accounting principles, and the Company has no knowledge of any basis for any further material assessment to the Company and its Subsidiaries taken as a whole that has not been adequately so provided for on the books of the Company.

8I. OFFERING OF NOTES. Neither the Company nor any agent acting on its behalf has, directly or indirectly, offered the Notes or any similar security of the Company for sale to, or solicited any offers to buy the Notes or any similar security of the Company from, or otherwise approached or negotiated with respect thereto with, any Person other than Prudential and not more than 10 other "qualified institutional buyers" as such term is defined in Rule 144A under the Securities Act, and neither the Company nor any agent acting on its behalf has taken or will take any action which would subject the issuance or sale of the Notes hereunder to the provisions of section 5 of the Securities Act or to the registration provisions of any securities or Blue Sky law of any applicable jurisdiction.

8J. REGULATION U, ETC. Neither the Company nor any Subsidiary owns or has any present intention of acquiring any "margin stock" as defined in Regulation U (12 CFR Part 221) of the Board of Governors of the Federal Reserve System (herein called "MARGIN STOCK"), exceeding in value 5% of Consolidated Net Worth. None of the proceeds of the

issuance of any Notes will be used, directly or indirectly, for the purpose, whether immediate, incidental or ultimate, of purchasing or carrying any margin stock, or for the purpose of maintaining, reducing or retiring any indebtedness which was originally incurred to purchase or carry any stock that is currently a margin stock and in any such case which will constitute this transaction a violation of such Regulation U. Neither the Company nor any agent acting on its behalf has taken or will take any action which might cause this Agreement or the Notes to violate Regulation T, Regulation U, Regulation X or any other regulation of the Board of Governors of the Federal Reserve System or to violate Section 7 of the Exchange Act, in each case as in effect now or as the same may hereafter be in effect.

8K. ERISA. (a) No accumulated funding deficiency (as defined in section 302 of ERISA and section 412 of the Code), whether or not waived, exists with respect to any Plan (other than a Multiemployer Plan). No liability to the PBGC has been or is expected by the Company or any ERISA Affiliate to be incurred with respect to any Plan (other than a Multiemployer Plan) by the Company, any Subsidiary or any ERISA Affiliate which is or would be materially adverse to the business, financial condition or operations of the Company and its Subsidiaries, taken as a whole. Neither the Company, nor any Subsidiary nor any ERISA Affiliate has incurred or presently expects to incur any withdrawal liability under Title IV of ERISA with respect to any Multiemployer Plan which is or would be materially adverse to the business, financial condition or operations of the Company and its Subsidiaries, taken as a whole.

(b) Neither the Company nor any of its Subsidiaries has breached the fiduciary rules of ERISA or engaged in any prohibited transaction in connection with which the Company or any of its Subsidiaries or ERISA Affiliates could be subjected to (in the case of any such breach) a suit for damages or (in the case of any such prohibited transaction) with a civil penalty assessed under section 502(i) of ERISA or a tax imposed by section 4975 of the Code, which suit, penalty or tax, in any case, would be materially adverse to the business, financial condition or operations of the Company and its Subsidiaries, taken as a whole. Assuming the accuracy of each Purchaser's representations in paragraph 9B, the execution and delivery of this Agreement and the issuance and sale of the Notes will be exempt from, or will not involve any transaction which is subject to, the prohibitions of section 406 of ERISA and will not involve any transaction in connection with which a penalty could be imposed under section 502(i) of ERISA or a tax could be imposed pursuant to section 4975 of the Code.

(c) There has been no reportable event (within the meaning of section 4043(b) of ERISA) or any other event or condition with respect to any Plan (other than a Multiemployer Plan) which presents a risk of termination of any such Plan by the PBGC under circumstances which in any case could result in liability which would be materially adverse to the business, financial condition or operations of the Company and its Subsidiaries, taken as a whole.

(d) Except as described in Schedule 8K, the present value of all vested accrued benefits under all Plans (other than Multiemployer Plans), determined as of the end of the Company's most recently ended fiscal year on the basis of reasonable actuarial assumptions, did not exceed the current value of the assets of such Plans allocable to such vested accrued benefits. The terms "present value", "current value", and "accrued benefit" have the meanings specified in section 3 of ERISA.

(e) Neither the Company nor any of its Subsidiaries is or has ever been obligated to contribute to any Multiemployer Plan.



8L. ENVIRONMENTAL COMPLIANCE. To the best knowledge of any Responsible Environmental Officer, (i) the Company and its Subsidiaries have complied at all times and in all respects with all applicable Environmental Laws and all administrative orders, judgments, rulings and regulations relating to protection of the Environment, except, in any such case, where failure to comply would not result in a material adverse effect on the business, financial condition or operations of the Company and its Subsidiaries, taken as a whole, and (ii) neither the Company nor any of its Subsidiaries nor any other person or entity for whose conduct either the Company or any Subsidiary is responsible, are reasonably expected to have any liability, under any applicable Environmental Laws, which, either in any case or in the aggregate, would be materially adverse to the business, financial condition or operations of the Company and its Subsidiaries, taken as a whole. Without limiting the foregoing, except as described in Schedule 8L, no Responsible Environmental Officer has any knowledge of the Release or Threat of Release of any Hazardous Material on, in, under, or in the vicinity of the any of the properties owned, leased or operated by the Company or any of its Subsidiaries that may be required to be remediated under any applicable Environmental Law. No Lien has been imposed on any of the properties owned or operated by the Company or any of its Subsidiaries by any governmental agency at the federal, state, or local level in connection with the presence on or off such property of any Hazardous Material, except as described in Schedule 8L. Except as described in Schedule 8L, to the best knowledge of any Responsible Environmental Officer, neither the Company nor any Subsidiary nor any other person or entity for whose conduct either the Company or any Subsidiary is responsible, has in the previous five years: (i) entered into or been subject to any consent decree, compliance order, or administrative order under any applicable Environmental Laws with respect to any of the properties owned, leased or operated by the Company or any of its Subsidiaries or any facilities or improvements or any operations or activities thereon, (ii) received notice under the citizen suit provision of any applicable Environmental Law in connection with any of the properties owned, leased or operated by the Company or any of its Subsidiaries or any facilities or improvements or operations or activities thereon; (iii) received any request for information, written notice, demand letter, administrative inquiry, or formal or informal complaint or claim with respect to environmental matters relating to any of the properties owned or operated by the Company or any Subsidiary or any facilities or improvements or operations or activities thereon that required or will require any environmental investigation, environmental site assessment, corrective action or environmental remediation; or (iv) been subject to or threatened with any governmental or citizen enforcement action under any applicable Environmental Laws with respect to any of the properties owned, leased or operated by the Company or any of its Subsidiaries or any facilities or improvements or operations or activities thereon. To the best knowledge of any Responsible Environmental Officer, except as described in Schedule 8L, neither the Company nor any of its Subsidiaries has any reason to believe that any of the above will be forthcoming, the effect of which would have a material adverse effect on the business, financial condition or operations of the Company and its Subsidiaries, taken as a whole. The Company and its Subsidiaries have all Environmental Permits necessary for all facilities, operations, activities, improvements, and alterations, including past or ongoing improvements or alterations, at the properties owned or operated by the Company or any of its Subsidiaries, except where the failure to have such permits would not have a material adverse effect on the business, financial condition or operations of the Company and its Subsidiaries, taken as a whole.

8M. PROCEEDS OF FINANCING. The proceeds of the issuance of the Series A Notes will be used for general corporate purposes.

8N. GOVERNMENTAL CONSENT. Neither the nature of the Company or of any Subsidiary, nor any of their respective businesses or properties, nor any relationship between the Company or any Subsidiary and any other Person, nor any circumstance in connection with the offering, issuance, sale or delivery of the Notes is such as to require any authorization, consent, approval, exemption or other action by or notice to or filing with any court or administrative or governmental body (other than routine filings after the date of closing with the Securities and Exchange Commission and/or state Blue Sky authorities) in connection with the execution and delivery of this Agreement, the offering, issuance, sale or delivery of the Notes or fulfillment of or compliance with the terms and provisions hereof or of the Notes.

8O. COMPLIANCE; DEFAULT. The Company and its Subsidiaries and all of their respective properties and facilities have complied at all times and in all respects with all contractual obligations and all federal, state, local and regional statutes, laws, ordinances and judicial or administrative orders, judgments, rulings and regulations (including those relating to protection of the environment) except where failure to comply, in the aggregate, would not result in a material adverse effect on the business, financial condition or operations of the Company and its Subsidiaries taken as a whole. No Default or Event of Default exists as of the date hereof.

8P. INVESTMENT COMPANY ACT. The Company is not an "investment company," or a company "controlled" by an "investment company," within the meaning of the Investment Company Act of 1940, as amended.

8Q. PUBLIC UTILITY HOLDING COMPANY ACT. Neither the Company nor any of its Subsidiaries is a "holding company," or a "subsidiary company" of a "holding company," or an "affiliate" of a "holding company" or of a "subsidiary company" of a "holding company" as such terms are defined in the Public Utility Holding Company Act of 1935, as amended.

8R. FOREIGN ASSETS CONTROL REGULATIONS. None of the transactions contemplated by this Agreement (including the use of proceeds of the sale of the Notes) will result in a violation of any of the foreign assets control regulations of the United States Treasury Department (31 CFR, Subtitle B, Chapter V, as amended), or any ruling issued thereunder or any enabling legislation or Presidential Executive Order granting authority therefor.

8S. DISCLOSURE. Neither this Agreement nor any other document, certificate or written statement furnished to any Purchaser by or on behalf of the Company in connection herewith (including, without limitation, the Historical Financial Statements and the Memorandum when read together and taken as a whole but excluding the Projections) contains any untrue statement of a material fact or omits to state a material fact necessary in order to make the statements contained herein and therein, in light of the circumstances under which they were made, not misleading. There is no fact peculiar to the Company or any of its Subsidiaries which materially adversely affects or in the future may (so far as the Company can now reasonably foresee) materially adversely affect the business, financial condition or operations of the Company and its Subsidiaries taken as a whole, and which HAS not been set forth in this Agreement or in the Historical Financial Statements.

8T. HOSTILE TENDER OFFERS. None of the proceeds of the sale of any Notes will be used to finance a Hostile Tender Offer.

8U. YEAR 2000. The Company has reviewed the areas within its business and operations which could be adversely affected by the "Year 2000 Problem" (that is, the risk that computer applications, as well as embedded microchips in non-computing devices, used or manufactured by the Company may be unable to recognize and perform date-sensitive functions involving certain dates prior to and any date after December 31, 1999). The Company has developed or is developing programs to address its "Year 2000 Problem" on a timely basis. Based on such review and programs, the Company reasonably believes based on current information that its "Year 2000 Problem" will not have a material adverse effect on the business, financial condition or operations of the Company and its Subsidiaries taken as a whole.

9. REPRESENTATIONS OF THE PURCHASER. Each Purchaser represents as follows:

9A. NATURE OF PURCHASE. Such Purchaser is not acquiring the Notes to be purchased by it hereunder with a view to or for sale in connection with any distribution thereof within the meaning of the Securities Act, provided that the disposition of the Purchaser's property shall at all times be and remain within its control.

9B. SOURCE OF FUNDS. No part of the funds being used by such Purchaser to pay the purchase price of the Notes being purchased by such Purchaser hereunder constitutes assets allocated to any separate account maintained by such Purchaser. For the purpose of this paragraph 9B, the term "separate account" shall have the meaning specified in section 3 of ERISA.

10. DEFINITIONS AND ACCOUNTING MATTERS. For the purpose of this Agreement, as used herein, the terms defined in paragraphs 10A and 10B (or within the text of any other paragraph) shall have the respective meanings specified therein and all accounting matters shall be subject to determination as provided in paragraph 10C.

10A. YIELD-MAINTENANCE TERMS.

"CALLED PRINCIPAL" shall mean, with respect to any Note, the principal of such Note that is to be prepaid pursuant to paragraph 4C or is declared to be immediately due and payable pursuant to paragraph 7A, as the context requires.

"DISCOUNTED VALUE" shall mean, with respect to the Called Principal of any Note, the amount obtained by discounting all Remaining Scheduled Payments with respect to such Called Principal from their respective scheduled due dates to the Settlement Date with respect to such Called Principal, in accordance with accepted financial practice and at a discount factor (applied on the same periodic basis as that on which interest on the Notes is payable) equal to the Reinvestment Yield with respect to such Called Principal.

"REINVESTMENT YIELD" shall mean, with respect to the Called Principal of any Note, 0.50% over the yield to maturity implied by (i) the yields reported, as of 10:00 A.M. (New York City time) on the Business Day preceding the Settlement Date with respect to such Called Principal, on the display designated as "Page 678" on Bridge Telerate (or such other display as may replace Page 678 on Bridge Telerate) for actively traded U.S. Treasury securities having a maturity equal to the Remaining Average Life of such Called Principal as of such Settlement

Date, or (ii) if such yields shall not be reported as of such time or the yields reported as of such time shall not be ascertainable, the Treasury Constant Maturity Series yields reported, for the latest day for which such yields shall have been so reported as of the Business Day preceding the Settlement Date with respect to such Called Principal, in Federal Reserve Statistical Release H.15 (519) (or any comparable successor publication) for actively traded U.S. Treasury securities having a constant maturity equal to the Remaining Average Life of such Called Principal as of such Settlement Date. Such implied yield shall be determined, if necessary, by (a) converting U.S. Treasury bill quotations to bond-equivalent yields in accordance with accepted financial practice and (b) interpolating linearly between yields reported for various maturities.

"REMAINING AVERAGE LIFE" shall mean, with respect to the Called Principal of any Note, the number of years (calculated to the nearest one-twelfth year) obtained by dividing (i) such Called Principal into (ii) the sum of the products obtained by multiplying (a) each Remaining Scheduled Payment of such Called Principal (but not of interest thereon) by (b) the number of years (calculated to the nearest one-twelfth year) which will elapse between the Settlement Date with respect to such Called Principal and the scheduled due date of such Remaining Scheduled Payment.

"REMAINING SCHEDULED PAYMENTS" shall mean, with respect to the Called Principal of any Note, all payments of such Called Principal and interest thereon that would be due on or after the Settlement Date with respect to such Called Principal if no payment of such Called Principal were made prior to its scheduled due date.

"SETTLEMENT DATE" shall mean, with respect to the Called Principal of any Note, the date on which such Called Principal is to be prepaid pursuant to paragraph 4C or is declared to be immediately due and payable pursuant to paragraph 7A, as the context requires.

"YIELD-MAINTENANCE AMOUNT" shall mean, with respect to any Note, a premium equal to the excess, if any, of the Discounted Value of the Called Principal of such Note over the sum of (i) such Called Principal plus (ii) interest accrued thereon as of (including interest due on) the Settlement Date with respect to such Called Principal. The Yield-Maintenance Amount shall in no event be less than zero.

#### 10B. OTHER DEFINED TERMS.

"1993 NOTES" shall mean the \$40,000,000 original principal amount of 6.56% Senior Notes due 2005 issued by the Company to Prudential on November 9, 1993.

"ACCEPTANCE" shall have the meaning specified in paragraph 2B(6).

"ACCEPTANCE DAY" shall have the meaning specified in paragraph 2B(6).

"ACCEPTANCE WINDOW" shall have the meaning specified in paragraph 2B(6).

"ACCEPTED NOTE" shall have the meaning specified in paragraph 2B(6).

"ADJUSTED PRIORITY DEBT" shall mean, without duplication, the sum of: (i) all Priority Debt, (ii) all Debt of the Company or a Restricted Subsidiary secured by a Lien permitted by clause (iv) or (vi) of paragraph 6B, and (iii) all Attributable Debt.

"AFFILIATE" shall mean any Person (i) which directly or indirectly through one or more intermediaries controls, or is controlled by, or is under common control with, the Company, (ii) which beneficially owns or holds five percent (5%) or more of any class of the Voting Stock of the Company, (iii) five percent (5%) or more of the Voting Stock (or in the case of a person which is not a corporation, five percent (5%) or more of the voting equity interest) or five percent (5%) of the ownership interests (other than limited partnership interests) of which is beneficially owned or held by the Company and/or one or more Subsidiaries or (iv) who is a director or an officer of the Company or a Subsidiary. The term "control" means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities, by contract or otherwise.

"ASSET PERCENTAGE VALUE" of any assets in connection with any Disposition shall mean the percentage that the value of such assets (taken at the higher of book value or the fair market value thereof as determined in good faith by the Board of Directors of the Company) represents of the sum of (i) Consolidated Total Assets and (ii) the excess, if any, of such assets' fair market value over book value, as of the end of the fiscal quarter of the Company immediately preceding the date of such Disposition.

"ASSET SALE ALLOCATION NOTICE" and "ASSET SALE RETIREMENT AMOUNT," shall have the respective meanings specified in the definition of "Designated Applications."

"ATTRIBUTABLE DEBT" shall mean (i) in respect of any Sale and Lease-Back Transaction which involves a Capitalized Lease, as of the time of determination, the greater of (a) the fair market value of the Subject Property and (b) the total obligation (discounted to present value at the rate of interest implicit in the lease included in such transaction) of the lessee for rental payments (other than amounts required to be paid on account of property taxes as well as maintenance, repairs, insurance, assessments, utilities, operating and labor costs and other items which do not constitute payments for property rights) during the remaining portion of the remaining term (including extensions which are at the option of the lessor) of the lease included in such transaction (in the case of any lease which is terminable by the lessee upon the payment of a penalty, such rental obligation shall also include the amount of such penalty, but no rent shall be considered as required to be paid under such lease subsequent to the first date upon which it may be so terminated) and (ii) the average amount of Receivables outstanding from time to time that have been sold by the Company or any of its Restricted Subsidiaries under any Asset Securitization Program ("SUBJECT RECEIVABLES") multiplied by the Receivables Fraction. The Receivables Fraction shall be a fraction the denominator of which is 100% and the numerator of which is equal to (x) the percentage of Subject Receivables as to which there is recourse to the Company or a Restricted Subsidiary and/or (y) the percentage interest of the Company and its Restricted Subsidiaries in the Subject Receivables. As used in this definition and in the definition of Attributable Debt, "ASSET SECURITIZATION PROGRAM" shall mean an agreement or a series of agreements entered into by the Company or any of its Restricted Subsidiaries providing for the sale of Receivables of the Company or any of its Restricted Subsidiaries, and "RECEIVABLES" shall mean any accounts, contract rights and other forms of obligation for the payment of money arising from the sale of goods or other rendering of services by the Company or any of its Restricted Subsidiaries, including those outstanding under any Asset Securitization Program of the Company or any of its Restricted Subsidiaries.

"AUTHORIZED OFFICER" shall mean (i) in the case of the Company, its chief executive officer, its chief financial officer, any vice president of the Company designated as an "Authorized Officer" of the Company in the Information Schedule attached hereto or any vice president of the Company designated as an "Authorized Officer" of the Company for the purpose of this Agreement in an Officer's Certificate executed by the Company's chief executive officer or chief financial officer and delivered to Prudential, and (ii) in the case of Prudential, any officer of Prudential designated as its "Authorized Officer" in the Information Schedule or any officer of Prudential designated as its "Authorized Officer" for the purpose of this Agreement in a certificate executed by one of its Authorized Officers. Any action taken under this Agreement on behalf of the Company by any individual who on or after the date of this Agreement shall have been an Authorized Officer of the Company and whom Prudential in good faith believes to be an Authorized Officer of the Company at the time of such action shall be binding on the Company even though such individual shall have ceased to be an Authorized Officer of the Company, and any action taken under this Agreement on behalf of Prudential by any individual who on or after the date of this Agreement shall have been an Authorized Officer of Prudential and whom the Company in good faith believes to be an Authorized Officer of Prudential at the time of such action shall be binding on Prudential even though such individual shall have ceased to be an Authorized Officer of Prudential.

"AVAILABLE FACILITY AMOUNT" shall have the meaning specified in paragraph 2B(1).

"BANKRUPTCY LAW" shall have the meaning specified in clause (viii) of paragraph 7A.

"BUSINESS DAY" shall mean any day other than (i) a Saturday or a Sunday, (ii) a day on which commercial banks in New York City are required or authorized to be closed, and (iii) for purposes of paragraph 2B(3) only, a day on which Prudential is not open for business.

"CANCELLATION DATE" shall have the meaning specified in paragraph 2B(9)(iv).

"CANCELLATION FEE" shall have the meaning specified in paragraph 2B(9)(iv).

"CAPITAL STOCK" shall mean any and all shares of corporate stock of the Company.

"CAPITALIZED LEASE" shall mean any lease under which the obligation to make rental payments thereunder constitutes a Capitalized Lease Obligation.

"CAPITALIZED LEASE OBLIGATION" shall mean any rental obligation which, under generally accepted accounting principles, would be required to be capitalized on the books of the Company or any Restricted Subsidiary, in each case taken at the amount thereof accounted for as indebtedness (net of interest expense) in accordance with such principles.

"CLEAN DOWN PERIOD" shall have the meaning specified in paragraph 6C(iii).

"CLOSING" shall have the meaning specified in paragraph 2.

"CLOSING DAY" shall mean, with respect to the Series A Notes, the Series A Closing Day and, with respect to any Accepted Note, the Business Day specified for the closing of

the purchase and sale of such Accepted Note in the Request for Purchase of such Accepted Note, provided that (i) if the Company and the Purchaser which is obligated to purchase such Accepted Note agree on an earlier Business Day for such closing, the "CLOSING DAY" for such Accepted Note shall be such earlier Business Day, and (ii) if the closing of the purchase and sale of such Accepted Note is rescheduled pursuant to paragraph 2B(8), the Closing Day for such Accepted Note, for all purposes of this Agreement except references to "original Closing Day" in paragraph 2B(9)(iii), shall mean the Rescheduled Closing Day with respect to such Accepted Note.

"CODE" shall mean the Internal Revenue Code of 1986, as amended, and the regulations and rulings promulgated thereunder.

"CODE AFFILIATE" shall mean each Person which together with the Company or any of its Subsidiaries is treated as a "single employer" under subsection (b), (c), (m) or (o) of section 414 of the Code.

"CONFIRMATION OF ACCEPTANCE" shall have the meaning specified in paragraph 2B(6).

"CONSOLIDATED CURRENT DEBT" as of any date shall mean the aggregate amount of Current Debt of the Company and its Restricted Subsidiaries (excluding Debt permitted by clause (ii) of paragraph 6C) outstanding on that date.

"CONSOLIDATED FUNDED DEBT" as of any date shall mean the aggregate amount of Funded Debt of the Company and its Restricted Subsidiaries (excluding Debt permitted by clause (ii) of paragraph 6C) outstanding on that date.

"CONSOLIDATED NET INCOME" of the Company for any period means the consolidated net income (loss) of the Company and its Subsidiaries for such period, all determined in accordance with generally accepted accounting principles consistently applied and after provisions for minority interests, but not including in the computation of the foregoing any of the following:

(i) extraordinary gains or extraordinary losses;

(ii) net income or loss of any Person (other than a Restricted Subsidiary) in which the Company or a Restricted Subsidiary has an ownership interest unless, in the case of net income, such net income has actually been received thereafter in cash by the Company or a Restricted Subsidiary;

(iii) any portion of the net income of any Restricted Subsidiary which for any reason is unavailable to pay dividends to the Company or any Restricted Subsidiary by reason of legal or contractual restrictions;

(iv) any aggregate net gain (in excess of any net losses) exceeding \$200,000 in any fiscal year arising from the sale, exchange or other disposition of capital assets (such term to include all fixed assets, whether tangible or intangible, all inventory sold in conjunction with the disposition of fixed assets, and all securities);

(v) any write-up of any asset;

(vi) any gain or loss arising from the acquisition of any securities of the Company or its Restricted Subsidiaries;

(vii) net income or gain (net of any loss) resulting from discontinuing or disposing of operations, or prior period adjustments; and

(viii) the income (or loss) of any Person accrued prior to the date it becomes a Restricted Subsidiary.

"CONSOLIDATED NET WORTH" as of any date shall mean shareholders' equity of the Company and its Restricted Subsidiaries as computed as of that date in accordance with generally accepted accounting principles, but in any event not including shareholders' equity in respect of Unrestricted Subsidiaries at that date or any "comprehensive income adjustment" as the same would otherwise be reflected therein.

"CONSOLIDATED TOTAL ASSETS" at any date means the consolidated total assets of the Company and its Restricted Subsidiaries as would be shown on a consolidated balance sheet of the Company and its Restricted Subsidiaries prepared as of such date in accordance with generally accepted accounting principles.

"CONSOLIDATED TOTAL CAPITALIZATION" as of any date shall mean the sum of (x) Consolidated Funded Debt as of that date (less any Guarantees of Debt of Persons other than the Company or a Restricted Subsidiary included therein), (y) Consolidated Net Worth as of the end of the immediately preceding fiscal quarter and (z) deferred taxes properly recorded on the books of the Company and its Restricted Subsidiaries as of the end of the immediately preceding fiscal quarter.

"CORE BUSINESS" shall mean the business of designing, manufacturing and distributing watches, jewelry and other accessories, other businesses reasonably related thereto or businesses that in the judgment of the board of directors of the Company are derived from the exploitation by the Company of its trademarks.

"CREDIT AGREEMENT" shall mean the Amended and Restated Credit Agreement dated as of July 23, 1997 among the Company, the Lenders signatory thereto and The Chase Manhattan Bank as Agent, as Swingline Bank and as Issuing Bank and Fleet Bank, N.A., as Co-Agent, as amended and any substitute or successor agreement.

"CURRENT DEBT" shall mean without duplication any Debt Obligation (other than Funded Debt) payable on demand or within a period of one year from the date of determination thereof; provided that any obligation shall be treated as Funded Debt regardless of its term, if such obligation is, directly or indirectly, renewable or extendible by the debtor pursuant to the terms thereof or of a revolving credit or similar agreement for a period that lasts beyond the date that is more than one year from the date of determination.

"CURRENT DEBT COMPUTATION PERIOD" shall have the meaning specified in paragraph 6C(iii).

"DEBT" shall mean Funded Debt and/or Current Debt.



"DEBT OBLIGATION" of any Person as of any date shall mean and include without duplication (i) all indebtedness for money borrowed or evidenced by notes, bonds, debentures or similar evidences of indebtedness of such Person, (ii) all monies raised by or on behalf of such Person pursuant to any acceptance credit or any discounted bills of exchange, (iii) Capitalized Lease Obligations of such Person, (iv) indebtedness of such Person representing the deferred and unpaid purchase price of any property or business or services, excluding (A) trade payables constituting current liabilities, (B) current accounts payable and current accrued liabilities incurred in the ordinary course of business and (C) rental obligations arising from a lease that is not a Capitalized Lease, (v) obligations of such Person in respect of reimbursement obligations under letters of credit which have been drawn upon, other than letters of credit issued to support trade payables, (vi) any obligation secured by a Lien on, or payable out of the proceeds of production from, property of such Person, even though such obligation shall not be assumed by such Person, (vii) all Attributable Debt of such Person and (viii) all Guarantees by such Person (x) of obligations of others similar to those listed in clauses (i) through (vii) above or (y) to the transferee of any assets sold or otherwise disposed of that such assets will have a certain minimum value to the transferee. In any case in which the maximum amount of any Guarantee of a Debt Obligation cannot be determined by the provisions of the instrument or agreement creating such Guarantee, the amount thereof at any time shall be determined on the basis of the best available reasonable estimate of the Company at the time as of which the amount thereof is being determined.

"DELAYED DELIVERY FEE" shall have the meaning specified in paragraph 2B(9)(iii).

"DESIGNATED APPLICATIONS" shall mean:

(i) the purchase of operating assets by the Company for use in the Core Business, and/or

(ii) the permanent retirement of Funded Borrowings, and/or

(iii) Permitted Investments so long as the proceeds of such Investments are applied to one or more of the preceding Designated Applications within a period of 180 days after the relevant Disposition.

The Company may allocate any portion of any Disposition Proceeds to the retirement of Funded Borrowings only if it shall give notice of its election to such effect to each holder of Notes (an "ASSET SALE ALLOCATION NOTICE") specifying the amount to be so allocated (the "ASSET SALE RETIREMENT AMOUNT"), provided only that

(i) such Asset Sale Allocation Notice shall constitute, and shall state that it constitutes, a "Purchase EVENT" for the purpose of paragraph 4G, and such Notice shall also contain a reasonably detailed description of the Disposition giving rise to such Asset Sale Allocation Notice and the allocation to the Notes as required by clause (ii) below at the price specified in paragraph 4G;

(ii) each holder of Notes shall be entitled to cause the Company to purchase the Notes held by such holder pursuant to paragraph 4G in the respective principal amounts which bear the same proportion to the Asset

Sale Retirement Amount as the principal amount of Notes held by such holder bear to the aggregate principal amount of Funded Borrowings outstanding on the date of the Asset Sale Allocation Notice (the "RETIREMENT FRACTION"); and

(iii) nothing herein shall prohibit the Company from prepaying Notes pursuant to the provisions of paragraph 4C in connection with any such retirement of Funded Borrowings.

No retirement of Funded Borrowings required by the foregoing provisions may be effected by any payment at maturity or pursuant to any mandatory sinking fund or installment payment or any scheduled prepayment or purchase or analogous provision applicable to any Funded Borrowings.

"DISPOSITION" shall mean the sale, lease, transfer or other disposition of Property of the Company or any Restricted Subsidiary, and "DISPOSED OF" and "DISPOSE" shall have meanings correlative to the foregoing.

"DISPOSITION PROCEEDS" shall mean the aggregate proceeds received by the Company or a Restricted Subsidiary upon the Disposition of any Property, after deducting from the amount of such proceeds:

- (i) all costs and expenses of such Disposition,
- (ii) all taxes incurred in respect of the Disposition, and
- (iii) any amount actually paid by the Company or any such Restricted Subsidiary to repay or discharge Debt secured by a Lien on such Property other than Debt incurred in contemplation of the Disposition of such Property.

Any proceeds to be paid subsequent to the consummation of such Disposition shall be valued at the aggregate amount thereof discounted from the respective payment dates therefor at the yield to maturity for such installment obligation. If the amount of proceeds to be paid subsequent to such consummation cannot be determined at the time of consummation or if there is uncertainty as to the collectibility thereof (whether or not the amount of such proceeds can be so determined), the Company shall estimate the amount and time of receipt thereof in good faith, consistent with the treatment in its financial statement of the payment obligations in respect of such proceeds and the preceding sentence shall then apply to such estimated amount. Any proceeds not consisting of cash or promissory notes or other deferred payment obligations shall, for purposes of this Agreement, be deemed to have been paid in cash in an amount equal to the fair market value thereof in the good faith judgment of the Company.

"DOLLAR" or "\$" shall mean a reference to United States dollars.

"DOMESTIC SUBSIDIARY" shall mean any Subsidiary which is incorporated under the laws of one of the states of the United States or the District of Columbia, and the operating assets of which are located and the principal business of which is carried on within the United States.

"ENVIRONMENT" shall mean soil, surface waters, ground waters, land stream

sediments, surface or subsurface strata, and ambient air.

"ENVIRONMENTAL LAW" shall mean any law, regulation, rule or ordinance at the federal, state or local level related to pollution, protection of the environment or worker health and safety, whether or not previously enforced, and, for purposes of complying in the future with such laws, regulations, rules or ordinances, those that are subsequently enacted.

"ENVIRONMENTAL PERMITS" shall mean all permits, licenses and other authorizations required under any applicable Environmental Law.

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

"ERISA AFFILIATE" shall mean each trade or business (whether or not incorporated) which, together with the Company, would be treated as a single employer under section 4001(b) of ERISA.

"ERISA LIEN" shall mean a Lien created or otherwise imposed under the provisions of ERISA.

"EVENT OF DEFAULT" shall mean any of the events specified in paragraph 7A, provided that there has been satisfied any requirement in connection with such event for the giving of notice, or the lapse of time, or the happening of any further condition, event or act, and "DEFAULT" shall mean any of such events, whether or not any such requirement has been satisfied.

"EVENT NOTICE" shall have the meaning specified in paragraph 4G(c).

"EXCESS CURRENT DEBT" as of any date of determination shall mean (x) zero, if there shall have been a Clean Down Period in the Current Debt Computation Period preceding such date and (y) in all other cases, an amount equal to the aggregate principal amount of Consolidated Current Debt exceeding \$20,000,000 which is outstanding on such date.

"EXCHANGE ACT" shall mean the Securities Exchange Act of 1934, as amended.

"FACILITY" shall have the meaning specified in paragraph 2B(1).

"FACILITY FEE" shall have the meaning specified in paragraph 2B(9)(i).

"FOREIGN SUBSIDIARY" shall mean any Subsidiary that is not a Domestic Subsidiary.

"FUNDED BORROWINGS" shall mean and include any Debt Obligation of the Company or a Restricted Subsidiary described in clause (i) of the definition of Funded Debt (excluding Debt permitted by clause (ii) of paragraph 6C and Debt which is subordinated in any manner to the Notes).

"FUNDED DEBT" shall mean and include without duplication, with respect to the Company and its Restricted Subsidiaries consolidated in accordance with generally accepted accounting principles,

(i) any Debt Obligation payable more than one year from the date of incurrence thereof (including current maturities thereof) and any obligation described in the proviso to the definition of Current Debt; and

(ii) outstanding Preferred Stock of any Restricted Subsidiary not owned by the Company directly or indirectly through another Wholly-owned Restricted Subsidiary.

"GUARANTEE" shall mean, with respect to any Person, any direct or indirect liability, contingent or otherwise, of such Person with respect to any indebtedness, lease, dividend or other obligation or asset of another, including, without limitation, any such obligation or asset directly or indirectly guaranteed, endorsed (otherwise than for collection or deposit in the ordinary course of business) or discounted or sold with recourse by such Person, or in respect of which such Person is otherwise directly or indirectly liable, including, without limitation, any such obligation or asset in effect guaranteed by such Person through any agreement (contingent or otherwise) to purchase, repurchase or otherwise acquire such obligation or asset or any security therefor, or to provide funds for the payment or discharge of such obligation (whether in the form of loans, advances, stock purchases, capital contributions or otherwise), or to maintain the solvency or any balance sheet or other financial condition of the obligor of such obligation or asset, or to make payment for any products, materials or supplies or for any transportation or services regardless of the non-delivery or non-furnishing thereof, in any such case if the purpose or intent of such agreement is to provide assurance that such obligation will be paid or discharged or the value of any asset maintained, or that any agreements relating thereto will be complied with, or that the holders of such obligation or asset will be protected against loss in respect thereof. The term "Guarantee" used as a verb shall have a correlative meaning. The amount of any Guarantee shall be equal to the outstanding principal amount of the obligation guaranteed, the guaranteed value of the subject asset or such lesser amount to which the maximum exposure of the guarantor shall have been specifically limited.

"HAZARDOUS MATERIAL" shall mean any pollutant, toxic substance, hazardous waste, hazardous material, hazardous substance, or oil as defined in or pursuant to the Resource Conservation and Recovery Act, as amended, the Comprehensive Environmental Response, Compensation, and Liability Act, as amended, the Federal Clean Water Act, or any other federal, state or local environmental law, regulation, ordinance, rule, or by-law.

"HEDGE TREASURY NOTE(S)" shall mean, with respect to any Accepted Note, the United States Treasury Note or Notes whose duration (as determined by Prudential) most closely matches the duration of such Accepted Note.

"HISTORICAL FINANCIAL STATEMENTS" shall have the meaning specified in paragraph 8B.

"HOSTILE TENDER OFFER" shall mean, with respect to the use of proceeds of any Note, any offer to purchase, or any purchase of, shares of capital stock of any corporation or equity interests in any other entity, or securities convertible into or representing the beneficial ownership of, or rights to acquire, any such shares or equity interests, if such shares, equity interests, securities or rights are of a class which is publicly traded on any securities exchange or in any over-the-counter market, other than purchases of such shares, equity interests, securities

or rights representing less than 5% of the equity interests or beneficial ownership of such corporation or other entity for portfolio investment purposes, and such offer or purchase has not been duly approved by the board of directors of such corporation or the equivalent governing body of such other entity prior to the date on which the Company makes the Request for Purchase of such Note.

"INVESTMENT" shall mean and include all (i) investments in any Person by stock purchase, capital contribution, loan, advance, Guarantee of obligations of (other than any Guarantee of an obligation of the Company or a Restricted Subsidiary) or creation or assumption of any other liability in respect of any indebtedness (other than indebtedness of the Company or any Restricted Subsidiary) of such Person and (ii) investments in any other property.

"IRS" shall mean the Internal Revenue Service and any successor governmental agency.

"ISSUANCE PERIOD" shall have the meaning specified in paragraph 2B(2).

"LIEN" shall mean any mortgage, pledge, security interest, encumbrance, contractual deposit arrangement, lien (statutory or otherwise) or charge of any kind (including any agreement to give any of the foregoing, any conditional sale or other title retention agreement, any lease in the nature thereof, any bankers right of set-off, and the filing of or agreement to give any financing statement under the Uniform Commercial Code of any jurisdiction) or any other type of preferential arrangement for the purpose, or having the effect, of protecting a creditor against loss or securing the payment or performance of an obligation.

"MULTIEMPLOYER PLAN" shall mean any Plan which is a "multiemployer plan" (as such term is defined in section 4001(a)(3) of ERISA).

"NOTES" shall have the meaning specified in paragraph 1B.

"OFFICER'S CERTIFICATE" shall mean a certificate signed in the name of the Company by an Authorized Officer of the Company.

"OTHER HOLDER NOTICE" shall have the meaning specified in paragraph 4F(b).

"PBGC" shall mean the Pension Benefit Guaranty Corporation and any successor corporation or governmental agency.

"PERMITTED INVESTMENTS" shall mean:

(i) Investments in direct obligations of the United States of America, or obligations of any instrumentality or agency thereof, or obligations the payment of which is unconditionally guaranteed by the United States of America or any instrumentality or agency thereof (all of which Investments shall mature within five years from the time of acquisition thereof);

(ii) Investments maturing within three years from the time of acquisition thereof in obligations of any State or municipal government or obligations of any instrumentality or agency thereof or obligations of any

corporate issuer which, at the time of acquisition, are rated A or better by Standard & Poor's Corporation ("S&P") or A2 or better by Moody's Investors Service, Inc. ("Moody's") (or if neither S&P nor Moody's shall rate such obligations, an equivalent rating of any other national rating agency of established reputation in the United States); and

(iii) Investments in readily marketable commercial paper which, at the time of acquisition, are rated A-2 or better by S&P or Prime-2 or better by NCO/Moody's Commercial Paper Division of Moody's and maturing within 270 days from the time of acquisition thereof (or if neither S&P nor Moody's shall rate such obligations, an equivalent rating of any other national rating agency of established reputation in the United States).

"PERSON" shall mean and include an individual, a partnership, a joint venture, a corporation, limited liability company, a trust, an unincorporated organization and a government or any department or agency thereof.

"PLAN" shall mean any "employee pension benefit plan" (as such term is defined in section 3 of ERISA) which is or has been established or maintained, or to which contributions are or have been made, by the Company or any ERISA Affiliate.

"PREFERRED STOCK" shall mean any class of capital shares of the Company or any of its Restricted Subsidiaries which is redeemable (other than shares of Class A Common Stock, par value \$0.01 per share, of the Company) or which has a preference upon liquidation or in the payment of dividends over the respective common shares of the Company or any of its Subsidiaries.

"PRIORITY DEBT" shall mean, without duplication, the sum of (i) all Debt of Restricted Subsidiaries, other than (a) Debt owed to the Company, (b) Guarantees of the Notes and the 1993 Notes and (c) Guarantees of the obligations of the Company under the Credit Agreement to the extent the Notes share in such Guarantee, (ii) all Debt of the Company or any of its Restricted Subsidiaries secured by a Lien (including Capitalized Leases), other than (a) a Lien existing on Property at the time of acquisition thereof and which meets the terms of clause (iv) of paragraph 6B, (b) Liens described in clause (iii) of paragraph 6B and (c) Liens described in Schedule II, and (iii) all Preferred Stock of Restricted Subsidiaries not owned by the Company directly or indirectly through a Wholly-owned Restricted Subsidiary.

"PROPERTY" shall mean and include all interests in property and assets, whether tangible or intangible and whether real, personal or mixed.

"PRUDENTIAL" shall mean The Prudential Insurance Company of America.

"PRUDENTIAL AFFILIATE" shall mean (i) any corporation or other entity all of the Voting Stock (or equivalent voting securities or interests) of which is owned by Prudential either directly or through Prudential Affiliates and (ii) any investment fund which is managed by Prudential or a Prudential Affiliate.

"PURCHASE DATE" shall have the meaning specified in paragraph 4G(b).

"PURCHASE EVENT" shall mean the election by the Company to retire Funded

Borrowings in connection with a Disposition pursuant to paragraph 6F.

"PURCHASE NOTICE" shall have the meaning specified in paragraph 4G(a).

"PURCHASERS" shall mean Prudential with respect to the Series A Notes and, with respect to any Accepted Notes, Prudential and/or the Prudential Affiliate(s) which are purchasing such Accepted Notes.

"RELEASE" shall mean any releasing, spilling, leaking, pumping, pouring, emitting, emptying, discharging, injecting, escaping, leaching, disposing, or dumping into the Environment.

"REQUEST FOR PURCHASE" shall have the meaning specified in paragraph 2B(4).

"REQUIRED HOLDER(S)" shall mean at any particular time the holder or holders of at least 51% of the aggregate principal amount of the Notes or of a Series of Notes, as the context may require, from time to time outstanding.

"RESCHEDULED CLOSING DAY" shall have the meaning specified in paragraph 2B(8).

"RESPONSIBLE ENVIRONMENTAL OFFICER" shall mean with respect to the Company or any of its Subsidiaries, any Responsible Officer and any other officer of the Company or such Subsidiary principally responsible for the supervision and administration of environmental compliance or the supervision and administration of the handling of Hazardous Material, including, without limitation, all officers holding the titles set forth in Schedule 8L and any Person who, regardless of title, is performing the duties of any such officers.

"RESPONSIBLE OFFICER" shall mean with respect to any certificate, report, notice or information to be delivered or given hereunder or knowledge of any Default or Event of Default hereunder, unless the context otherwise requires, the president, chief executive officer, chief financial officer, principal legal officer, principal accounting officer or treasurer of the Company or other senior legal, accounting or financial officer of the Company who in the normal performance of his or her operational duties would have knowledge of the subject matter relating to such certificate, report, notice, Default or Event of Default.

"RESTRICTED SUBSIDIARY" shall mean (x) any Domestic Subsidiary and (y) any Foreign Subsidiary which is listed in Schedule 8A or which shall be designated as a Restricted Subsidiary by the Board of Directors at a subsequent date as provided in paragraph 6K.

"RETIREMENT FRACTION" shall have the meaning specified in the definition of Designated Applications.

"SALE AND LEASE-BACK TRANSACTION" of a Person (a "TRANSFEROR") shall mean any arrangement (other than between the Company and a Wholly-owned Restricted Subsidiary or between Wholly-owned Restricted Subsidiaries) whereby (a) Property has been or is to be Disposed of by such Transferor to any other Person with the intention on the part of such Transferor of taking back a lease of such Property pursuant to which the rental payments are calculated to amortize the purchase price of such Property substantially over the useful life of such Property, and (b) such property is in fact so leased by such Transferor or an Affiliate of

such Transferor.

"SECURITIES ACT" shall mean the Securities Act of 1933, as amended.

"SERIES" shall have the meaning specified in paragraph 1B.

"SERIES A CLOSING DAY" shall have the meaning specified in paragraph 2A.

"SERIES A NOTE(S)" shall have the meaning specified in paragraph 1A.

"SIGNIFICANT HOLDER" shall mean (x) Prudential, so long as Prudential or any Prudential Affiliate shall hold (or be committed under this Agreement to purchase) any Note and (y) any other holder of Notes holding by itself or together with one or more of its affiliates Notes having an aggregate principal amount of not less than 10% of the aggregate principal amount of the Notes of any Series at the time outstanding.

"SIGNIFICANT SUBSIDIARY GROUP" shall mean any Subsidiary which is, or any group of Subsidiaries all of which are, at any time of determination, subject to one or more of the proceedings or conditions described in paragraph 7A(vii), (viii), (ix) or (x) and which Subsidiary or group of Subsidiaries, (x) generated total revenues (or in the case of a recently formed or acquired Subsidiary would have generated revenues on a pro forma basis) equal in amount to more than 10% of the total consolidated revenues of the Company and its Restricted Subsidiaries for the fiscal year most recently ended or (y) had total assets equal in amount to more than 10% of Consolidated Total Assets as of the end of the most recently ended fiscal quarter.

"SUBSIDIARY" shall mean any Person a majority of the total combined voting power of all classes of Voting Stock of which shall, at the time as of which any determination is being made, be owned or controlled by the Company either directly or through Subsidiaries.

"SUBSIDIARY GUARANTEE" means a Guarantee substantially in the form of Exhibit D granted by a Subsidiary of the Company in favor of the Purchasers, guaranteeing the Company's performance of its obligations under this Agreement and the Notes including, without limitation, the Guarantee executed and delivered by Swissam.

"SUBSIDIARY GUARANTOR" shall mean any Subsidiary of the Company which has duly executed and delivered to the Purchasers a Subsidiary Guarantee.

"SWISSAM" shall have the meaning specified in paragraph 3H.

"THREAT OF RELEASE" shall mean a substantial likelihood of a Release which requires action to prevent or mitigate damage to the Environment which may result from such Release.

"TRANSFEREE" shall mean any direct or indirect transferee of all or any part of any Note purchased by the Purchaser under this Agreement.

"UNRESTRICTED SUBSIDIARY" shall mean any Foreign Subsidiary not identified on Schedule 8A and any other Foreign Subsidiary until designated as a Restricted Subsidiary in accordance with the provision of paragraph 6K.



"VOTING STOCK" shall mean, with respect to any Person, any shares of stock of or other ownership interest in such Person whose holders are entitled under ordinary circumstances to vote for the election of directors or similar body of such Person (irrespective of whether at the time stock of any other class or classes shall have or might have voting power by reason of the happening of any contingency).

"WHOLLY-OWNED RESTRICTED SUBSIDIARY" shall mean any Restricted Subsidiary all of the outstanding Capital Stock (or other equity interests) of which (other than directors, qualifying shares, if any) is owned by the Company either directly or indirectly through other Wholly-owned Restricted Subsidiaries.

10C. ACCOUNTING TERMS AND DETERMINATIONS. (a) All references in this agreement to "generally accepted accounting principles" shall mean generally accepted accounting principles in effect in the United States at the time of application thereof. Unless otherwise specified herein, all accounting terms used herein shall be interpreted, all determinations with respect to accounting matters hereunder shall be made, and all financial statements and certificates and reports as to financial matters required to be furnished hereunder shall be prepared, in accordance with generally accepted accounting principles, applied on a basis consistent with the most recent audited consolidated financial statements of the Company and its Subsidiaries (except as otherwise stated therein or in the notes thereto) delivered pursuant to paragraph 5A(ii), or, if no such statements have been so delivered, the most recent audited financial statements referred to in paragraph 8B.

(b) All references herein to "the Company and its Restricted Subsidiaries" for the purposes of computing the consolidated financial position, results of operations or other balance sheet or financial statement items shall be deemed to include only the Company and its Restricted Subsidiaries as separate legal entities and, unless otherwise provided herein, shall not include the position, operations, cash flows or other such items of any other Person, whether by way of the equity method of accounting or otherwise (whether or not, in any particular instance, such accounting treatment would be in accordance with generally accepted accounting principles).

#### 11. MISCELLANEOUS.

11A. NOTE PAYMENTS. The Company agrees that, so long as any Purchaser shall hold any Note, it will make payments of principal of, interest on and any Yield-Maintenance Amount payable with respect to such Note, which comply with the terms of this Agreement, by wire transfer of immediately available funds for credit (not later than 12:00 noon, New York City time, on the date due) to (i) the account or accounts of such Purchaser specified in the Purchaser Schedule attached hereto in the case of any Series A Note, (ii) the account or accounts of such Purchaser specified in the Confirmation of Acceptance with respect to such Note in the case of any Shelf Note or (iii) such other account or accounts in the United States as such Purchaser may designate in writing, notwithstanding any contrary provision herein or in any Note with respect to the place of payment. Each Purchaser agrees that, before disposing of any Note, it will make a notation thereon (or on a schedule attached thereto) of all principal payments previously made thereon and of the date to which interest thereon has been paid. The Company agrees to afford the benefits of this paragraph 11A to any Transferee which shall have made the same agreement as the Purchaser has made in this paragraph 11A.

11B. EXPENSES. The Company agrees, whether or not the transactions contemplated hereby shall be consummated, to pay, and save Prudential, each Purchaser and any Transferee harmless against liability for the payment of, all out-of-pocket expenses arising in connection with such transactions (other than a transaction in which a Person becomes a Transferee), including (i) all document production and duplication charges and the fees and expenses of any special counsel engaged by the Purchaser or such Transferee in connection with any subsequent proposed modification of, or proposed consent under, this Agreement, whether or not such proposed modification shall be effected or proposed consent granted (which shall be a single counsel representing all the holders of the Notes and any local counsel retained by them, unless there shall be a conflict in any such representation of all the holders), and (ii) the costs and expenses, including attorneys' fees, incurred by any Purchaser or such Transferee in enforcing (or determining whether or how to enforce) any rights under this Agreement or the Notes or in responding to any subpoena or other legal process or informal investigative demand issued in connection with this Agreement or the transactions contemplated hereby or by reason of any Purchaser's or such Transferee's having acquired any Note, including without limitation costs and expenses incurred in any bankruptcy case. The obligations of the Company under this paragraph 11B shall survive the transfer of any Note or portion thereof or interest therein by any Purchaser or any Transferee and the payment of any Note.

11C. CONSENT TO AMENDMENTS. This Agreement may be amended, and the Company may take any action herein prohibited, or omit to perform any act herein required to be performed by it, if the Company shall obtain the written consent to such amendment, action or omission to act, of the Required Holder(s) of the Notes of each Series except that, (i) with the written consent of the holders of all Notes of a particular Series, and if an Event of Default shall have occurred and be continuing, of the holders of all Notes of all Series, at the time outstanding (and not without such written consents), the Notes of such Series may be amended or the provisions thereof waived to change the maturity thereof, to change or affect the principal thereof, or to change or affect the rate or time of payment of interest on or any Yield-Maintenance Amount payable with respect to the Notes of such Series, (ii) without the written consent of the holder or holders of all Notes at the time outstanding, no amendment to or waiver of the provisions of this Agreement shall change or affect the provisions of paragraph 7A or this paragraph 11C insofar as such provisions relate to proportions of the principal amount of the Notes of any Series, or the rights of any individual holder of Notes, required with respect to any declaration of Notes to be due and payable or with respect to any consent, amendment, waiver or declaration, (iii) with the written consent of Prudential (and not without the written consent of Prudential) the provisions of paragraph 2B may be amended or waived (except insofar as any such amendment or waiver would affect any rights or obligations with respect to the purchase and sale of Notes which shall have become Accepted Notes prior to such amendment or waiver), and (iv) with the written consent of all of the Purchasers which shall have become obligated to purchase Accepted Notes of any Series (and not without the written consent of all such Purchasers), any of the provisions of paragraphs 2B and 3 may be amended or waived insofar as such amendment or waiver would affect only rights or obligations with respect to the purchase and sale of the Accepted Notes of such Series or the terms and provisions of such Accepted Notes. Each holder of any Note at the time or thereafter outstanding shall be bound by any consent authorized by this paragraph 11C, whether or not such Note shall have been marked to indicate such consent, but any Notes issued thereafter may bear a notation referring to any such consent. No course of dealing between the Company and the holder of any Note nor any delay in exercising any rights hereunder or under any Note shall operate as a waiver of any rights of any holder of such Note. As used herein and

in the Notes, the term "THIS AGREEMENT" and references thereto shall mean this Agreement as it may from time to time be amended or supplemented. No course of dealing between the Company and the holder of any Note nor any delay in exercising any rights hereunder or under any Note shall operate as a waiver of any rights of any holder of such Note. The Company will not, directly or indirectly, solicit, request or obtain any proposed waiver or amendment of or consent in respect of any of the provisions of this Agreement or the Notes unless each holder shall be informed thereof by the Company and shall be afforded an opportunity of considering the same information supplied by the Company to any other holder of Notes. The Company will not, directly or indirectly, pay or cause to be paid any remuneration, whether by way of supplemental or additional interest, fee or otherwise, to any holder of Notes as consideration for or as an inducement to the entering into by such holder of Notes of any waiver or amendment of, or giving a consent in respect of, any of the terms and provisions of this Agreement or any Note unless such remuneration is concurrently paid, on the same terms, ratably to all such holders of Notes of the same Series, whether or not any such holder shall have entered into any such waiver or amendment or given any such consent. The Company will give prompt written notice of the receipt and effect of each such waiver, amendment or consent to all holders of the Notes. As used herein and in the Notes, the term "THIS AGREEMENT" and references thereto shall mean this Agreement as it may from time to time be amended or supplemented.

11D. FORM, REGISTRATION, TRANSFER AND EXCHANGE OF NOTES; LOST NOTES.

The Notes are issuable as registered notes without coupons in denominations of at least \$2,500,000 and otherwise in integral multiples of \$100,000. The Company shall keep at its principal office a register in which the Company shall provide for the registration of Notes and of transfers of Notes. Upon surrender for registration of transfer of any Note at the principal office of the Company, the Company shall, at its expense, execute and deliver one or more new Notes of like tenor and of a like aggregate principal amount, registered in the name of such transferee or transferees. At the option of the holder of any Note, such Note may be exchanged for other Notes of like tenor and of any authorized denominations, of a like aggregate principal amount, upon surrender of the Note to be exchanged at the principal office of the Company. Whenever any Notes are so surrendered for exchange, the Company shall, at its expense, execute and deliver the Notes which the holder making the exchange is entitled to receive. Every Note surrendered for registration of transfer or exchange shall be duly endorsed, or be accompanied by a written instrument of transfer duly executed, by the holder of such Note or such holder's attorney duly authorized in writing. Any Note or Notes issued in exchange for any Note or upon transfer thereof shall carry the rights to unpaid interest and interest to accrue which were carried by the Note so exchanged or transferred, so that neither gain nor loss of interest shall result from any such transfer or exchange. Upon receipt of written notice from the holder of any Note of the loss, theft, destruction or mutilation of such Note and, in the case of any such loss, theft or destruction, upon receipt of such holder's unsecured indemnity agreement, or in the case of any such mutilation upon surrender and cancellation of such Note, the Company will make and deliver a new Note, of like tenor, in lieu of the lost, stolen, destroyed or mutilated Note.

11E. PERSONS DEEMED OWNERS; PARTICIPATIONS. Prior to due presentment for registration of transfer, the Company may treat the Person in whose name any Note is registered as the owner and holder of such Note for the purpose of receiving payment of principal of, interest on and any Yield-Maintenance Amount payable with respect to such Note and for all other purposes whatsoever, whether or not such Note shall be overdue, and the

Company shall not be affected by notice to the contrary. Subject to the preceding sentence, the holder of any Note may from time to time grant participations in such Note to any Person on such terms and conditions as may be determined by such holder in its sole and absolute discretion, provided that any such participation shall be in a principal amount of at least \$2,500,000 and otherwise in integral multiples of \$100,000.

11F. SURVIVAL OF REPRESENTATIONS AND WARRANTIES; ENTIRE AGREEMENT.

All representations and warranties contained herein or made in writing by or on behalf of the Company in connection herewith shall survive the execution and delivery of this Agreement and the Notes, the transfer by any Purchaser of any Note or portion thereof or interest therein and the payment of any Note, and may be relied upon by any Transferee, regardless of any investigation made at any time by or on behalf of any Purchaser or any Transferee. Subject to the preceding sentence, this Agreement and the Notes embody the entire agreement and understanding between the Purchasers and the Company and supersede all prior agreements and understandings relating to the subject matter hereof.

11G. SUCCESSORS AND ASSIGNS. All covenants and other agreements in this Agreement contained by or on behalf of any of the parties hereto shall bind and inure to the benefit of the respective successors and assigns of the parties hereto (including, without limitation, any Transferee) whether so expressed or not.

11H. INDEPENDENCE OF COVENANTS. All covenants hereunder shall be given independent effect so that if a particular action or condition is prohibited by any one of such covenants, the fact that it would be permitted by an exception to, or otherwise be in compliance within the limitations of, another covenant shall not avoid the occurrence of a Default or Event of Default if such action is taken or such condition exists.

11I. NOTICES. All written communications provided for hereunder (other than communications provided for under paragraph 2) shall be sent by first class mail or nationwide overnight delivery service (with charges prepaid) and (i) if to any Purchaser, addressed as specified for such communications in the Purchaser Schedule attached hereto (in the case of the Series A Notes) or the Purchaser Schedule attached to the applicable Confirmation of Acceptance (in the case of any Shelf Notes) or at such other address as any such Purchaser shall have specified to the Company in writing, (ii) if to any other holder of any Note, addressed to it at such address as it shall have specified in writing to the Company or, if any such holder shall not have so specified an address, then addressed to such holder in care of the last holder of such Note which shall have so specified an address to the Company and (iii) if to the Company, addressed to it at Movado Group, Inc., 1200 Wall Street West, 6th Floor, Lyndhurst, NJ 07071, Attention: Kenneth J. Adams, Chief Financial Officer, phone number (201) 460-3756, fax number (201) 460-4880, with a copy to Movado Group, Inc., 125 Chubb Avenue, Lyndhurst, NJ 07071, Attention: Timothy F. Michno, General Counsel, phone number (201) 460-3792, fax number (201) 460-4857, provided, however, that any such communication to the Company may also, at the option of the Person sending such communication, be delivered by any other means either to the Company at its address specified above or to any Authorized Officer of the Company. Any communication pursuant to paragraph 2 shall be made by the method specified for such communication in paragraph 2, and shall be effective to create any rights or obligations under this Agreement only if, in the case of a telephone communication, an Authorized Officer of the

party conveying the information and of the party receiving the information are parties to the telephone call, and in the case of a telecopier communication, the communication is signed by an Authorized Officer of the party conveying the information, addressed to the attention of an Authorized Officer of the party receiving the information, and in fact received at the telecopier terminal the number of which is listed for the party receiving the communication in the Information Schedule or at such other telecopier terminal as the party receiving the information shall have specified in writing to the party sending such information.

11J. PAYMENTS DUE ON NON-BUSINESS DAYS. Anything in this Agreement or the Notes to the contrary notwithstanding, any payment of principal or interest on any Note that is due on a date other than a Business Day shall be made on the next succeeding Business Day. If the date for any payment is extended to the next succeeding Business Day by reason of the preceding sentence, the period of such extension shall not be included in the computation of the interest payable on such Business Day.

11K. SATISFACTION REQUIREMENT. If any agreement, certificate or other writing, or any action taken or to be taken, is by the terms of this Agreement required to be satisfactory to any Purchaser or to the Required Holder(s), the determination of such satisfaction shall be made by such Purchaser or the Required Holder(s), as the case may be, in the sole and exclusive judgment (exercised in good faith) of the Person or Persons making such determination.

11L. GOVERNING LAW. THIS AGREEMENT SHALL BE CONSTRUED AND ENFORCED IN ACCORDANCE WITH, AND THE RIGHTS OF THE PARTIES SHALL BE GOVERNED BY, THE LAW OF THE STATE OF NEW YORK WITHOUT REGARD TO CONFLICTS OF LAW PRINCIPLES.

11M. SEVERABILITY. Any provision of this Agreement which 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 in any other jurisdiction.

11N. DESCRIPTIVE HEADINGS. The descriptive headings of the several paragraphs of this Agreement are inserted for convenience only and do not constitute a part of this Agreement.

11O. COUNTERPARTS. This Agreement may be executed in any number of counterparts, each of which shall be an original but all of which together shall constitute one instrument.

11P. CONFIDENTIALITY. For the purposes of this paragraph, "Confidential Information" means information delivered to the Purchaser by or on behalf of the Company or any of its Subsidiaries in connection with the transactions contemplated by or otherwise pursuant to this Agreement which is proprietary in nature and which was clearly marked or labeled when received by the Purchaser as being confidential information of the Company, provided that such term does not include information (a) which was publicly known or otherwise known to the Purchaser prior to the time of such disclosure, (b) which subsequently becomes publicly known through no act or omission by the Purchaser or any Person acting on its behalf or (c) which otherwise becomes known to the Purchaser other than through disclosure by the Company or any of its Subsidiaries. The Purchaser will use its best efforts hold in confidence

and not to disclose any Confidential Information, provided that the Purchaser may deliver or disclose Confidential Information to (i) its and its Subsidiaries, directors, officers, employees, agents, attorneys, financial advisors and other professional advisors (to the extent such disclosure reasonably relates to the administration of the investment represented by the Notes), (ii) any other holder of any Note, (iii) any Person to which the Purchaser sells or offers to sell such Note or any part thereof (if such Person has agreed in writing prior to its receipt of such Confidential Information to be bound by the provisions of this paragraph 11P, (iv) any Person to which the Purchaser sells or offers to sell a participation in all or any part of such Note (if such Person has agreed in writing prior to its receipt of such Confidential Information to be bound by the provisions of this paragraph 11P, (v) any Person from which the Purchaser offers to purchase any security of the Company, (vi) any federal or state regulatory authority having jurisdiction over the Purchaser, (vii) the National Association of Insurance Commissioners (the "NAIC") or any similar organization or (viii) any other Person to which such delivery or disclosure may be necessary or appropriate (w) to effect compliance with any law, rule, regulation or order applicable to the Purchaser (x) in response to any subpoena or other legal process, (y) in connection with any litigation to which the Purchaser is a party or (z) if an Event of Default has occurred and is continuing, to the extent the Purchaser may reasonably determine such delivery and disclosure to be necessary or appropriate in the enforcement of the rights and remedies under the Notes and this Agreement. Any person entering into an agreement referred to in clause (iii) or (iv) of this paragraph 11P is entitled to all the benefits of this paragraph 11P.

If you are in agreement with the foregoing, please sign the form of acceptance on the enclosed counterparts of this letter and return the same to the Company, whereupon this letter shall become a binding agreement among the Company and the Purchaser.

Very truly yours,  
MOVADO GROUP, INC.

By \_\_\_\_\_  
Title:

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

THE PRUDENTIAL INSURANCE COMPANY OF AMERICA

By \_\_\_\_\_  
Title:

## [FORM OF SERIES A NOTE]

MOVADO GROUP, INC.

6.90% SENIOR SERIES A NOTE DUE OCTOBER 30, 2010

No. \_\_\_\_\_  
\$ \_\_\_\_\_

[Date]

FOR VALUE RECEIVED, the undersigned, MOVADO GROUP, INC. (herein called the "Company"), a corporation organized and existing under the laws of the State of New York, hereby promises to pay to THE PRUDENTIAL INSURANCE COMPANY OF AMERICA, or registered assigns, the principal sum of \_\_\_\_\_ DOLLARS (\$\_\_\_\_\_) on October 30, 2010, with interest (computed on the basis of a 360-day year--30-day month) (a) on the unpaid balance thereof at the rate of 6.90% per annum from the date hereof, payable semi-annually on April 30 and October 30 in each year, commencing with the April 30 next succeeding the date hereof, until the principal hereof shall have become due and payable, and (b) on any overdue payment (including any overdue prepayment) of principal, any overdue payment of Yield Maintenance Amount and any overdue payment of interest, payable semi-annually as aforesaid (or, at the option of the registered holder hereof, on demand), at a rate per annum from time to time equal to the greater of (i) 8.90% or (ii) 2% over the rate of interest publicly announced by Bank of New York from time to time in New York City as its Prime Rate.

Payments of principal, Yield Maintenance Amount, if any, and interest are to be made at the main office of Bank of New York in New York City or at such other place as the holder hereof shall designate to the Company in writing, in lawful money of the United States of America.

This Note is one of a series of Senior Notes (herein called the "Notes") issued pursuant to a Note Purchase and Private Shelf Agreement, dated as of November \_\_, 1998 (herein called the "Agreement"), between the Company, on the one hand, and The Prudential Insurance Company of America each Prudential Affiliate which becomes party thereto, on the other hand, and is entitled to the benefits thereof. As provided in the Agreement, this Note is subject to prepayment, in whole or from time to time in part, in certain cases without Yield Maintenance Amount and in other cases with the Yield Maintenance Amount specified in the Agreement.

This Note is a registered Note and, as provided in the Agreement, upon surrender of this Note for registration of transfer, duly endorsed, or accompanied by a written instrument of transfer duly executed, by the registered holder hereof or such holder's attorney duly authorized in writing, a new Note for the then outstanding principal amount will be issued to, and registered in the name of, the transferee. Prior to due presentment for registration of transfer, the Company may treat the person in whose name this Note is registered as the owner hereof for the purpose of receiving payment and for all other purposes, and the Company shall not be affected by any notice to the contrary.

The Company agrees to make prepayments of principal of this Note on the dates and in the amounts specified in the Agreement.

In case an Event of Default shall occur and be continuing, the principal of this Note may be declared or otherwise become due and payable in the manner and with the effect provided in the Agreement.

Capitalized terms used and not otherwise defined herein shall have the meanings (if any) provided in the Agreement.

This Note is intended to be performed in the State of New York and shall be construed and enforced in accordance with the internal law of such State.

MOVADO GROUP, INC.

By: \_\_\_\_\_  
Title: \_\_\_\_\_



[FORM OF SHELF NOTE]

MOVADO GROUP, INC.

SENIOR SERIES \_\_\_\_ NOTE

No. \_\_\_\_  
 ORIGINAL PRINCIPAL AMOUNT:  
 ORIGINAL ISSUE DATE:  
 INTEREST RATE:  
 INTEREST PAYMENT DATES:  
 FINAL MATURITY DATE:  
 PRINCIPAL PREPAYMENT DATES AND AMOUNTS:

FOR VALUE RECEIVED, the undersigned, MOVADO GROUP, INC. (herein called the "Company"), a corporation organized and existing under the laws of the State of New York, hereby promises to pay to \_\_\_\_\_, or registered assigns, the principal sum of \_\_\_\_\_ DOLLARS [on the Final Maturity Date specified above] [, payable on the Principal Prepayment Dates and in the amounts specified above, and on the Final Maturity Date specified above in an amount equal to the unpaid balance of the principal hereof,] with interest (computed on the basis of a 360-day year--30-day month) (a) on the unpaid balance thereof at the Interest Rate per annum specified above, payable on each Interest Payment Date specified above and on the Final Maturity Date specified above, commencing with the Interest Payment Date next succeeding the date hereof, until the principal hereof shall have become due and payable, and (b) on any overdue payment (including any overdue prepayment) of principal, any overdue payment of Yield Maintenance Amount and any overdue payment of interest, payable on each Interest Payment Date as aforesaid (or, at the option of the registered holder hereof, on demand), at a rate per annum from time to time equal to the greater of (i) 2% over the Interest Rate specified above or (ii) 2% over the rate of interest publicly announced by Bank of New York from time to time in New York City as its Prime Rate.

Payments of principal, Yield Maintenance Amount, if any, and interest are to be made at the main office of Bank of New York in New York City or at such other place as the holder hereof shall designate to the Company in writing, in lawful money of the United States of America.

This Note is one of a series of Senior Notes (herein called the "Notes") issued pursuant to a Note Purchase and Private Shelf Agreement, dated as of November \_\_, 1998 (herein

called the "Agreement"), between the Company, on the one hand, and The Prudential Insurance Company of America and each Prudential Affiliate (as defined in the Agreement) which becomes party thereto, on the other hand, and is entitled to the benefits thereof.

This Note is subject to optional prepayment, in whole or from time to time in part, on the terms specified in the Agreement.

This Note is a registered Note and, as provided in the Agreement, upon surrender of this Note for registration of transfer, duly endorsed, or accompanied by a written instrument of transfer duly executed, by the registered holder hereof or such holder's attorney duly authorized in writing, a new Note for the then outstanding principal amount will be issued to, and registered in the name of, the transferee. Prior to due presentment for registration of transfer, the Company may treat the person in whose name this Note is registered as the owner hereof for the purpose of receiving payment and for all other purposes, and the Company shall not be affected by any notice to the contrary.

In case an Event of Default shall occur and be continuing, the principal of this Note may be declared or otherwise become due and payable in the manner and with the effect provided in the Agreement.

Capitalized terms used and not otherwise defined herein shall have the meanings (if any) provided in the Agreement.

This Note is intended to be performed in the State of New York and shall be construed and enforced in accordance with the internal law of such State.

MOVADO GROUP, INC.

By: \_\_\_\_\_  
Title: \_\_\_\_\_

## [FORM OF REQUEST FOR PURCHASE]

## MOVADO GROUP, INC.

Reference is made to the Note Purchase and Private Shelf Agreement (the "Agreement"), dated as of November \_\_, 1998 between Movado Group, Inc. (the "Company"), on the one hand, and The Prudential Insurance Company of America ("Prudential") and each Prudential Affiliate which becomes party thereto, on the other hand. Capitalized terms used and not otherwise defined herein shall have the respective meanings specified in the Agreement.

Pursuant to Paragraph 2B(4) of the Agreement, the Company hereby makes the following Request for Purchase:

1. Aggregate principal amount of the Notes covered hereby (the "Notes") : \$\_\_\_\_\_
2. Individual specifications of the Notes:

Principal Amount(1)	Final Maturity Date	Principal Prepayment Dates and Amounts	Interest Payment Period(2)
-----	----	-----	-----

3. Use of proceeds of the Notes:
4. Proposed day for the closing of the purchase and sale of the Notes:

-----  
(1) Minimum principal amount of \$5,000,000.

(2) Specify quarterly or semi-annually.

5. The purchase price of the Notes is to be transferred to:

Name, Address and ABA Routing Number of Bank -----	Number of Account -----
---	-------------------------------

6. The Company certifies (a) that the representations and warranties contained in paragraph 8 of the Agreement are true on and as of the date of this Request for Purchase except to the extent of changes caused by the transactions contemplated in the Agreement and (b) that there exists on the date of this Request for Purchase no Event of Default or Default.

7. The Issuance Fee to be paid pursuant to the Agreement will be paid by the Company on the closing date.

Dated: MOVADO GROUP, INC.

By: \_\_\_\_\_  
Authorized Officer

## [FORM OF CONFIRMATION OF ACCEPTANCE]

MOVADO GROUP, INC.

Reference is made to the Note Purchase and Private Shelf Agreement (the "Agreement"), dated as of November \_\_, 1998 between Movado Group, Inc. (the "Company"), on the one hand, and The Prudential Insurance Company of America ("Prudential") and each Prudential Affiliate which becomes party thereto, on the other hand. All terms used herein that are defined in the Agreement have the respective meanings specified in the Agreement.

Prudential or the Prudential Affiliate which is named below as a Purchaser of Notes hereby confirms the representations as to such Notes set forth in paragraph 9 of the Agreement, and agrees to be bound by the provisions of paragraphs 2B(6) and 2B(8) of the Agreement relating to the purchase and sale of such Notes and by the provisions of the penultimate sentence of paragraph 11A of the Agreement.

Pursuant to paragraph 2B(6) of the Agreement, an Acceptance with respect to the following Accepted Notes is hereby confirmed:

I. Accepted Notes: Aggregate principal amount \$\_\_\_\_\_

- (A) (a) Name of Purchaser:
- (b) Principal amount:
- (c) Final maturity date:
- (d) Principal prepayment dates and amounts:
- (e) Interest rate:
- (f) Interest payment period:
- (g) Payment and notice instructions: As set forth on attached Purchaser Schedule
  
- (B) (a) Name of Purchaser:
- (b) Principal amount:
- (c) Final maturity date:
- (d) Principal prepayment dates and amounts:
- (e) Interest rate:
- (f) Interest payment period:
- (g) Payment and notice instructions: As set forth on attached Purchaser Schedule

[(C), (D)... same information as above.]

II. Closing Day:

65  
Dated:

MOVADO GROUP, INC.

By: \_\_\_\_\_  
Title: \_\_\_\_\_

THE PRUDENTIAL INSURANCE  
COMPANY OF AMERICA

By: \_\_\_\_\_  
Vice President

[PRUDENTIAL AFFILIATE]

By: \_\_\_\_\_  
Vice President

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## FORM OF GUARANTEE

REFERENCE IS HEREBY MADE to the Note Purchase and Master Shelf Agreement dated as of \_\_\_\_\_, 1998 (which, as the same has heretofore been or may hereafter be amended from time to time, will be called herein the "Note Purchase Agreement") between Movado Group, Inc., a New York corporation (the "Company"), The Prudential Insurance Company of America ("Prudential") and each Prudential Affiliate (as defined therein) which becomes a party to the Note Purchase Agreement (collectively, the "Purchasers"). All capitalized terms used herein and not defined shall have the respective meanings ascribed to them in the Note Purchase Agreement.

WHEREAS, pursuant to the terms and conditions of the Note Purchase Agreement, Prudential has purchased \$25,000,000 of Series A Senior Notes of the Company and the Purchasers have provided the Company with the Facility pursuant to which the Purchasers may purchase up to an additional \$25,000,000 of Notes; and

WHEREAS, all the obligations and liabilities (whether now existing or hereafter arising) of the Company under the Note Purchase Agreement (whether for principal, interest, fees, Yield-Maintenance Amount, costs of enforcement or otherwise) will be called herein the "Obligations"; and

WHEREAS, the Guarantor has obtained and expects to obtain substantial economic benefit from the issuance of the Notes under the Note Purchase Agreement; and

WHEREAS, the execution and delivery of this guaranty by the Guarantor is required pursuant to the terms of the Note Purchase Agreement;

NOW, THEREFORE, for valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the Guarantor hereby agrees with the Purchasers as follows:

1. The Guarantor hereby unconditionally guarantees to the Purchasers that the Company will promptly pay, perform and observe all the Obligations, and that all sums stated to be payable in, or which becomes payable under, the Note Purchase Agreement by the Company will be promptly paid in full when due, whether at stated maturity or earlier by reason of acceleration or otherwise, and, in the case of one or more extensions of time of payment or performance of any Obligation, that the same will be promptly paid or performed (as the case may be) when due according to such extension, whether at stated maturity or earlier by reason of acceleration or otherwise, irrespective of the validity, regularity, or enforceability of the Note Purchase Agreement and irrespective of any present or future law or order of any government (whether of right or in fact and whether the Purchasers shall have consented thereto) or of any agency thereof purporting to reduce, amend, restructure or otherwise affect any Obligation of the Company or other obligor or to vary the terms of payment; provided, however, that the liability of the Guarantor hereunder with respect to the Obligations shall not exceed at any time 90% of Adjusted Net Worth (as hereinafter defined). The term "Adjusted Net Worth" means the current Net Worth of the Guarantor, plus (as and when Net Worth increases) any increase in such amount of Net Worth after the date hereof (without any decrease for any reduction after the date hereof in current Net Worth as so increased). The term "Net Worth" means the amount of all assets of the Guarantor, at a fair valuation, less the total liabilities of the

Guarantor (including contingent liabilities other than the liabilities of the Guarantor under this guaranty).

2. The Guarantor agrees that, as among the Guarantors and the Purchasers, the Obligations may be declared to be due and payable for purposes of this guaranty notwithstanding any stay, injunction or other prohibition which may prevent, delay or vitiate any such declaration as against the Company and that, in the event of any such declaration (or attempted declaration), such Obligations (whether or not due and payable by the Company) shall forthwith become due and payable by the Guarantor for purposes of this guaranty. The Guarantor further guarantees that all payments made by the Company to the Purchasers of any Obligation will, when made, be final and agrees that if any such payment is recovered from, or repaid by, any Purchaser in whole or in part in any bankruptcy, insolvency or similar proceeding instituted by or against the Company, this guaranty shall continue to be fully applicable to such Obligation to the same extent as though the payment so recovered or repaid had never been originally made on such Obligation.

3. This is a guaranty of payment and not of collection only.

4. The Guarantor hereby consents that from time to time, without notice to or further consent of the Guarantor, the payment, performance or observance of any or all of the Obligations may be waived or the time of payment or performance thereof extended or accelerated, in whole or in part, or the terms of the Note Purchase Agreement or any part thereof may be changed and any collateral therefor may be exchanged, surrendered or otherwise dealt with as the Required Holders may determine, and any of the acts mentioned in the Note Purchase Agreement may be done, all without affecting the liability of the Guarantor hereunder. The Guarantor hereby waives presentment of any instrument, demand of payment, protest and notice of non-payment or protest thereof or of any exchange, sale, surrender or other handling or disposition of such collateral, and any requirement that any Purchaser exhaust any right, power or remedy or proceed against the Company under the Note Purchase Agreement or against any other person, under any other guaranty of, or security for, any of the Obligations. The Guarantor hereby further waives any defense whatsoever which might constitute a defense available to, or discharge of, the Company or a guarantor. No payment by the Guarantor pursuant to any provision hereunder shall entitle the Guarantor, by subrogation to the rights of any Purchaser or otherwise, to any payment by the Company (or out of the property of the Company) except after payment in full of all sums (including interest, Yield-Maintenance Amount, costs and expenses) which may be or become payable by the Company to the Purchasers at any time or from time to time.

5. This guaranty shall be a continuing guaranty, and any other guarantor, and any other party liable upon or in respect of any Obligation hereby guaranteed may be released without affecting the liability of any Guarantor. The liability of the Guarantor hereunder shall be joint and several with the liability of any other guarantor or other party upon or in respect of the Obligations.

6. Any Purchaser may assign its rights and powers hereunder, with all or any of the Obligations, and, in the event of such assignment, the assignee hereof or of such rights and powers, shall have the same rights and remedies as if originally named herein.

7. Notice of acceptance of this guaranty and of the incurring of any and all of the Obligations of the Company pursuant to the Note Purchase Agreement is hereby waived. THIS GUARANTY AND ALL RIGHTS, OBLIGATIONS AND LIABILITIES ARISING HEREUNDER SHALL BE GOVERNED BY



AND CONSTRUED ACCORDING TO THE LAWS OF THE STATE OF NEW YORK. Unless the context otherwise requires, all terms used herein which are defined in the Uniform Commercial Code shall have the meanings therein stated.

8. No provision of this guaranty may be modified or waived without the prior written consent of the Required Holders.

9. Without limiting the rights of any Purchaser under any other agreement, any financial accommodation (including, without limitation, interest accruing at the agreed to contract rate after the commencement of any bankruptcy, reorganization or similar proceeding) extended by the Guarantor to or for the account of the Company, or in respect of which the Company may be liable to the Guarantor in any capacity, is hereby subordinated to all the Obligations, and such financial accommodation of the Guarantor to the Company, if the Required Holders so request, shall be collected, enforced and received by the Guarantor as trustee for the Purchasers and be paid over to the Purchasers on account of the Obligations but without reducing or affecting in any manner the liability of such Guarantor, or any other Guarantor, under the other provisions of this guaranty.

10. The Guarantor hereby irrevocably submits to the jurisdiction of any New York State or Federal court sitting in New York City in any action or proceeding arising out of or relating to this guaranty, and the Guarantor hereby irrevocably agrees that all claims in respect of such action or proceeding may be heard and determined in such New York State or Federal court. The Guarantor irrevocably consents to the service of any and all process in any such action or proceeding by the mailing of copies of such process to the Guarantor at its address specified on the signature page hereof. The Guarantor agrees that a final judgment in any such action or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law. Nothing in this paragraph shall affect the rights of the Purchasers to serve legal process in any other manner permitted by law or affect the rights of the Purchasers to bring any action or proceeding against the Guarantor or any of its property in the courts of any other jurisdiction. To the extent that the Guarantor has or hereafter may acquire any immunity from jurisdiction of any court or from any legal process (whether from service or notice, attachment prior to judgment, attachment in aid of execution, execution or otherwise) with respect to itself or its property, the Guarantor hereby irrevocably waives such immunity in respect of its Obligations under this guaranty. The Guarantor hereby expressly waives any and every right to a trial by jury in any action on or related to this guaranty, the Obligations or the enforcement of either or all of the same, and does further expressly waive any and every right to interpose any counterclaim in any such action or proceeding. The Guarantor agrees to reimburse the Purchasers on demand for all reasonable costs, expenses, and charges (including, without limitation, reasonable attorneys' fees) incurred by the Purchasers in connection with any enforcement of this guaranty.

11. The rights, powers and remedies granted to the Purchasers herein shall be cumulative and in addition to any rights, powers and remedies to which the Purchasers may be entitled either by operation of law or pursuant to the Note Purchase Agreement or any other document or instrument delivered or from time to time to be delivered to any Purchaser in connection with the Note Purchase Agreement.

IN WITNESS WHEREOF, the Guarantor has caused this instrument to be duly executed by its proper officer(s) this \_\_\_\_ day of \_\_\_\_\_, 199\_\_.

WITNESS:

[NAME OF GUARANTOR]

\_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

By: \_\_\_\_\_  
Name: \_\_\_\_\_

Address of Guarantor:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

## PURCHASER SCHEDULE

Series A Notes

MOVADO GROUP, INC.

	Aggregate Principal Amount of Notes to be Purchased -----	Note Denom- ination(s) -----
THE PRUDENTIAL INSURANCE COMPANY OF AMERICA	\$25,000,000	\$25,000,000

- (1) All payments on account of Notes held by such purchaser shall be made by wire transfer of immediately available funds for credit to:

Account No. 890-0304-391, Prudential Managed Account

Bank Of New York  
New York, New York  
(ABA No.: 021-000-018)

Each such wire transfer shall set forth the name of the Company, a reference to "6.90% Senior Notes due October 30, 2010, PPN 657209\A, INV 6248", and the due date and application (as among principal, interest and Yield-Maintenance Amount) of the payment being made.

- (2) Address for all notices relating to payments:

The Prudential Insurance Company of America  
Three Gateway Center  
100 Mulberry Street  
Newark, New Jersey 07102-4077

Attention: Manager, Billings and Collections

Telephone: (973) 802-5260  
Fax: (973) 802-8055

- (3) Address for all other communications and notices:

The Prudential Insurance Company of America  
c/o Prudential Capital Group  
One Gateway Center, 11th Floor  
7-45 Raymond Boulevard West  
Newark, New Jersey 07102-5311

Attention: Managing Director

Telephone: (973) 802-9182  
Fax: (973) 802-3200

(4) Recipient of telephonic prepayment notices:

Manager, Trade Management

Telephone: (973) 802-7398  
Fax: (973) 802-9425

(5) Tax Identification No.: 22-1211670

## INFORMATION SCHEDULE

## Authorized Officers for Prudential

Charles Y. King, Managing Director	Phone: (973) 802-9182
Yvonne M. Guajardo, Vice President	Phone: (973) 802-6706
Kevin J. Kraska, Vice President	Phone: (973) 802-4519

Prudential Capital Group  
One Gateway Center, 11th Floor  
Newark, NJ 07102-5311  
Fax for all: (973) 802-3200

Tom Cecka, Managing Director  
Prudential Capital Group  
Four Gateway Center, 7th Floor  
Newark, NJ 07102-4069  
Phone: (973) 802-8286  
Fax: (973) 624-6432

## Authorized Officers for the Company

[Provide name, address, phone and fax numbers for each such officer of the Company.]

[FORM OF OPINION OF COMPANY'S COUNSEL]

[Letterhead of \_\_\_\_\_]

[Date of Closing]

The Prudential Insurance Company of America  
c/o Prudential Capital Group  
One Gateway Center, 11th Floor  
Newark, NJ 07102-5311

Ladies and Gentlemen:

We have acted as counsel for Movado Group, Inc. (the "Company") in connection [As \_\_\_\_\_ of Movado Group, Inc. (the "Company"), I am familiar] with the Note Purchase and Private Shelf Agreement, dated as of November \_\_, 1998 (the "Agreement") between the Company, on the one hand, and The Prudential Insurance Company of America and each Prudential Affiliate which becomes a party thereto, on the other hand, pursuant to which the Company has issued to you today its Senior Series A Notes in the aggregate principal amount of \$25,000,000 (the "Notes"). Capitalized terms used and not otherwise defined herein shall have the meanings provided in the Agreement. This letter is being delivered to you in satisfaction of the condition set forth in paragraph 3A(v) of the Agreement and with the understanding you are purchasing the Notes in reliance on the opinions expressed herein.

In this connection, [we] [I] have examined such certificates of public officials, certificates of officers of the Company and copies certified to [our] [my] satisfaction of corporate documents and records of the Company and of other papers, and have made such other investigations, as [we] [I] have deemed relevant and necessary as a basis for [our] [my] opinion hereinafter set forth. [We] [I] have relied upon such certificates of public officials and of officers of the Company with respect to the accuracy of material factual matters contained therein which were not independently established. With respect to the opinion expressed in paragraph 3 below, [we] [I] have also relied upon the representation made by [each of] you in paragraph 9A of the Agreement.

Based on the foregoing, it is [our] [my] opinion that:

1. The Company is a corporation duly organized and validly existing in good standing under the laws of the State of New York. Each Subsidiary is a corporation duly organized and validly existing in good standing under the laws of its jurisdiction of incorporation. The Company and its Subsidiaries have the corporate power to carry on their respective businesses as now being conducted.

2. The Agreement and the Notes have been duly authorized by all requisite corporate action and duly executed and delivered by authorized officers of the Company, and are valid obligations of the Company, legally binding upon and enforceable against the Company in accordance with their respective terms, except as such enforceability may be limited by (a) bankruptcy, insolvency, reorganization or other similar laws affecting the enforcement of creditors' rights generally and (b) general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

3. The Subsidiary Guarantee has been duly authorized by all requisite corporate actions and duly executed and delivered by authorized officers of Swissam, Inc. and is a valid obligation of Swissam, Inc., legally binding upon and enforceable against it in accordance with its terms, except as such enforceability may be limited by (a) bankruptcy, insolvency, reorganization or other similar laws affecting the enforcement of creditors' rights generally and (b) general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

4. It is not necessary in connection with the offering, issuance, sale and delivery of the Notes under the circumstances contemplated by the Agreement to register the Notes under the Securities Act or to qualify an indenture in respect of the Notes under the Trust Indenture Act of 1939, as amended.

5. The extension, arranging and obtaining of the credit represented by the Notes do not result in any violation of regulation U, T or X of the Board of Governors of the Federal Reserve System.

6. The execution and delivery of the Agreement and the Notes, the offering, issuance and sale of the Notes and fulfillment of and compliance with the respective provisions of the Agreement and the Notes do not conflict with, or result in a breach of the terms, conditions or provisions of, or constitute a default under, or result in any violation of, or result in the creation of any Lien upon any of the properties or assets of the Company or any of its Subsidiaries pursuant to, or require any authorization, consent, approval, exemption, or other action by or notice to or filing with any court, administrative or governmental body or other Person (other than routine filings after the date hereof with the Securities and Exchange Commission and/or state Blue Sky authorities) pursuant to, the charter or by-laws of the Company or any of its Subsidiaries, any applicable law (including any securities or Blue Sky law), statute, rule or regulation or (insofar as is known to [us] [me] after having made due inquiry with respect thereto) any agreement (including, without limitation, any agreement listed in Schedule 8G to the Agreement), instrument, order, judgment or decree to which the Company or any of its Subsidiaries is a party or otherwise subject.

Very truly yours,

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## [FORM OF OPINION OF COMPANY'S COUNSEL]

[Letterhead of \_\_\_\_\_]

[Date of Closing]

[Name(s) and address(es) of  
purchaser(s)]

Ladies and Gentlemen:

We have acted as counsel for Movado Group, Inc. (the "Company") in connection [As \_\_\_\_\_ of Movado Group, Inc. (the "Company"), I am familiar] with the Note Purchase and Private Shelf Agreement, dated as of November \_\_, 1998 (the "Agreement") between the Company, on the one hand, and The Prudential Insurance Company of America and each Prudential Affiliate which becomes a party thereto, on the other hand, pursuant to which the Company has issued to you today Senior Series \_\_\_ Notes of the Company in the aggregate principal amount of \$\_\_\_ (the "Notes"). Capitalized terms used and not otherwise defined herein shall have the meanings provided in the Agreement. This letter is being delivered to you in satisfaction of the condition set forth in paragraph 3A(v) of the Agreement and with the understanding that you are purchasing the Notes in reliance on the opinions expressed herein.

In this connection, [we] [I] have examined such certificates of public officials, certificates of officers of the Company and copies certified to [our] [my] satisfaction of corporate documents and records of the Company and of other papers, and have made such other investigations, as [we] [I] have deemed relevant and necessary as a basis for [our] [my] opinion hereinafter set forth. [We] [I] have relied upon such certificates of public officials and of officers of the Company with respect to the accuracy of material factual matters contained therein which were not independently established. With respect to the opinion expressed in paragraph 3 below, [we] [I] have also relied upon the representation made by [each of] you in paragraph 9A of the Agreement.

Based on the foregoing, it is [our] [my] opinion that:

1. The Company is a corporation duly organized and validly existing in good standing under the laws of the State of New York. Each Subsidiary is a corporation duly organized and validly existing in good standing under the laws of its jurisdiction of incorporation. The Company and its Subsidiaries have the corporate power to carry on their respective businesses as now being conducted.



2. The Agreement and the Notes have been duly authorized by all requisite corporate action and duly executed and delivered by authorized officers of the Company, and are valid obligations of the Company, legally binding upon and enforceable against the Company in accordance with their respective terms, except as such enforceability may be limited by (a) bankruptcy, insolvency, reorganization or other similar laws affecting the enforcement of creditors' rights generally and (b) general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

3. It is not necessary in connection with the offering, issuance, sale and delivery of the Notes under the circumstances contemplated by the Agreement to register the Notes under the Securities Act or to qualify an indenture in respect of the Notes under the Trust Indenture Act of 1939, as amended.

4. The extension, arranging and obtaining of the credit represented by the Notes do not result in any violation of regulation U, T or X of the Board of Governors of the Federal Reserve System.

5. The execution and delivery of the Agreement and the Notes, the offering, issuance and sale of the Notes and fulfillment of and compliance with the respective provisions of the Agreement and the Notes do not conflict with, or result in a breach of the terms, conditions or provisions of, or constitute a default under, or result in any violation of, or result in the creation of any Lien upon any of the properties or assets of the Company or any of its Subsidiaries pursuant to, or require any authorization, consent, approval, exemption, or other action by or notice to or filing with any court, administrative or governmental body or other Person (other than routine filings after the date hereof with the Securities and Exchange Commission and/or state Blue Sky authorities) pursuant to, the charter or by-laws of the Company or any of its Subsidiaries, any applicable law (including any securities or Blue Sky law), statute, rule or regulation or (insofar as is known to [us] [me] after having made due inquiry with respect thereto) any agreement (including, without limitation, any agreement listed in Schedule 8G to the Agreement), instrument, order, judgment or decree to which the Company or any of its Subsidiaries is a party or otherwise subject.

Very truly yours,

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FEBRUARY 1999 AMENDMENT AND WAIVER AS  
TO AMENDED AND RESTATED CREDIT AGREEMENT  
-----

THIS AMENDMENT, dated as of the 19th day of February, 1999 among MOVADO GROUP, INC., a New York corporation (the "Borrower"); each of the Lenders which is a signatory to the Credit Agreement referred to below; THE CHASE MANHATTAN BANK, as Agent, as Swingline Bank and as Issuing Bank; and FLEET BANK, N.A., as Co-Agent.

PRELIMINARY STATEMENTS  
-----

A. Reference is made to the Amended and Restated Credit Agreement date as of July 23, 1997 (the "Original Credit Agreement") among the Borrower, the Lenders signatory thereto, The Chase Manhattan Bank, as Agent, as Swingline Bank and as Issuing Bank, and Fleet Bank, N.A., as Co-Agent. The Original Credit Agreement was amended by an Amendment date as of August 5, 1997 and by a June 1998 Amendment dated as of June 10, 1998 and by an Amendment and Waiver dated as of November 17, 1998. The Original Credit Agreement, as so amended, will be called herein the "Credit Agreement". All capitalized terms used herein and not defined shall have the respective meanings ascribed to them in the Credit Agreement.

B. The Borrower has requested that certain provisions of the Credit Agreement be amended or waived.

NOW, THEREFORE, for good and valuable consideration (the receipt and sufficiency of which are hereby acknowledged), the parties hereto agree as follows:

ARTICLE 1. PARTICULAR AMENDMENTS  
-----

Section 1.1 Capital Expenditures. Section 9.05 of the Credit Agreement is hereby amended to read as follows:

"The Borrower shall not permit Consolidated Capital Expenditures to exceed \$10,000,000 during any fiscal year (on a noncumulative basis), except that with respect to the fiscal year ending January 31, 1999 Consolidated Capital Expenditures shall not exceed \$12,500,000; nor shall the Borrower permit Consolidated Capital Expenditures to exceed \$30,000,000 during the period from the Closing Date until the Maturity Date."

Section 1.2. Reporting as to Special Transaction. (a) With respect to the Special Transaction only, the Banks hereby waive the requirement (contained in clause (c) of the definition of "Designated Sales" in Section 1.01 of the Credit Agreement) that the Borrower provide the financial statements and certificate described in such clause (c) to the Agent at least 20 days before the effective date of the sale comprising the Special Transaction.

(b) The Borrower covenants and agrees to provide to the Agent, within 20 days after the effective date of the sale comprising the Special Transaction, the financial statements and certificate described in the aforesaid clause (c).

(c) The Borrower represents and warrants to the Bank that the Borrower, as of the date hereof, reasonably and in good faith believes that the sale comprising the Special Transaction will not result in a Default immediately after the consummation of such sale.

Section 1.3. Prepayment Threshold for Special Transaction. Clause (a) of the definition of "Designated Sales" in Section 1.01 of the Credit Agreement is hereby amended by changing the amount of "\$30,000,000" to "\$31,500,000" (in each of the two places in which such amount appears in such clause).

## ARTICLE 2. MATTERS GENERALLY

Section 2.1. Representations and Warranties. The Borrower hereby represents and warrants that:

(a) All the representations and warranties set forth in the Credit Agreement are true and complete on and as of the date hereof (with the same effect as though made on and as of such date).

(b) No Default or Event of Default exists.

(c) The Borrower has no offset or defense with respect to any of its obligations under the Credit Agreement or any of the Notes or any other Facility Document, and no claim or counterclaim against any Lender, the Swingline Bank, the Issuing Bank, the Agent or the Co-Agent whatsoever (any such offset defense, claim or counterclaim as may now exist being hereby irrevocably waived by the Borrower).

(d) This Amendment and Waiver has been duly authorized, executed and delivered by the Borrower.

Section 2.2. Guarantor Consent. The Guarantors shall execute this Amendment and Waiver in the space provided below to indicate their consent to the terms of this Amendment and Waiver.

Section 2.3. Expenses. The Borrower shall pay all reasonable expenses incurred by the Agent in connection with this Amendment and Waiver, including (without limitation) the fees and disbursements of counsel for the Agent.

Section 2.4. Continuing Effect. Except as otherwise expressly provided in this Amendment and Waiver, all the terms and conditions of the Credit Agreement shall continue in full force and effect. All the Facility Documents also shall continue in full force and effect.

Section 2.5. Entire Agreement. This Amendment and Waiver constitutes the entire agreement of the parties hereto with respect to an amendment or waiver of the Credit Agreement pertaining to the subject matter hereof, and it supersedes and replaces all prior and contemporaneous agreements, discussions and understandings (whether written or oral) with respect to such amendment and waiver.

Section 2.6. Counterparts. This Amendment and Waiver may be executed in two or more counterparts, each of which shall be deemed to be an original, but all of which taken together shall constitute one and the same agreement.

Section 2.7. Effectiveness. This Amendment and Waiver shall not become effective unless and until it shall have been executed and delivered by all the parties hereto (which execution and delivery may be evidenced by telecopies).

IN WITNESS WHEREOF, the parties hereto have executed this Amendment and Waiver as of the day and year first above written.

MOVADO GROUP, INC.

By: \_\_\_\_\_  
John Rooney  
Corporate Controller

THE CHASE MANHATTAN BANK, as Agent,  
as Lender, as Swingline Bank and as  
Issuing Bank

By: /s/ Leonard Noll  
-----  
Name (Print): Leonard Noll  
Title: VP

FLEET BANK, N.A., as Co-Agent and as  
Lender

By: \_\_\_\_\_  
Name (Print):  
Title:

MARINE MIDLAND BANK

By: \_\_\_\_\_  
Name (Print):  
Title:

IN WITNESS WHEREOF, the parties hereto have executed this Amendment and Waiver as of the day and year first above written.

MOVADO GROUP, INC.

By: \_\_\_\_\_  
John Rooney  
Corporate Controller

THE CHASE MANHATTAN BANK, as Agent,  
as Lender, as Swingline Bank and as  
Issuing Bank

By: \_\_\_\_\_  
Name (Print):  
Title:

FLEET BANK, N.A., as Co-Agent and as  
Lender

By: /s/ Christian J. Covello  
\_\_\_\_\_  
Name (Print): Christian J. Covello  
Title: Vice President

MARINE MIDLAND BANK

By: \_\_\_\_\_  
Name (Print):  
Title:

IN WITNESS WHEREOF, the parties hereto have executed this Amendment and Waiver as of the day and year first above written.

MOVADO GROUP, INC.

By: \_\_\_\_\_  
John Rooney  
Corporate Controller

THE CHASE MANHATTAN BANK, as Agent,  
as Lender, as Swingline Bank and as  
Issuing Bank

By: \_\_\_\_\_  
Name (Print):  
Title:

FLEET BANK, N.A., as Co-Agent and as  
Lender

By: \_\_\_\_\_  
Name (Print):  
Title:

MARINE MIDLAND BANK

By: /s/ Diane M. Zieske  
-----  
Name (Print): Dian M. Zieske  
Title: Assistant Vice President

THE BANK OF NEW YORK

By: /s/ Linda M. Coppa  
-----  
Name (Print): Linda M. Coppa  
Title: Vice President

CREDIT SUISSE FIRST BOSTON

By: -----  
Name (Print):  
Title:

By: -----  
Name (Print):  
Title:

CONSENTED TO:

SWISSAM INC., as Guarantor

By: -----  
Name (Print):  
Title:

NAW CORPORATION, as Guarantor

By: -----  
Name (Print):  
Title:

NAWC CORUM CORPORATION, as Guarantor

By: -----  
Name (Print):  
Title:

MOVADO CORPORATION, as Guarantor

By: -----  
Name (Print):  
Title:

THE BANK OF NEW YORK

By: -----  
Name (Print):  
Title:

CREDIT SUISSE FIRST BOSTON

By: /s/ Karl M. Studer  
-----  
Name (Print): Karl M. Studer  
Title: Director

By: /s/ Jamier Model  
-----  
Name (Print): Jamier Model  
Title: Associate

CONSENTED TO:

SWISSAM INC., as Guarantor

By: -----  
Name (Print):  
Title:

NAW CORPORATION, as Guarantor

By: -----  
Name (Print):  
Title:

NAWC CORUM CORPORATION, as Guarantor

By: -----  
Name (Print):  
Title:

MOVADO CORPORATION, as Guarantor

By: -----  
Name (Print):  
Title:



THE BANK OF NEW YORK

By: -----  
Name (Print):  
Title:

CREDIT SUISSE FIRST BOSTON

By: -----  
Name (Print):  
Title:

By: -----  
Name (Print):  
Title:

CONSENTED TO:

SWISSAM INC., as Guarantor

By: /s/ Timothy F. Mizhno  
-----  
Name (Print): Timothy F. Mizhno  
Title: Secretary

NAW CORPORATION, as Guarantor

By: /s/ Timothy F. Mizhno  
-----  
Name (Print): Timothy F. Mizhno  
Title: Secretary

NAWC CORUM CORPORATION, as Guarantor

By: /s/ Timothy F. Mizhno  
-----  
Name (Print): Timothy F. Mizhno  
Title: Secretary

MOVADO CORPORATION, as Guarantor

By: /s/ Timothy F. Mizhno  
-----  
Name (Print): Timothy F. Mizhno  
Title: Secretary

## SUBSIDIARIES OF THE REGISTRANT

All issued and outstanding shares of each of the following subsidiaries are wholly owned; directly or indirectly, by the Registrant except for statutorily required nominee shares in the case of the Hong Kong subsidiaries.

## CALIFORNIA

North American Watch Service Corporation

## DELAWARE

Movado International, Ltd.

Movado Corporation

NAWC Corum Corporation

NAW Delaware Corporation

Movado Group Delaware Holdings Corporation

## NEW JERSEY

EWC Marketing Corp.

SwissAm, Inc.

Movado Retail Group, Inc.

## SWITZERLAND

Concord Watch Company, S.A.

Movado Watch Company, S.A.

N.A. Trading, Ltd.

Montres Movado Bienne, S.A.

## CANADA

Movado Group of Canada, Inc.

## GERMANY

Movado Deutschland GmbH

Concord Deutschland GmbH

## SINGAPORE

SwissAm Pte., Ltd.

## HONG KONG

SwissAm, Ltd.

SwissAm Products, Ltd.

## JAPAN

Concord Movado Japan Co., Ltd.

## CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statement on Form S-8 (Nos. 33-72232 and 333-13927) of Movado Group, Inc. of our report dated March 25, 1999, appearing on page F-1 of this Form 10-K.

PRICEWATERHOUSECOOPERS LLP  
Florham Park, New Jersey  
April 30, 1999

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM (A) THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED JANUARY 31, 1999.

1,000

YEAR		
	JAN-31-1999	
	FEB-1-1998	
	JAN-31-1999	5626
		0
		109,102
		0
		104,027
	262,431	22,998
		0
	296,375	
67,580		55,000
	0	0
		129
		166,297
296,375		277,836
	277,836	111,766
		0
	0	
	0	
	5,437	
	27,238	
		6,265
20,973		0
	0	
		0
	20,973	
		1.63
		1.58

The amount is reported as EPS basic and not for EPS primary